

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, 1997.

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
(Address of principal executive offices)

22042-4525
(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 |

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* 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 X No
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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 27, 1998.

Common Stock, \$.01 Par Value -- \$4,346,943,962*

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* 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 27, 1998:

Common Stock, \$.01 Par Value - 65,453,614

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to stockholders for the year ended December 31, 1997 are incorporated by reference into Parts I, II and IV.
2. Portions of the Proxy Statement for the annual meeting of stockholders to be held on April 23, 1998 are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS.

Overview

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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. 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, provides certain consumer lending and deposit services. 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 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 is one of the oldest continually operating bank card issuers in the United States having commenced operations in 1953, the same year as the formation of what is now MasterCard International. 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, 1997. The growth in the Company's managed credit card loans and accounts was due largely to credit card industry dynamics and the success of the Company's proprietary information-based strategy ("IBS") initiated in 1988.

The Bank offers two brands of credit cards, Visa and MasterCard, and within each brand, premium ("platinum" and "gold") cards and unsecured and secured standard credit card products. 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").^{/1/} 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 into 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 offers Visa and MasterCard 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.

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.

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^{/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.

Lines of Business

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Products

The Company offers an array of Visa and MasterCard credit card products to consumers throughout the United States and in Canada and the United Kingdom. Products consist of varying annual percentage rates ("APRs"), finance charges 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 platinum and gold cards, which generally have higher lines of credit and additional ancillary benefits, and unsecured and secured standard card products. 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.

The Company refers to its product offerings and services by generations. In the early 1990's, the Company initially targeted its offerings to experienced users of general purpose credit card products offering low introductory interest rate products with accounts repricing to higher rates after six to 16 months from the date of origination, "First Generation Products." After the introductory period, the accounts may be repriced upwards based on individual customer performance. First Generation Products permit cardholders to use Company issued credit line checks for cash or purchases or, under balance transfer programs, to pay down other card balances. The Company manages the repricing of these First Generation Products to maximize return on investment at the consumer level, taking into consideration the risk and expected performance of these products.

Faced with increased competition for First Generation Products, since the middle 1990's, the Company began to test a number of other markets and product offerings, resulting in the development of "Second Generation Products." Second Generation Products consist of secured card products and other customized credit card products including affinity and co-branded, college student and other accounts. Many Second Generation Products are offered to consumers with limited credit history, which historically have not been solicited by lenders to the same extent as more experienced, affluent credit users. The Company provides credit to these underserved markets by utilizing its IBS to better evaluate the credit risk of these consumers and to apply a risk-based pricing strategy to optimize profitability within the context of acceptable risks. As a result, Second Generation Products are generally designed to have lower credit lines and higher APRs and fees, including annual membership fees. Second Generation Products also tend to have balances that build over time, less attrition, higher operational costs, and, in some cases, higher delinquencies and consequently higher past-due and overlimit fee income as a percentage of total receivables outstanding than First Generation Products. See "Cautionary Statements" herein.

Additionally, the Company has been applying, and expects to continue applying, its IBS to other financial and non-financial products and services, including the reselling of telecommunication services, "Third Generation Products." The Company has also expanded its existing credit card operations outside of the United States, with an initial focus on the United Kingdom and Canada. The Company has established the Savings Bank, the U.K. branch of the Bank and several non-bank operating subsidiaries to identify and expand these opportunities and is in various stages of developing and test marketing a number of new products and services.

The significant growth to date of the Company's consumer accounts and managed loan balances initially was due largely to credit card industry dynamics and the success of the Company's IBS in generating the First Generation Products. More recently, Second Generation Products significantly contribute to the growth in number of the Company's consumer accounts but do not have an immediate impact on managed loan balances, as these products have lower balances that build over time. The Company's product mix at any time may vary as the

Company intends to remain flexible in allocation of marketing investment spent on specific products to take advantage of market opportunities as they arise.

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 N to Consolidated Financial Statements on page 54 of the Company's Annual Report to its stockholders for the year ended December 31, 1997 (the "Annual Report"), which is incorporated herein by reference.

Origination and Risk Management

The Company's primary method of account acquisition is direct mail solicitation. 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.

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 several times a 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.

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.

For pre-approved account solicitations, which constitute one of the primary methods of marketing, the Company's current process generally begins with a prescreening review which identifies consumers who are likely to be approved for a credit card account. In the prescreening process, the Company provides a set of credit history and other criteria to credit reporting agencies, which generate lists with desired attributes. The Company further refines this list by applying additional sets of underwriting criteria resulting in a new list which represents the consumers who receive direct mail solicitations. The Company also employs additional underwriting criteria that are based upon proprietary models designed to predict the relative credit risk of potential account holders. Those persons who receive marketing packages generally must fill out acceptance certificates which are used to initiate a back-end verification process in which an applicant's credit information is reviewed a second time, updated and verified against criteria established by lending guidelines. Once the acceptance certificates are returned and sorted and current credit reporting agency reports are obtained, the acceptance certificates are processed through the Company's underwriting criteria. Each approved applicant is offered a line of credit commensurate with the results of the back-end credit verification.

The Company manually reviews applications that are rejected by the Company's credit scoring system because of inconsistencies in application information, 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-approved solicitations, the Company acquires names of prospective customers from a variety of sources and then edits the list utilizing internal and external sources. 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.

Collection Procedures

The Company generally considers an account delinquent if a minimum payment due thereunder is not received by the Company by the cardholder's payment date. Delinquent accounts are first directed to the pre-collection system, where appropriate early collection actions are taken. Early contact with delinquent cardholders may include payment reminders by telephone, by billing statement and by mail. In most cases, an account is restricted and privileges are suspended depending on the riskiness of the account between four and 105 days after the account enters the Company's collections department. The Company may also, at its discretion, enter into arrangements with delinquent account holders to extend or otherwise change payment schedules. Efforts to collect delinquent credit card accounts are generally made by the Company's regular collections group, but may also be made by third-party collection agents.

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 cardholders 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. An account can generally be re-aged once in the life of the account.

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 employees 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 maintains a data warehouse that holds basic information on 120 million households, detailed data on nearly 12 million customers and performance/ profitability information on more than 4,000 product, pricing and feature combinations. The Company uses this information to predict consumer behavior and then matches prospects to credit cards 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 notes, 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 29-31 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

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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, together with its strategy of pursuing Second Generation Products, 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

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As of December 31, 1997, the Company employed 5,724 full-time and 189 part-time employees. A central part of the Company's philosophy is to attract and maintain a highly capable staff. The Company views current employee relations to be satisfactory. None of the Company's employees are covered under collective bargaining agreements.

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 and the FDIC. 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 deposit 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. Pursuant to recent legislation recapitalizing the SAIF, insurance premiums currently paid by SAIF-insured institutions are equivalent to the rates paid by BIF-insured institutions. 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 Board, 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 Board and the OTS, respectively. For a further discussion of the capital adequacy guidelines, see pages 31-32 of the Annual Report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Capital Adequacy" and page 52 in Note J to Consolidated Financial Statements, 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" 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 prompt corrective action ("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, 1997, 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. The Savings Bank has been granted a two-year exception from the QTL Test, but must be in full compliance with the test by June 30, 1998. As of December 31, 1997, 93.68% 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.

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 eliminate a separate savings bank charter possibly requiring that existing savings banks become banks 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 Board 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 Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 permits bank holding companies, with Federal Reserve Board approval, to acquire banks located in states other than the holding company's home state without regard to whether the transaction is prohibited under state law. In addition, as of June 1, 1997, national and state banks with different home states are permitted to merge across state lines, with approval of the appropriate federal banking agency, unless the home state of a participating bank passed legislation prior to this date expressly prohibiting interstate bank mergers. Virginia has not passed such legislation but has elected to permit such interstate bank mergers.

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.

Cautionary Statements

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Information or statements provided by the Company from time to time may contain certain "forward-looking information," including information relating to growth in diluted earnings per share, returns on equity,

growth in managed loans outstanding and consumer accounts, net interest margins, funding costs, operations costs and employment growth, marketing expense, delinquencies and charge offs. Such forward-looking statements may be identified by the use of terminology such as "may," "will," "expect," "anticipate," "goal," "target," "forecast," "project," "continue" or comparable terminology and may involve certain risks or uncertainties and are qualified in their entirety by the cautionary statements provided below. The cautionary statements are being made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995 (the "Act") and with the intention of obtaining the benefits of the "safe harbor" provisions of the Act for any such forward-looking information.

Many of the cautionary factors discussed below, as well as other factors, have also been discussed in the Company's prior public filings. Though the Company has attempted to list comprehensively all important factors, the Company wishes to caution investors that other factors in the future may prove to be important in affecting the Company's results of operations. New factors may emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

The Company cautions investors not to place undue reliance on any forward-looking statements, as they speak only of the Company's views as of the date the statement was made. The Company further cautions readers that any forward-looking information provided by the Company is not a guarantee of future performance and that actual results could differ materially from those in the forward-looking information as a result of various factors, including, but not limited to, the following:

Competition

The Company faces intense and increasing competition from numerous providers of credit cards and other financial products and services who may employ various competitive strategies. The Company faces competition from national, regional and local issuers of bank cards in each of its markets. Additionally, the Company competes with other general purpose credit card providers and, to a certain extent, smart card or debit card providers. Many of these companies are substantially larger and have more capital and other resources than the Company. Additionally, many of the Company's competitors are pricing credit card products at attractive interest rates at or below those currently charged by the Company.

In the past, the Company has faced intense competition primarily with its First Generation Products. Management, however, expects that, in the future, competitive pressures will increase for Second and Third Generation Products, including competition for its products and services in markets outside of the United States.

Accounts and Loan Balances

The Company's aggregate accounts or loan balances and the growth rate thereof are affected by a number of internal and external factors. Because the Company's product mix significantly influences account and loan balance growth, the allocation of Company marketing investment among different products will cause fluctuations in the aggregate number of accounts and in outstanding loan balances. Moreover, as IBS is designed to take advantage of market opportunities, difficulties exist in forecasting the allocation of marketing investment and projections of account and loan balance growth and accompanying Company results will vary from time to time. In addition, external factors such as attrition of accounts and loan balances to competing card issuers and general economic conditions and other factors beyond the control of the Company could vary results. Consumers are attracted to credit card issuers largely on the basis of price, credit limit and other product features and, once an account is originated, customer loyalty may be limited.

Ability to Sustain and Manage Growth

The Company's strategy for future growth has been, and is expected to continue to be, to apply its proprietary IBS to its credit card business, as well as to other businesses, both financial and non-financial, to identify new business opportunities and to make informed investment decisions about its existing products and services. Management believes that, through continued application of its IBS, the Company can develop new product and service offerings necessary to sustain growth. However, there are a number of factors that can impact the Company's ability to sustain growth. As mentioned throughout this section, continued growth of the

Company's credit card portfolio will depend on a number of factors, including (i) the Company's ability to attract new consumers and retain existing consumers; (ii) growth of existing and new account balances; (iii) levels of delinquencies and charge offs; (iv) the availability of funding on favorable terms; (v) the amount of marketing expenditures used to solicit new consumers and (vi) general economic and other factors.

Continued growth through expansion and product diversification will depend on additional factors. The Company's development of new products and services will be affected by the ability of the Company to internally build or to acquire the operational and organizational infrastructure necessary to engage in new businesses and to recruit experienced personnel to assist in the management and operations of these businesses and the availability of capital necessary to fund these new businesses. Additionally, difficulties or delays in the development, production, testing and marketing of products or services, including, but not limited to, a failure to implement new product or service programs when anticipated, the failure of customers to accept these products or services when planned, losses associated with the testing of new products or services or financial, legal or other difficulties as may arise in the course of such implementation, will affect the success of any new product or business. In addition, as the Company attempts to diversify and expand its offerings beyond credit cards, and more particularly beyond financial services, there can be no assurance that the historical financial results achieved from the Company's credit card business will necessarily be reflective of the results from other products and services.

Availability of Financing and Funding Costs

The Company's primary source of funding is the securitization of consumer loans, and to date, the Company has completed securitization transactions on terms that it believes are favorable. Difficulties or delays in the securitization of the Company's receivables, or changes in credit enhancement rates, impact the cost and availability of securitization funding. Such difficulties, delays or changes may result from adverse developments in the availability of credit enhancement for securitizations or in the performance of the securitized assets or from changes in the current legal, regulatory, accounting and tax environment governing securitizations. There can be no assurance that the securitization market will continue to offer the Company an attractive funding alternative, and the Company could have to seek other more expensive funding sources.

More generally, the amount, type and cost of any financing available to the Company to fund its operations, and any changes to that financing, including changes resulting from within the Company's organization or the activities of parties with which the Company has agreements or understandings, including any activities affecting any investment, may impact Company results. The Company faces competition in seeking 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.

Credit Quality

The costs of an increase in delinquencies and credit losses could have a material adverse effect on the Company's financial performance and the performance of the Company's securitized loan trusts. Delinquencies and credit losses are influenced by a number of external and internal factors. First, a national or regional economic slowdown or recession increases the risk of defaults and credit losses. Costs associated with an increase in the number of customers seeking protection under the bankruptcy laws, resulting in accounts being charged off as uncollectible, and the effects of fraud by third parties or customers are additional factors. "Seasoning" of accounts (increases in the average age of a credit card issuer's portfolio) affects the Company's level of delinquencies and losses which may require higher loan loss provisions (and reserves). A decrease in account originations or balances and the attrition of such accounts or balances could significantly impact the seasoning of the overall portfolio, resulting in increases in the overall percentage of delinquencies and losses.

In addition, the Company markets many of its Second Generation Products to consumers with limited credit histories. As a result, in some cases, in addition to the higher delinquency and credit loss rates associated with this market, there is little historical experience with respect to credit risk and performance of these underserved markets. Accordingly, although the Company believes that by utilizing its IBS it can effectively price these products in relation to their relative risk, there can be no assurance that the Company's risk-based pricing system will offset the negative impact of the expected higher delinquency and loss rates.

General Economic Conditions

Delinquencies and credit losses in the credit card industry generally increase during periods of an economic downturn or recession. Such periods also may be accompanied by decreased consumer demand for consumer loans, thereby affecting the Company's ability to sustain its growth. Although the Company believes that its underwriting criteria and product design enable it to manage the risks inherent in the consumer loans it makes, no assurance can be given that such criteria and design will afford adequate protection in a sustained period of economic downturn or recession.

Interest Rate Risks

Interest rate fluctuations affect the Company's net interest margin and the value of its assets and liabilities. The continued legal or commercial availability of techniques (including interest rate swaps and similar financial instruments, loan repricing, hedging and other techniques) used by the Company to manage the risk of such fluctuations and the continuing operational viability of those techniques will influence Company results.

The impact of repricing accounts and the overall product mix of accounts, including the actual amount of accounts (and related loan balances) repriced and the level and type of account originations at that time and the ability of the Company to use account management techniques to retain repriced accounts and the related loan balances, affects the Company's net interest margin.

Regulation and Legislation

The effects of, and changes in, monetary and fiscal policies, laws and regulations (including financial, consumer regulatory or otherwise), other activities of governments, agencies and similar organizations and social and economic conditions, such as inflation and changes in taxation of the Company's earnings influence Company goals and projections. For example, from time to time Congress has proposed legislation to limit interest rates and fees that could be charged on credit card accounts or to otherwise restrict practices of credit card issuers. If this or similar legislation was adopted, the Company's ability to collect on account balances or maintain previous levels of periodic rate finance charges and other fees and charges could be adversely affected. Failure by the Company to comply with any such requirements also could adversely affect the Company's ability to enforce the receivables. Additionally, changes have been proposed to the federal bankruptcy laws. Changes in federal bankruptcy laws and any changes to state debtor relief and collection laws could adversely affect the Company if such changes result in, among other things, accounts being charged off as uncollectible and additional administrative expenses. It is unclear at this time whether and in what form any legislation will be adopted or, if adopted, what its impact on the Company would be. Congress may in the future consider other legislation that would materially affect the banking or credit card industries.

Expenses and Other Costs

The amount and rate of growth in the Company's expenses (including employee and marketing expenses) as the Company's business develops or changes and expands into new market areas; the acquisition of assets (variable, fixed or other) and the impact of unusual items resulting from the Company's ongoing evaluation of its business strategies, asset valuations and organizational structures will all impact Company results. Additionally, other factors include the costs and other effects of legal and administrative cases and proceedings, settlements and investigations, claims and changes in those items, developments or assertions by or against the Company, adoptions of new, or changes in existing, accounting policies and practices and the application of such policies and practices.

Technology

System delays, malfunctions and errors in the proprietary and third party systems and networks used by the Company for payment processing, collections and other services and operations may lead to delays, additional costs to the Company, and, if not corrected in a timely fashion, customer dissatisfaction which could ultimately affect the Company's customer base and the level of service it is able to provide to its customers. The Year 2000 compliance issue may result in such system delays or malfunctions. The Company has formed a Year 2000 project team to identify software systems and computer-related devices that require modification, and the project team has

developed a plan to address any system issues and is making and testing all required modifications within the plan time frame. Although the Company expects to have all of its system modifications complete by the end of 1998, allowing a sufficient amount of time to test systems in 1999, unforeseen problems could arise in the year 2000 giving rise to delays and malfunctions which may impact Company results. In addition, the Company is in discussions with outside third party providers of services or systems and networks, to determine whether the Company's outside vendors have addressed their Year 2000 systems issues. Although the Company is taking certain precautionary measures to assure that it is not vulnerable to the failure by its third party vendors to make necessary system modifications, there can be no assurance that the Company's third party vendors will successfully address all Year 2000 issues.

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, 1997 |
|---|--|
| ----- | ----- |
| I. Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential | 22-24 |
| II. Investment Portfolio | 46 |
| III. Loan Portfolio | 19-20, 26-29, 32-34, 54 |
| IV. Summary of Loan Loss Experience | 26-29, 47 |
| V. Deposits | 23, 29 |
| VI. Return on Equity and Assets | 17 |
| VII. Other Borrowings | 29-31 |

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 expires February 29, 2000. The Company has the right 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 1,467,000 square feet (excluding the principal executive office) from which credit, collections, customer service and other operations are conducted in Virginia, Florida and Texas. The Company recently purchased a facility in Nottingham, Great Britain, consisting of approximately 267,000 square feet. The Company also expects to lease additional facilities in Florida and Virginia consisting of an aggregate of approximately 186,000 square feet.

ITEM 3. LEGAL PROCEEDINGS.

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 seeks unspecified statutory damages, compensatory damages, punitive damages, restitution, attorneys' fees and costs, a permanent injunction and other equitable relief.

In February 1997, the California court entered judgement in favor of the Bank on all of the plaintiff's claims. The plaintiffs have appealed the ruling to the California Court of Appeal, First Appellate District Division 4, and the appeal is pending.

Because no specific measure of damages is demanded in the complaint for 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 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, 1997, 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 29-32 under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Funding" and "-- Capital Adequacy," on page 37 under the heading "Selected Quarterly Financial Data" and on page 52 in Note J 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 18-36 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 32-34 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 39 under the heading "Report of Independent Auditors," on pages 40-55 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 37 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 1997 Proxy Statement (the "Proxy Statement") on pages 5-9 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 Corporation's 1997 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" and on pages 10-15 under the heading "Compensation of Executive Officers," 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 pages 3-4 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, 1997 and 1996
Consolidated Statements of Income - Years ended December 31,
1997, 1996 and 1995
Consolidated Statements of Changes in Stockholders' Equity -
Years ended December 31, 1997, 1996 and 1995
Consolidated Statements of Cash Flows - Years ended December 31,
1997, 1996 and 1995
Notes to Consolidated Financial Statements
Selected Quarterly Financial Data - As of and for the Years ended
December 31, 1997 and 1996

- (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 and (iii) the "1996 Form 10-K" are the Company's Annual Report on Form 10-K for the year ended December 31, 1996.

| 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. |
| 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).
- 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).
- 10.2 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).
- 10.3.1 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.
- 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.
- 10.5.1 Change of Control Employment Agreement dated as of November 1, 1994 between Capital One Financial Corporation and James M. Zinn (incorporated by reference to Exhibit 10.14 of the 1994 Form 10-K).
- 10.5.2 Amendment to Change of Control Employment Agreement dated as of December 18, 1997 between Capital One Financial Corporation and James M. Zinn.
- 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.
- 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 Capital One Financial Corporation Senior Executive Short-Term Cash Incentive Plan (terminated effective November 16, 1995) (incorporated by reference to Exhibit 10.17 of the 1994 Form 10-K).
- 10.9 Capital One Financial Corporation Senior Executive Long-Term Cash Incentive Plan (terminated effective November 16, 1995) (incorporated by reference to Exhibit 10.18 of the 1994 Form 10-K).
- 10.10 Capital One Financial Corporation Executive Employee Supplemental Retirement Plan (terminated effective November 16, 1995) (incorporated by reference to Exhibit 10.19 of the 1994 Form 10-K).

- 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 Capital One Financial Corporation Severance Pay Plan (terminated effective October 23, 1997) (incorporated by reference to Exhibit 10.26 of the 1994 Form 10-K).
- 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 Participation Agreement dated as of January 5, 1996, among Capital One Bank, as construction agent and as lessee, First Security Bank of Utah, N.A., as owner/trustee for the COB Real Estate Trust 1995-1, NationsBank of Texas, N.A., as administrative agent and the holders and lenders named therein (incorporated by reference to Exhibit 10.34.1 of the 1995 Form 10-K).
- 10.17.2 First Amendment to Operative Documents dated as of June 5, 1996, among Capital One Bank, as construction agent and as lessee, First Security Bank of Utah, N.A., as owner/trustee for the COB Real Estate Trust 1995-1, NationsBank of Texas, N.A., as administrative agent, initial lender and initial holder named therein (incorporated by reference to Exhibit 10.3 of the Company's quarterly report on Form 10-Q for period ending June 30, 1996).
- 10.17.3 Second Amendment to Operative Agreements dated as of October 11, 1996, among Capital One Bank, as construction agent and as lessee, First Security Bank of Utah, N.A., as owner/trustee for the COB Real Estate Trust 1995-1, NationsBank of Texas, N.A., as administrative agent, initial lender and initial holder named therein (incorporated by reference to Exhibit 10.20.3 of the 1996 Form 10-K).
- 10.17.4 Assignment, Consent and Third Amendment to Operative Agreement dated November 8, 1996, by and among Capital One Bank, Capital One Realty, Inc., First Security Bank of Utah, N.A., as owner/trustee for the COB Real Estate Trust 1995-1, and NationsBank of Texas, N.A., as administrative

agent (incorporated by reference to Exhibit 10.20.4 of the 1996 Form 10-K).

- 10.17.5 Lease Agreement dated as of January 5, 1996, between First Security Bank of Utah, N.A., as owner/trustee for the COB Real Estate Trust 1995-1, as lessor and Capital One Bank, as lessee (incorporated by reference to Exhibit 10.34.2 of the 1995 Form 10-K).
- 10.17.6 Credit Agreement dated as of January 5, 1996, among First Security Bank of Utah, N.A., as owner/trustee for the COB Real Estate Trust 1995-1, as borrower, the lenders named therein and NationsBank of Texas, N.A., as administrative agent (incorporated by reference to Exhibit 10.34.3 of the 1995 Form 10-K).
- 10.17.7 Fourth Amendment to Operative Agreements dated as of April 10, 1997 by and among Capital One Bank, Capital One Realty, Inc., First Security Bank of Utah, N.A., as owner/trustee for the COB Real Estate Trust 1995-1, and NationsBank of Texas, N.A., as administrative agent.
- 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).
- 10.18.1 Change of Control Employment Agreement dated as of May 14, 1996 between Capital One Financial Corporation and James P. Donehey.
- 10.18.2 Amendment to Change of Control Employment Agreement dated as of December 18, 1997 between Capital One Financial Corporation and James P. Donehey.
- 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.
- 13 The portions of the Company's 1997 Annual Report to Stockholders which are incorporated by reference herein.
- 21 Subsidiaries of the Registrant.
- 23 Consent of Ernst & Young LLP.

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K dated December 22, 1997, Commission File No. 1-13300, announcing 1997 and 1998 Earnings Expectations and a New Compensation Program.

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

Date: March 18, 1998

By /s/ James M. Zinn

James M. Zinn
Senior Vice President and
Chief Financial Officer

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 18th day of March, 1998.

SIGNATURES

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/ James M. Zinn ----- James M. Zinn | Senior Vice President and Chief Financial Officer (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

Director

James V. Kimsey

/s/ Stanley I. Westreich

Director

Stanley I. Westreich

EXHIBITS TO CAPITAL ONE FINANCIAL CORPORATION

ANNUAL REPORT ON FORM 10-K

DATED DECEMBER 31, 1997

COMMISSION FILE NO. 1-13300

EXHIBIT INDEX

| 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. |
| 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 |

| Exhibit Number ----- | Description ----- |
|----------------------------|--|
| | 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). |
| 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). |
| 10.2 | 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). |
| 10.3.1 | 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. |
| 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. |
| 10.5.1 | Change of Control Employment Agreement dated as of November 1, 1994 between Capital One Financial Corporation and James M. Zinn (incorporated by reference to Exhibit 10.14 of the 1994 Form 10-K). |
| 10.5.2 | Amendment to Change of Control Employment Agreement dated as of December 18, 1997 between Capital One Financial Corporation and James M. Zinn. |

| Exhibit Number ----- | Description ----- |
|----------------------------|--|
| 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. |
| 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 | Capital One Financial Corporation Senior Executive Short-Term Cash Incentive Plan (terminated effective November 16, 1995) (incorporated by reference to Exhibit 10.17 of the 1994 Form 10-K). |
| 10.9 | Capital One Financial Corporation Senior Executive Long-Term Cash Incentive Plan (terminated effective November 16, 1995) (incorporated by reference to Exhibit 10.18 of the 1994 Form 10-K). |
| 10.10 | Capital One Financial Corporation Executive Employee Supplemental Retirement Plan (terminated effective November 16, 1995) (incorporated by reference to Exhibit 10.19 of the 1994 Form 10-K). |
| 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 | Capital One Financial Corporation Severance Pay Plan (terminated effective October 23, 1997) (incorporated by reference to Exhibit 10.26 of the 1994 Form 10-K). |
| 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). |

| Exhibit Number ----- | Description ----- |
|----------------------------|--|
| 10.17.1 | Participation Agreement dated as of January 5, 1996, among Capital One Bank, as construction agent and as lessee, First Security Bank of Utah, N.A., as owner/trustee for the COB Real Estate Trust 1995-1, NationsBank of Texas, N.A., as administrative agent and the holders and lenders named therein (incorporated by reference to Exhibit 10.34.1 of the 1995 Form 10-K). |
| 10.17.2 | First Amendment to Operative Documents dated as of June 5, 1996, among One Bank, as construction agent and as lessee, First Security Bank of Utah, N.A., as owner/trustee for the COB Real Estate Trust 1995-1, NationsBank of Texas, N.A., as administrative agent, initial lender and initial holder named therein (incorporated by reference to Exhibit 10.3 of the Company's quarterly report on Form 10-Q for period ending June 30, 1996). |
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| 10.17.6 | Credit Agreement dated as of January 5, 1996, among First Security Bank of Utah, N.A., as owner/trustee for the COB Real Estate Trust 1995-1, as borrower, the lenders named therein and NationsBank of Texas, N.A., as administrative agent (incorporated by reference to Exhibit 10.34.3 of the 1995 Form 10-K). |
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| Exhibit Number ----- | Description ----- |
|----------------------------|---|
| | Chase Manhattan Bank, as administrative agent (incorporated by reference to Exhibit 10.21 of the 1996 Form 10-K). |
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| 13 | The portions of the Company's 1997 Annual Report to Stockholders which are incorporated by reference herein. |
| 21 | Subsidiaries of the Registrant. |
| 23 | Consent of Ernst & Young LLP. |

| | | |
|--------------|------------------------|--------------|
| ---NUMBER--- | [PICTURE APPEARS HERE] | ---SHARES--- |
| CO | | |
| ----- | | ----- |
| COMMON STOCK | | COMMON STOCK |

| | | |
|---|---|--|
| SEE REVERSE FOR CERTAIN DEFINITIONS | INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE | THIS CERTIFICATE IS TRANSFERABLE IN NEW YORK, N.Y. AND RIDGEFIELD PARK, N.J. |
| | [LOGO OF CAPITAL ONE APPEARS HERE] | CUSIP 14040H 10 5 |
| | CAPITAL ONE FINANCIAL CORPORATION | |

THIS CERTIFIES THAT

IS THE OWNER OF

FULLY PAID AND NON-ASSESSABLE SHARES OF THE COMMON STOCK OF

Capital One Financial Corporation transferable on the books of the Corporation in person or by duly authorized Attorney upon surrender of this Certificate properly endorsed.

This Certificate is not valid until countersigned and registered by the Transfer Agent and Registrar.

Witness the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Dated

CERTIFICATE OF STOCK

| | | |
|---------------------------|------------------------------------|-------------------------|
| /s/ John G. Finneran, Jr. | [SEAL OF CAPITAL ONE APPEARS HERE] | /s/ Richard D. Fairbank |
| CORPORATE SECRETARY | | CHIEF EXECUTIVE OFFICER |

COUNTERSIGNED AND REGISTERED:
FIRST CHICAGO TRUST COMPANY
OF NEW YORK
TRANSFER AGENT AND REGISTRAR,

BY

AUTHORIZED SIGNATURE

| | |
|---------------------------------------|----------------------------|
| (C)UNITED STATES BANKNOTE CORPORATION | AMERICAN BANK NOTE COMPANY |
|---------------------------------------|----------------------------|

CAPITAL ONE FINANCIAL CORPORATION

The Corporation will furnish without charge to each stockholder who so requests a statement of the powers, designations, preferences and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Any such request should be addressed to the Corporate Secretary of the Corporation or to the Transfer Agent named on the face of this certificate.

KEEP THIS CERTIFICATE IN A SAFE PLACE. IF IT IS LOST, STOLEN OR DESTROYED THE CORPORATION WILL REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

| | | |
|--|----------------------|-----------------------------------|
| TEN COM -- as tenants in common | UNIF GIFT MIN ACT -- | Custodian |
| TEN ENT -- as tenants by the entireties | | ----- |
| JT TEN -- as joint tenants with right of survivorship and not as tenants in common | | (Cust) (Minor) |
| | | under Uniform Gifts to Minors Act |
| | | ----- |
| | | (State) |

Additional abbreviations may also be used though not in the above list.

For value received, _____ hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OF ASSIGNEE)

_____ shares of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

_____ Attorney to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated _____

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER.

SIGNATURE(S) GUARANTEED

By _____
THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION, (Banks, Stockbrokers, Savings and Loan Associations and Credit Unions) WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM PURSUANT TO S.E.C. RULE 17Ad-15.

This certificate also evidences and entitles the holder hereof to certain Rights as set forth in a Rights Agreement between Capital One Financial Corporation and First Chicago Trust Company of New York, dated as of November 16, 1995, as it may from time to time be supplemented or amended pursuant to its terms (the "Rights Agreement"), the terms of which are hereby incorporated by reference and a copy of which is on file at the principal executive offices of Capital One Financial Corporation. Under certain circumstances as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. Capital One Financial Corporation will

mail to the registered holder of this certificate a copy of the Rights Agreement without charge promptly after receipt of a written request therefor. Under certain circumstances provided for in the Rights Agreement, Rights issued to, or beneficially owned by any Person who is an Acquiring Person or an Affiliate or Associate thereof (as such terms are defined in the Rights Agreement) or any subsequent holder of such Rights shall become null and void.

Change of Control

CAPITAL ONE FINANCIAL CORPORATION

RICHARD D. FAIRBANK

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

AGREEMENT by and between CAPITAL ONE FINANCIAL CORPORATION, a Delaware corporation (the "Company") and Richard D. Fairbank (the "Executive"), dated as of the 18/th/ day of December 1997.

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 Executive ceases to be an officer of the Company prior to the date on which a Change of Control occurs, and it is reasonably demonstrated that such termination of employment (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 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.

(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, and except as

hereinafter provided in (e) and (f), a "Change of Control" shall mean:

(a) The acquisition, other than from the Company, 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 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, 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, 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 prior to, or at the time of consummation of, the distribution of the Company's common stock to shareholders of the Company's parent corporation (the "Distribution") (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 the date of Distribution whose election or 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, 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, 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 owned beneficially, directly or indirectly, 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) Neither the sale of Company common stock in an initial public offering, nor the distribution of Company common stock by the Company's parent corporation to its shareholders in a transaction to which Section 355 of the Internal Revenue Code applies, nor any restructuring of the Company or its Board of Directors in contemplation of or as the result of either of such events, shall constitute a Change of Control.

(f) 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 third 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 and sick 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. No annual base salary shall be payable to the

Executive with respect to any portion of the Employment Period occurring before January 1, 2001. During any portion of the Employment Period occurring on or after January 1, 2001, 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 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; provided that, if the Effective Date occurs before January 1, 2001, such monthly base salary shall be deemed to equal the amount most recently established by the Board for this purpose before the Effective Date. During any portion of the Employment Period occurring on or after January 1, 2001, 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.

(ii) Annual Bonus. In addition to any Annual Base Salary payable as

hereinabove provided, the Executive shall be awarded, for each fiscal year that both (A) begins after December 31, 1999, and (B) begins or ends 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.

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

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 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, 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 (A) 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 (B) 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; provided that no award shall be granted with respect to any fiscal year beginning before January 1, 2000 under any incentive or bonus plan of the Company; and provided further that any effect on the Executive's participation or benefit level resulting from the Executive's not receiving an Annual Base Salary prior to January 1, 2001, shall be governed by the terms of those plans, practices, policies and programs of general applicability.

(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 exclusive 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. During the Employment Period, the Executive shall

be entitled to vacation (paid vacation on and after January 1, 2001) 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.

For purposes of this Agreement, any good faith determination of Good Reason made by the Executive shall be conclusive. Anything in this Agreement to the contrary notwithstanding, a termination by the Executive for any reason during the 30-day period immediately following the first anniversary of the Effective Date shall be deemed to be a termination for Good Reason for all purposes 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.

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) solely with respect to any portion of the Employment Period occurring on or after January 1, 2001, payment of the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (ii) solely with respect to fiscal years beginning after December 31, 1999, payment of the product of (x) the greater of (A) the Annual Bonus paid or payable, including by reason of deferral, (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 during the Employment Period, if any, 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 accrued vacation pay not yet paid by the Company (the amounts described in paragraphs (i), (ii) and (iii) are hereafter referred to as "Accrued Obligations"). All 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. In addition, the Executive's estate or designated beneficiaries shall be entitled to receive the

Executive's Annual Base Salary for the balance of any portion of the Employment Period that occurs on or after January 1, 2001; provided that such payments of Annual Base Salary shall be reduced by any survivor benefits paid to the Executive's estate or designated beneficiary under the Company's Cash Balance Pension Plan (the "Pension Plan"). 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; provided that this sentence shall not apply to benefits under any incentive or bonus plan with respect to fiscal years beginning before January 1, 2000.

(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 Accrued Obligations. All Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. In addition, the Executive shall be entitled to receive the Executive's Annual Base Salary for the balance of any portion of the Employment Period occurring on or after January 1, 2001; provided that such payments of Annual Base Salary shall be reduced by any benefits paid to

the Executive under the Company's disability plans. 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; provided that this sentence shall not apply to benefits under any incentive or bonus plan with respect to fiscal years beginning before January 1, 2000.

(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 (i) with respect to any portion of the Employment Period that occurs on or after January 1, 2001, Annual Base Salary through the Date of Termination, plus (ii) the amount of any compensation previously deferred by the Executive, in each case to the extent theretofore unpaid. 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 Accrued Obligations. In such case, all 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 Accrued Obligations; and

(B) The product of (x) three and (y) the sum of (i) Annual Base Salary and (ii) the Highest Annual Bonus; provided that if Annual Base Salary described in clause (i), above, equals \$0 because of the restrictions set forth in Section 4(b)(i) on Annual Base Salary for periods occurring before January 1, 2001, for purposes of this Section 6(d)(i)(B), Annual Base Salary shall equal the amount most recently established by the Board for this purpose before the Effective Date; and provided further that if the Highest Annual Bonus described in clause (ii), above, equals \$0 because of the restrictions set forth in Section 4(b)(ii) on bonuses for fiscal years beginning before January 1, 2000, for purposes of this Section 6(d)(i)(B), the Highest Annual Bonus shall equal 75% of the Executive's Annual Base Salary (determined after taking into account the preceding proviso); and provided further that the amount taken into account under clauses (i) and (ii), above,

shall be multiplied by a fraction, not exceeding 1, the numerator of which is the number of full calendar months that both (1) fall in the 36-month period immediately following the Date of Termination and (2) (a) with respect to clause (i), begin on or after January 1, 2001, and (b) with respect to clause (ii), begin on or after January 1, 2000, and the denominator of which is 36; and

(C) A lump sum retirement benefit equal to the difference between (1) the actuarial equivalent of the benefit under the Pension Plan and any supplemental and/or excess retirement plan providing benefits for the Executive which the Executive would receive if the Executive's employment continued at the compensation levels provided for in this Agreement for the remainder of the Employment Period, assuming for this purpose that all accrued benefits are fully vested, and (2) the actuarial equivalent of the Executive's actual benefit (paid or payable), if any, under the Pension Plan; for purposes of determining the amount payable pursuant to this Section 6(d)(i)(C) the accrual formulas and actuarial assumptions utilized shall be no less favorable than those in effect with respect to the Pension Plan and the SERP during the 90-day period immediately prior to the Effective Date; and

(ii) For the remainder of the Employment 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 until the end of the Employment 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 the 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 the

Agreement which the 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.

7. Non-exclusivity of Rights. Except as otherwise specifically provided

in this Agreement, 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.

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 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 (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.

9. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, in the event 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 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.

(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 is required and the amount of such Gross-Up Payment 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, if any, as determined pursuant to this Section 9(b), shall be paid by the Company to the Executive 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 which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. 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 the 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.

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.

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. Effectiveness of Amended and Restated Agreement. This Amended and

Restated Agreement is subject to Shareholder Approval as defined in the Non-Statutory Stock Option Agreement by and between the Company and the Executive dated as of December 18, 1997. If Shareholder Approval is not obtained, (i) this Amended and Restated Agreement and the amendments set forth in this Agreement shall be null and void; (ii) the Company and the Executive shall be bound by the terms of the Agreement by and between the Company and the Executive dated as of November 1, 1994 and the Amendment to Agreement by and between the

Company and the Executive dated as of September 15, 1995 (together the "Existing Agreement") as in effect immediately before the execution of this Amended and Restated Agreement; and (iii) the Company shall pay to the Executive the amount of any compensation that, but for the execution of this Amended and Restated Agreement, would have been paid to the Executive under the terms of the Existing Agreement as in effect immediately before the execution of this Amended and Restated Agreement, with interest accruing from the date the compensation otherwise would have been paid to the Executive until the actual date of payment, at an annual interest rate of 5.68%.

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 and supercedes in its entirety the Existing Agreement. 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.

Richard D. Fairbank

CAPITAL ONE FINANCIAL CORPORATION

By -----
Stanley I. Westreich
Chairman, Compensation Committee

Change of Control

CAPITAL ONE FINANCIAL CORPORATION

NIGEL W. MORRIS

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

AGREEMENT by and between CAPITAL ONE FINANCIAL CORPORATION, a Delaware corporation (the "Company") and Nigel W. Morris (the "Executive"), dated as of the 18th day of December 1997.

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 Executive ceases to be an officer of the Company prior to the date on which a Change of Control occurs, and it is reasonably demonstrated that such termination of employment (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 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.

(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, and except as -----
hereinafter provided in (e) and (f), a "Change of Control" shall mean:

(a) The acquisition, other than from the Company, 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 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, 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, 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 prior to, or at the time of consummation of, the distribution of the Company's common stock to shareholders of the Company's parent corporation (the "Distribution") (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 the date of Distribution whose election or 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, 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, 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 owned beneficially, directly or indirectly, 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) Neither the sale of Company common stock in an initial public offering, nor the distribution of Company common stock by the Company's parent corporation to its shareholders in a transaction to which Section 355 of the Internal Revenue Code applies, nor any restructuring of the Company or its Board of Directors in contemplation of or as the result of either of such events, shall constitute a Change of Control.

(f) 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 third 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 and sick 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. No annual base salary shall be payable to the

Executive with respect to any portion of the Employment Period occurring before January 1, 2001. During any portion of the Employment Period occurring on or after January 1, 2001, 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 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; provided that, if the Effective Date occurs before January 1, 2001, such monthly base salary shall be deemed to equal the amount most recently established by the Board for this purpose before the Effective Date. During any portion of the Employment Period occurring on or after January 1, 2001, 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.

(ii) Annual Bonus. In addition to any Annual Base Salary payable as

hereinabove provided, the Executive shall be awarded, for each fiscal year that both (A) begins after December 31, 1999, and (B) begins or ends 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.

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

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 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, 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 (A) 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 (B) 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; provided that no award shall be granted with respect to any fiscal year beginning before January 1, 2000 under any incentive or bonus plan of the Company; and provided further that any effect on the Executive's participation or benefit level resulting from the Executive's not receiving an Annual Base Salary prior to January 1, 2001, shall be governed by the terms of those plans, practices, policies and programs of general applicability.

(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 exclusive 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. During the Employment Period, the Executive shall -----

be entitled to vacation (paid vacation on and after January 1, 2001) 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.

For purposes of this Agreement, any good faith determination of Good Reason made by the Executive shall be conclusive. Anything in this Agreement to the contrary notwithstanding, a termination by the Executive for any reason during the 30-day period immediately following the first anniversary of the Effective Date shall be deemed to be a termination for Good Reason for all purposes 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.

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) solely with respect to any portion of the Employment Period occurring on or after January 1, 2001, payment of the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (ii) solely with respect to fiscal years beginning after December 31, 1999, payment of the product of (x) the greater of (A) the Annual Bonus paid or payable, including by reason of deferral, (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 during the Employment Period, if any, 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 accrued vacation pay not yet paid by the Company (the amounts described in paragraphs (i), (ii) and (iii) are hereafter referred to as "Accrued Obligations"). All 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. In addition, the Executive's estate or designated beneficiaries shall be entitled to receive the

Executive's Annual Base Salary for the balance of any portion of the Employment Period that occurs on or after January 1, 2001; provided that such payments of Annual Base Salary shall be reduced by any survivor benefits paid to the Executive's estate or designated beneficiary under the Company's Cash Balance Pension Plan (the "Pension Plan"). 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; provided that this sentence shall not apply to benefits under any incentive or bonus plan with respect to fiscal years beginning before January 1, 2000.

(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 Accrued Obligations. All Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. In addition, the Executive shall be entitled to receive the Executive's Annual Base Salary for the balance of any portion of the Employment Period occurring on or after January 1, 2001; provided that such payments of Annual Base Salary shall be reduced by any benefits paid to

the Executive under the Company's disability plans. 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; provided that this sentence shall not apply to benefits under any incentive or bonus plan with respect to fiscal years beginning before January 1, 2000.

(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 (i) with respect to any portion of the Employment Period that occurs on or after January 1, 2001, Annual Base Salary through the Date of Termination, plus (ii) the amount of any compensation previously deferred by the Executive, in each case to the extent theretofore unpaid. 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 Accrued Obligations. In such case, all 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 Accrued Obligations; and

(B) The product of (x) three and (y) the sum of (i) Annual Base Salary and (ii) the Highest Annual Bonus; provided that if Annual Base Salary described in clause (i), above, equals \$0 because of the restrictions set forth in Section 4(b)(i) on Annual Base Salary for periods occurring before January 1, 2001, for purposes of this Section 6(d)(i)(B), Annual Base Salary shall equal the amount most recently established by the Board for this purpose before the Effective Date; and provided further that if the Highest Annual Bonus described in clause (ii), above, equals \$0 because of the restrictions set forth in Section 4(b)(ii) on bonuses for fiscal years beginning before January 1, 2000, for purposes of this Section 6(d)(i)(B), the Highest Annual Bonus shall equal 75% of the Executive's Annual Base Salary (determined after taking into account the preceding proviso); and provided further that the amount taken into account under clauses (i) and (ii), above,

shall be multiplied by a fraction, not exceeding 1, the numerator of which is the number of full calendar months that both (1) fall in the 36-month period immediately following the Date of Termination and (2) (a) with respect to clause (i), begin on or after January 1, 2001, and (b) with respect to clause (ii), begin on or after January 1, 2000, and the denominator of which is 36; and

(C) A lump sum retirement benefit equal to the difference between (1) the actuarial equivalent of the benefit under the Pension Plan and any supplemental and/or excess retirement plan providing benefits for the Executive which the Executive would receive if the Executive's employment continued at the compensation levels provided for in this Agreement for the remainder of the Employment Period, assuming for this purpose that all accrued benefits are fully vested, and (2) the actuarial equivalent of the Executive's actual benefit (paid or payable), if any, under the Pension Plan; for purposes of determining the amount payable pursuant to this Section 6(d)(i)(C) the accrual formulas and actuarial assumptions utilized shall be no less favorable than those in effect with respect to the Pension Plan and the SERP during the 90-day period immediately prior to the Effective Date; and

(ii) For the remainder of the Employment 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 until the end of the Employment 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 the 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 the

Agreement which the 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.

7. Non-exclusivity of Rights. Except as otherwise specifically provided

in this Agreement, 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.

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 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 (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.

9. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding, in the event 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 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.

(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 is required and the amount of such Gross-Up Payment 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, if any, as determined pursuant to this Section 9(b), shall be paid by the Company to the Executive 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 which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. 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 the 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.

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.

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. Effectiveness of Amended and Restated Agreement. This Amended and

Restated Agreement is subject to Shareholder Approval as defined in the Non-Statutory Stock Option Agreement by and between the Company and the Executive dated as of December 18, 1997. If Shareholder Approval is not obtained, (i) this Amended and Restated Agreement and the amendments set forth in this Agreement shall be null and void; (ii) the Company and the Executive shall be bound by the terms of the Agreement by and between the Company and the Executive dated as of November 1, 1994 and the Amendment to Agreement by and between the

Company and the Executive dated as of September 15, 1995 (together the "Existing Agreement") as in effect immediately before the execution of this Amended and Restated Agreement; and (iii) the Company shall pay to the Executive the amount of any compensation that, but for the execution of this Amended and Restated Agreement, would have been paid to the Executive under the terms of the Existing Agreement as in effect immediately before the execution of this Amended and Restated Agreement, with interest accruing from the date the compensation otherwise would have been paid to the Executive until the actual date of payment, at an annual interest rate of 5.68%.

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 and supercedes in its entirety the Existing Agreement. 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.

Nigel W. Morris

CAPITAL ONE FINANCIAL CORPORATION

By

Stanley I. Westreich
Chairman, Compensation Committee

CAPITAL ONE FINANCIAL CORPORATION

FIRST AMENDMENT TO THE CHANGE OF CONTROL AGREEMENT BETWEEN
CAPITAL ONE FINANCIAL CORPORATION AND JAMES M. ZINN

THIS AMENDMENT OF AGREEMENT by and between Capital One Financial Corporation (the "Company") and James M. Zinn (the "Executive"), dated as of December 18, 1997.

WHEREAS, the Company entered into an Employment Agreement with the Executive dated as of November 1, 1994 (the "Agreement"), providing the Executive with compensation and benefit arrangements upon a Change of Control, as defined therein;

WHEREAS, Section 12(a) of the Agreement provides that the Agreement may be modified by a written agreement executed by the Company and the Executive;

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 in the form of the Nonstatutory Stock Option Agreement attached as an exhibit to this Amendment (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 November 1, 1994:

1. Effective as of the date of this Amendment, the Agreement shall be modified as follows:

(a) The initial phrase of Section 2 of the Agreement is amended to read in its entirety as follows:

Change of Control. For the purpose of this Agreement, and except as

hereinafter provided in (e) and (f), a "Change of Control" shall mean:

(b) Section 2 is further amended by adding a new paragraph (f) at the end of such section which shall read in its entirety as follows

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.

(c) Section 4(b)(ii) of the Agreement is amended to read in its entirety as follows:

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 below 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 payment of the Executive's Annual Bonus made under this Section 4(b)(ii) shall be reduced to the extent provided in an election made by the Executive to forgo any or all bonus amounts 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 bonuses that the Executive has agreed to forgo in exchange for the receipt of such stock options, less the amount of such bonuses or other compensation (including amounts payable upon termination of employment) actually forgone.

(d) Section 6(a) of the Agreement is amended to read in its entirety as follows:

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 during the Employment Period, if any, 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 accrued vacation pay not yet paid by the Company (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 paragraph (ii) of the Accrued Obligations shall be reduced by the amount of any such Annual Bonus 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. In addition, the Executive's estate or designated beneficiaries shall be entitled to receive the Executive's Annual Base Salary for the balance of the Employment Period; provided,

however, that such payments of Annual Base Salary shall be reduced by any

survivor benefits paid to the Executive's estate or designated beneficiary under the Company's Cash Balance Pension Plan (the "Pension Plan"). 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.

(e) Section 6(b) of the Agreement is amended to read in its entirety as follows:

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. In addition, the Executive shall be entitled to receive the Executive's Annual Base Salary for the balance of the Employment Period; provided, however, that

such payments of Annual Base Salary shall be reduced by any benefits paid to the Executive under the Company's disability plans. 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.

(f) Section 6(c) of the Agreement is amended to read in its entirety as follows:

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. 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.

(g) Section 6(d)(i)(A) of the Agreement is amended by substituting the term "Net Accrued Obligations" for the term "Accrued Obligations" therein.

(h) Section 6(d)(ii) is amended by adding the following at the end thereof:

The right to continued benefits granted to the 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 the 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.

(i) Section 6(d) of the Agreement is amended by adding the following as a new flush sentence at the end thereof:

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.

2. The amendments to the Agreement set forth in paragraph 1 of this Amendment, above, are subject to Shareholder Approval as defined in the Stock Option Agreement. If Shareholder Approval is not obtained, (i) this Amendment and the amendments 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 above written.

CAPITAL ONE FINANCIAL CORPORATION

By: -----
Richard D. Fairbank

James M. Zinn

CAPITAL ONE FINANCIAL CORPORATION

FIRST AMENDMENT TO THE CHANGE OF CONTROL AGREEMENT BETWEEN
CAPITAL ONE FINANCIAL CORPORATION AND JOHN G. FINNERAN, JR.

THIS AMENDMENT OF AGREEMENT by and between Capital One Financial Corporation (the "Company") and John G. Finneran, Jr. (the "Executive"), dated as of December 18, 1997.

WHEREAS, the Company entered into an Employment Agreement with the Executive dated as of November 1, 1994 (the "Agreement"), providing the Executive with compensation and benefit arrangements upon a Change of Control, as defined therein;

WHEREAS, Section 12(a) of the Agreement provides that the Agreement may be modified by a written agreement executed by the Company and the Executive;

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 in the form of the Nonstatutory Stock Option Agreement attached as an exhibit to this Amendment (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 November 1, 1994:

1. Effective as of the date of this Amendment, the Agreement shall be modified as follows:

(a) The initial phrase of Section 2 of the Agreement is amended to read in its as follows:

Change of Control. For the purpose of this Agreement, and except as

hereinafter provided in (e) and (f), a "Change of Control" shall mean:

(b) Section 2 is further amended by adding a new paragraph (f) at the end of such section which shall read in its entirety as follows

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.

(c) Section 4(b)(ii) of the Agreement is amended to read in its entirety as follows:

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 below 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 payment of the Executive's Annual Bonus made under this Section 4(b)(ii) shall be reduced to the extent provided in an election made by the Executive to forgo any or all bonus amounts 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 bonuses that the Executive has agreed to forgo in exchange for the receipt of such stock options, less the amount of such bonuses or other compensation (including amounts payable upon termination of employment) actually forgone.

(d) Section 6(a) of the Agreement is amended to read in its entirety as follows:

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 during the Employment Period, if any, 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 accrued vacation pay not yet paid by the Company (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 paragraph (ii) of the Accrued Obligations shall be reduced by the amount of any such Annual Bonus 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. In addition, the Executive's estate or designated beneficiaries shall be entitled to receive the Executive's Annual Base Salary for the balance of the Employment Period; provided,

however, that such payments of Annual Base Salary shall be reduced by any

survivor benefits paid to the Executive's estate or designated beneficiary under the Company's Cash Balance Pension Plan (the "Pension Plan"). 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.

(e) Section 6(b) of the Agreement is amended to read in its entirety as follows:

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. In addition, the Executive shall be entitled to receive the Executive's Annual Base Salary for the balance of the Employment Period; provided, however, that

such payments of Annual Base Salary shall be reduced by any benefits paid to the Executive under the Company's disability plans. 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.

(f) Section 6(c) of the Agreement is amended to read in its entirety as follows:

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. 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.

(g) Section 6(d)(i)(A) of the Agreement is amended by substituting the term "Net Accrued Obligations" for the term "Accrued Obligations" therein.

(h) Section 6(d)(ii) is amended by adding the following at the end thereof:

The right to continued benefits granted to the 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 the 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.

(i) Section 6(d) of the Agreement is amended by adding the following as a new flush sentence at the end thereof:

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.

2. The amendments to the Agreement set forth in paragraph 1 of this Amendment, above, are subject to Shareholder Approval as defined in the Stock Option Agreement. If Shareholder Approval is not obtained, (i) this Amendment and the amendments 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 above written.

CAPITAL ONE FINANCIAL CORPORATION

By:

Richard D. Fairbank

John G. Finneran, Jr.

FOURTH AMENDMENT TO OPERATIVE AGREEMENTS

THIS FOURTH AMENDMENT TO OPERATIVE AGREEMENTS dated as of April 10, 1997 (this "Fourth Amendment") is by and among CAPITAL ONE BANK, a Virginia banking corporation ("COB"), CAPITAL ONE REALTY, INC., a Delaware corporation ("CORI"), FIRST SECURITY BANK, NATIONAL ASSOCIATION (f/k/a First Security Bank of Utah, N.A.), a national banking association, not individually but solely as Owner Trustee under the COB Real Estate Trust 1995-1 (the "Owner Trustee", the "Borrower" or the "Lessor", as appropriate), NATIONSBANK OF TEXAS, N.A., a national banking association, as Administrative Agent for the Lenders (in such capacity, the "Agent"), as a Lender (together with the other Lenders party to the Credit Agreement, the "Lenders") and as a Holder, and the other Lenders and Holders set forth on the signature pages hereto.

All defined terms used herein but not otherwise defined shall have the meaning set forth in Appendix A to the Participation Agreement dated as of January 5, 1996 by and among COB, CORI, the Owner Trustee, the Agent, the Lenders and the Holders (as amended pursuant to the First Amendment to Operative Agreements dated as of June 21, 1996 (the "First Amendment"), the Second Amendment to Operative Agreements dated as of October 11, 1996 (the "Second Amendment"), the Assignment, Consent and Third Amendment to Operative Agreements dated as of November 8, 1996 (the "Third Amendment"), and as the same is amended hereby, the "Participation Agreement").

W I T N E S S E T H:
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WHEREAS, COB, CORI, the Owner Trustee, the Agent, the Lenders and the Holders are parties to the Participation Agreement.

WHEREAS, the Owner Trustee and CORI are parties to (a) the Lease Agreement (Tax Retention Operating Lease) dated as of January 5, 1996 (as amended pursuant to the First Amendment, the Second Amendment, the Third Amendment and as amended hereby, the "Lease Agreement") between the Owner Trustee, as lessor, and CORI, as lessee and (b) the Agency Agreement dated as of January 5, 1996 (as amended or modified from time to time, the "Agency Agreement") between the Owner Trustee, as lessor, and CORI, as construction agent.

WHEREAS, CORI and COB have requested that certain amendments and modifications be made to the Operative Agreements;

WHEREAS, the Lessor, the Agent, the Lenders and the Holders have agreed to such requested amendments and modifications based on the terms and conditions herein set forth.

A G R E E M E N T

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NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

A. Participation Agreement. The Participation Agreement is hereby amended and modified in the following respects:

1. The terms set forth below and defined in Appendix A to the Participation Agreement shall be amended to read as follows:

"Approved State" means Virginia, Florida and Texas.

"Completion Date" shall mean, with respect to a Property, the earlier of (a) the date on which Completion for such Property has occurred or (b) June 1, 1999.

"Construction Period Termination Date" shall mean the earlier of (a) the date that the Commitments have been terminated in their entirety in accordance with the terms of Section 5(a) of the Credit Agreement or (b) June 1, 1999.

"Election Notice" shall have the meaning set forth in Section 20.2 of the Lease.

"Marketing Period" shall mean, if the Lessee has given a Sale Notice in accordance with Section 20.2 of the Lease, the period commencing on the date such Sale Notice is given and ending on the Expiration Date.

"Permitted Facility" means each real property location used by the Lessee and/or the Guarantor to support customer service operations, data processing operations and related credit card servicing facilities on behalf of Capital One Bank.

"Purchase Option" shall have the meaning given to such term in Section 20.2 of the Lease.

"Sale Option" shall have the meaning given to such term in Section 20.2 of the Lease.

2. Section 5.3(t) is hereby amended to read as follows:

"(t) in their sole and absolute discretion, the Lenders and the Holders shall have agreed to accept, and to fund the respective Loans and Holder Advances regarding, the particular property then under consideration as a Property; and"

3. Section 5.3(u) is hereby added to read as follows:

"(u) the Property Cost for any property under consideration as a Property shall have a minimum projected value of \$10,000,000 upon Completion."

B. Lease Agreement. The Lease Agreement is hereby amended and modified in

the following respects:

1. Section 10.2 of the Lease Agreement is hereby amended to change the reference to "Section 20.1" contained therein to "Section 20.2."

2. Section 15.2 of the Lease Agreement is hereby amended to change the reference to "Section 20.1" contained therein to "Section 20.2."

3. Section 19.1 of the Lease Agreement is hereby deleted in its entirety and replaced with the following:

"19.1 Provisions Relating to Lessee's Purchase of the Properties.

Subject to Section 19.2, in connection with (a) any termination of this Lease with respect to the Property pursuant to the terms of Section 16.2, or (b) Lessee's exercise of its Purchase Option under Section 20.2, or (c) Lessee's exercise of an option to purchase one or more Properties pursuant to the terms of Section 20.1, or (d) Lessor's exercise of its option to transfer the Properties subject to this Lease to the Lessee pursuant to the terms of Section 20.3, then, upon the date on which this Lease is to terminate with respect to the Property, and upon tender by Lessee of the amounts set forth in Sections 16.2(b), 20.1, 20.2 or 20.3, as applicable, Lessor shall execute and deliver to Lessee (or to Lessee's designee), at Lessee's cost and expense, each of the following: (i) a special or limited warranty Deed conveying the Property (to the extent it is real property) to Lessee free and clear of the Lien of this Lease, the Lien of the Credit Documents and any Lessor Liens; (ii) a Bill of Sale conveying the Property (to the extent it is personal property) to Lessee free and clear of the Lien of this Lease, the Lien of the Credit Documents and any Lessor Liens; (iii) any real estate tax affidavit or other document required by law to be executed and filed in order to record the Deed; and (iv) a FIRPTA affidavit. The applicable Property shall be conveyed to Lessee "AS-IS" "WHERE IS" and in then present physical condition."

4. Article XX is hereby deleted in its entirety and replaced with the following:

"ARTICLE XX

20.1 Purchase Option on a Scheduled Interest Payment Date.

Provided that the Election Notice referred to in Section 20.2 has not been delivered, Lessee shall have the option, exercisable at any time and from time to time, by giving Lessor and the Agent no more than sixty (60) days and no less than thirty (30) days irrevocable written notice of Lessee's election to exercise such option, to either (a) purchase one or more (but not all) of the Properties on the Scheduled Interest Payment Date identified in such

written notice, at a price equal to the Termination Value for such Property or Properties (which the parties do not intend to be a "bargain" purchase price); provided, however, that the option referred to in this subclause (a) may not be exercised by the Lessee (i) if, after giving effect to such exercise, the aggregate Property Cost of all Properties then subject to the Lease would be less than \$20,000,000 or (ii) if any Lease Default of the types specified in Sections 17.1(a), 17.1(b) 17.1(i) or any Lease Event of Default shall have occurred and be continuing; or (b) purchase all of the Properties on any Scheduled Interest Payment Date as identified in such written notice, at a price equal to the Termination Value for all of the Properties (which the parties do not intend to be a "bargain" purchase) and upon such payment this Lease shall terminate, the Available Loan Commitment and the Available Holder Commitment shall be reduced to zero and the outstanding Loans and Holder Amount shall be paid in full.

20.2 Expiration Date Purchase or Sale Option.

(a) Not less than 120 days and no more than 180 days prior to the Expiration Date, Lessee may give Lessor and Agent irrevocable written notice (the "Election Notice") that Lessee is electing to exercise either (a) the

option to purchase all of the Properties on the Expiration Date specified in the Election Notice (the "Purchase Option") or (b) the option to remarket the

Properties and cause a sale of the Properties to occur on the Expiration Date pursuant to the terms of Section 22.1 (the "Sale Option"). If Lessee does not

give an Election Notice indicating the Sale Option at least 120 days and not more than 180 days prior to the then Expiration Date, then Lessee shall be deemed to have elected the Purchase Option. If Lessee shall either (i) elect (or be deemed to elect) to exercise the Purchase Option or (ii) elect the Sale Option and fail to cause all of the Properties to be sold in accordance with the terms of Section 22.1 on the Expiration Date, then in either case, Lessee shall pay to Lessor on the date on which such purchase or sale is to occur an amount equal to the Termination Value for all the Properties (which the parties do not intend to be a "bargain" purchase) and, upon receipt of such amount, Lessor shall transfer to Lessee all of Lessor's right, title and interest in and to the Properties in accordance with Section 19.1.

(b) If any Property is the subject of remediation efforts respecting Hazardous Substances at the Expiration Date which could materially and adversely impact the Fair Market Sales Value of such Property, then Lessee shall be obligated to repurchase each such Property pursuant to Section 20.2(a).

20.3 Third Party Sale Option.

(a) Provided no Default or Event of Default shall have occurred and be continuing and provided that the Election Notice has been appropriately given specifying the Sale Option, Lessee shall undertake to cause a sale of the Properties on the Expiration Date (all as specified in the Election Notice) in accordance with the provisions of Section 22.1 hereof.

(b) In the event the Lessee exercises the Sale Option then, as soon as practicable and in all events prior to the Expiration Date, the Lessee, at its expense, shall cause to be

delivered to Lessor an environmental site assessment for each of the Properties recently prepared (no later than 30 days old) by an independent recognized professional reasonably acceptable to Lessor and the Agent and in form, scope and content satisfactory to Lessor and the Agent. In the event that Lessor and the Agent shall not have received such environmental assessment by the Expiration Date or in the event that such environmental assessment shall reveal the existence of any material violation of Environmental Laws, other material Environmental Violation or potential material Environmental Violation (with materiality determined in each case in Lessor's sole discretion acting reasonably), then Lessee on the Expiration Date shall pay to Lessor an amount equal to the Termination Value for all of the Properties and any and all other amounts due and owing hereunder. Upon receipt of such payment and all other amounts due under the Lease, Lessor shall transfer to Lessee all of Lessor's right, title and interest in and to the Properties in accordance with Section 19.1."

5. Section 22.1(a) is hereby amended by changing the reference to "Section 20.1" contained in the third full paragraph of such subsection to "Section 20.2."

C. Credit Agreement. The Credit Agreement is hereby amended and

modified in the following respects:

1. Section 2.1(a) of the Credit Agreement is hereby amended by deleting the last sentence of such subsection (a) and replacing it with the following:

"Any prepayment of the Loans, whether mandatory or at Borrower's election, shall be subject to reborrowing in accordance with the provisions of this Section 2."

2. Section 2.3(a) of the Credit Agreement is hereby amended by deleting the last sentence of such subsection (a) and replacing it with the following:

"Loans repaid or prepaid by the Borrower may be reborrowed hereunder."

3. Section 2.6(a) of the Credit Agreement is hereby amended by deleting the last sentence of such subsection (a) and replacing it with the following:

"Amounts prepaid may be reborrowed in accordance with the provisions of this Section 2."

D. Trust Agreement. The Trust Agreement is hereby amended and modified

in the following respects:

1. Section 3.4(a) of the Trust Agreement is hereby amended by adding the following sentence to the end of such subsection:

"The Owner Trustee may request that Holder Advances prepaid pursuant to this Section be re-advanced in accordance with the provisions of Section 3.1 of this Trust Agreement."

E. Security Agreement. The Security Agreement is hereby amended and

modified in the following respects:

1. Section 21 of the Security Agreement is hereby deleted in its entirety and replaced with the following:

"21. Partial Release; Full Release. The Administrative Agent may

release for such consideration as it may require any portion of the Trust Property without (as to the remainder of the Trust Property) in any way impairing or affecting the Lien, security interest and priority herein provided for the Administrative Agent compared to any other Lien holder or secured party. Further, upon receipt by the Borrower of the Termination Value with respect to one or more Properties and payment to the Lenders of principal and interest due on the Loan (corresponding to the Termination Value payment) and all other Obligations with respect to such Property encumbered by this Security Agreement, the Administrative Agent shall execute and deliver to the Borrower such documents and instruments as may be required to release the Lien and security interest created by this Security Agreement with respect to the applicable Property or Properties, as the case may be."

F. Each of the parties hereto hereby represent and warrant that as of the date hereof (i) the representations and warranties of such party contained in Section 7 and Section 8 of the Participation Agreement are true and correct in all material respects and (ii) no Default or Event of Default currently exists and is continuing with respect to any such party.

G. The effectiveness of this Fourth Amendment is contingent upon the receipt by the Agent of the following items, each in form and substance satisfactory to the Agent: (i) this Fourth Amendment duly executed by the parties hereto; (ii) a legal opinion of counsel to COB and CORI in form and substance satisfactory to the Agent; and (iii) such other certificates, resolutions and opinions as deemed necessary or advisable by the Agent.

H. This Fourth Amendment may be executed in any number of counterparts, each of which when executed and delivered shall be deemed to be an original and it shall not be necessary in making proof of this Fourth Amendment to produce or account for more than one such counterpart.

I. Except as modified hereby, all of the terms and conditions of the Operative Agreements shall remain in full force and effect.

J. This Fourth Amendment shall be governed by, and construed in accordance with, the laws of the Commonwealth of Virginia.

IN WITNESS WHEREOF, each of the parties hereto has caused this Fourth Amendment to be duly executed and delivered as of the date first above written.

CAPITAL ONE REALTY, INC.
as Construction Agent and as Lessee

By: _____
Name: _____
Title: _____

ACKNOWLEDGED AND AGREED TO AS A SIGNATORY TO THE PARTICIPATION AGREEMENT AND AS THE GUARANTOR:

CAPITAL ONE BANK,
as Guarantor

By: _____
Name: _____
Title: _____

FIRST SECURITY BANK, NATIONAL ASSOCIATION
(f/k/a First Security Bank of Utah,
N.A.), not individually, except as
expressly stated herein, but solely
as Owner Trustee under the COB Real
Estate Trust 1995-1

By: _____
Name: _____
Title: _____

NATIONSBANK OF TEXAS, N.A.,
as Holder, as a Lender and as Administrative Agent

By: _____
Name: _____
Title: _____

FIRST UNION NATIONAL BANK OF VIRGINIA, as a Lender
and a Holder

By: _____
Name: _____
Title: _____

THE FIRST NATIONAL BANK OF CHICAGO, as a Lender

By: _____
Name: _____
Title: _____

BANK OF TOKYO - MITSUBISHI TRUST COMPANY, as a
Lender

By: _____
Name: _____
Title: _____

UNION BANK OF SWITZERLAND, NEW YORK BRANCH, as a
Lender

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

BARCLAYS BANK PLC, as a Lender

By: _____
Name: _____
Title: _____

BANK OF MONTREAL, as a Lender and a Holder

By: _____
Name: _____
Title: _____

KREDIETBANK N.V., as a Lender

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

CAPITAL ONE FINANCIAL CORPORATION

JAMES P. DONEHEY

EMPLOYMENT AGREEMENT

AGREEMENT by and between CAPITAL ONE FINANCIAL CORPORATION, a Delaware corporation (the "Company"), and James P. Donehey (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.

James P. Donehey

CAPITAL ONE FINANCIAL CORPORATION

By: -----
Richard D. Fairbank
Chief Executive Officer

CAPITAL ONE FINANCIAL CORPORATION

FIRST AMENDMENT TO THE EMPLOYMENT AGREEMENT BETWEEN
CAPITAL ONE FINANCIAL CORPORATION AND JAMES P. DONEHEY

This Amendment of Agreement is by and between Capital One Financial Corporation (the "Company") and James P. Donehey (the "Executive") dated as of December 18, 1997.

WHEREAS, the Company entered into an Employment Agreement with the Executive dated as of May 14, 1996 (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 December 18, 1997:

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: -----

CONFORMED COPY

(Pound)156,457,500.00
and
(Canadian)\$139,608,700

REVOLVING CREDIT FACILITY AGREEMENT

between

CAPITAL ONE FINANCE COMPANY CAPITAL ONE INC.
as original borrowers

CAPITAL ONE FINANCIAL CORPORATION
as original guarantor

BANK OF MONTREAL
BZW
CHASE MANHATTAN plc
DEUTSCHE BANK AG LONDON
as arrangers

BARCLAYS BANK PLC
as Facility Agent

BARCLAYS BANK PLC
as Sterling Agent

BANK OF MONTREAL
as Canadian Dollar Agent
and
OTHERS

Clifford Chance
London

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THIS AGREEMENT is made the 29th day of August 1997

BETWEEN

- (1) CAPITAL ONE FINANCE COMPANY ("COFC") and CAPITAL ONE INC. ("COI") (together the "Original Borrowers");
- (2) CAPITAL ONE FINANCIAL CORPORATION as guarantor (the "Original Guarantor");
- (3) BANK OF MONTREAL, BZW, CHASE MANHATTAN plc and DEUTSCHE BANK AG LONDON (the "Arrangers");
- (4) BARCLAYS BANK PLC (the "Facility Agent");
- (5) BARCLAYS BANK PLC (the "Sterling Agent");
- (6) BANK OF MONTREAL (the "Canadian Dollar Agent"); and
- (7) THE FINANCIAL INSTITUTIONS named in Part I and/or Part 2 of the First Schedule (the "Banks").

NOW IT IS HEREBY AGREED as follows:

Part 1

INTERPRETATION

1. Interpretation

1.1 Definitions In this Agreement:

"Acceding Bank" has the meaning ascribed to such term in Clause 6.12 (Increase of Commitments);

"Acceding Borrower" means any company carrying on business in England and Wales or, as the case may be, Canada which has executed and delivered a Borrower Accession Memorandum pursuant to Clause 42 (Acceding Borrowers);

"Acceding Guarantor" means any company which has executed and delivered a New Guarantee;

"Advance" means, save as otherwise provided herein, any Tranche A Advance or Tranche B Advance made or to be made pursuant to the terms hereof;

"Affected Bank" has the meaning ascribed to such term in Clause 2.3 (Transfers of Part of Total A1 Commitments);

"Affiliate" means any person which, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, another person or any Subsidiary of such other person. The term "control" (including the terms "controlled by" or "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through ownership of voting securities or by contract or otherwise;

"Agents" means the Facility Agent, the Sterling Agent and the Canadian Dollar Agent (and "Agent" means any of them);

"Associated Costs Rate" means, in relation to any Tranche A Advance or unpaid sum denominated in sterling, the rate determined in accordance with the Sixth Schedule (Associated Costs Rate);

"Available Tranche A Commitment" means, in relation to a Tranche A Bank at any time and save as otherwise provided herein, its Tranche A Commitment less its share of the Outstandings in respect of Facility A at such time, and in the case of a proposed Tranche A Utilisation only, adjusted to take into account:

- (i) any reduction in the Tranche A Commitment of a Tranche A Bank which will occur prior to the commencement of the Term relating to the proposed Tranche A Utilisation consequent upon a cancellation of the whole or any part of the Tranche A Commitment of such Tranche A Bank pursuant to the terms hereof,
- (ii) the Sterling Amount of any Tranche A Advance to be made pursuant to any other Tranche A Utilisation, which such Tranche A Bank is then obliged to make on or before the proposed Utilisation Date relating to such proposed Tranche A Utilisation; and
- (iii) the Sterling Amount of any Tranche A Advance which was made by such Tranche A Bank pursuant hereto and which is due to be repaid on or before the proposed Utilisation Date relating to such Tranche A Utilisation;

"Available Tranche B Commitment" means, in relation to a Tranche B Bank at any time and save as otherwise provided herein, its Tranche B Commitment less its share of the Outstandings in respect of Facility B at such time and in the case of a proposed Tranche B Utilisation only, adjusted to take into account:

- (i) any reduction in the Tranche B Commitment of a Tranche B Bank which will occur prior to the commencement of the Term or Tenor relating to the proposed Tranche B Utilisation consequent upon a cancellation of the whole or any part of the Tranche B Commitment of such Tranche B Bank pursuant to the terms hereof;
- (ii) the Canadian Dollar Amount of any Tranche B Advance to be made and any Bill to be accepted by the Canadian Dollar Agent, pursuant to any other Tranche B Utilisation, which such Tranche B Bank is then obliged to make, or as the case may be, reimburse the Canadian Dollar Agent in respect of under Clause 9 (Payment on Maturity of Bills) on or before the proposed Utilisation Date relating to such proposed Tranche B Utilisation; and
- (iii) the Canadian Dollar Amount of any Tranche B Advance and any Bill which was made or accepted (or, as the case may be, in respect of which such Tranche B Bank is obliged to reimburse the Canadian Dollar Agent) and which is due to be repaid (or, as the case may be, mature) on or before the proposed Utilisation Date relating to such Tranche B Utilisation;

"Available Tranche A Facility" means, at any time, the aggregate amount of the Available Tranche A Commitments;

"Available Tranche B Facility" means at any time, the aggregate amount of the Available Tranche B Commitments;

"Beneficiaries" means the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the Banks and "Beneficiary" means any one of them;

"Bill" means a Canadian Dollar draft or bill of exchange drawn by a Borrower and accepted or to be accepted by the Canadian Dollar Agent under Facility B;

"Borrower Accession Memorandum" means a memorandum to be delivered pursuant to Clause 42 (Acceding Borrowers) by the Borrowers to the Facility Agent substantially in the form set out in Part I of the Seventh Schedule (Form of Borrower Accession Memorandum and Borrower Transfer Certificate);

"Borrowers" means each of the Original Borrowers, any Acceding Borrower and any Borrower Transferee but excluding any Borrower Transferor to the extent it has assigned and transferred any of its rights and obligations to a Borrower Transferee in accordance with Clause 42.5 (Transfers by Borrowers) and "Borrower" means any one of them;

"Borrower Transfer Certificate" means a certificate substantially in the form set out in Part II of the Seventh Schedule (Form of Borrower Accession Memorandum and Borrower Transfer Certificate) signed by a Borrower and a Borrower Transferee whereby:

- (i) such Borrower seeks to procure the transfer to such Borrower Transferee of all or a part of such Borrower's rights and obligations hereunder upon and subject to the terms and conditions set out in Clause 42 (Acceding Borrowers); and
- (ii) such Borrower Transferee undertakes to perform the obligations it will assume as a result of delivery of such certificate to the Facility Agent as is contemplated in Clause 42.5 (Transfers by Borrowers);

"Borrower Transferee" means a Subsidiary of the Original Guarantor to which a Borrower seeks to transfer or, as the case may be, has transferred all or part of such Borrower's rights and obligations hereunder;

"Borrower Transferor" means a Borrower that has transferred and assigned any of its rights and obligations in accordance with Clause 42.5 (Transfers by Borrowers);

"Canadian Dollar Amount" means:

- (i) in relation to any proposed Tranche B Advance, made or to be made on any Utilisation Date, the principal Canadian Dollar amount thereof; and
- (ii) in relation to any Bill under Facility B, the face amount of such Bill,

and the Canadian Dollar Amount of any Utilisation Request issued under Facility B shall be determined accordingly;

"Canadian Dollar Bankers' Acceptance Discount Rate" means, in respect of any Bills and any date, the average of the rates notified to the Canadian Dollar Agent by each of the Canadian Reference Banks as being the rate at which it is offering at or about 10.00 a.m. (Toronto time) on such date to purchase a Bill with an equivalent amount and tenor to the face amount and Tenor of the Bills to be accepted on such date;

"Canadian Prime Rate" means, in relation to any Tranche B Advance or unpaid sum denominated in Canadian Dollars and any date, the higher of (i) the rate announced from time to time by the Canadian Dollar Agent as its reference prime lending rate on such date for Canadian Dollar denominated commercial loans made in Canada and in force on such date and (ii) the Canadian Dollar Bankers' Acceptance Discount Rate on such date in respect of a Bill with a Tenor of a period of 30 days plus 0.75 per cent;

"Canadian Qualified Lender" shall have the meaning ascribed to it in Clause 18.1 (Tax Gross-Up);

"Canadian Reference Banks" means the principal Toronto offices of Bank of Montreal and Deutsche Bank Canada;

"Commitment" means, in relation to a Bank at any time and save as otherwise provided herein its Tranche A Commitment and its Tranche B Commitment;

"Commitment Increase Date" has the meaning ascribed to such term in Clause 6.13 (Increase Effective);

"Commitment Increase Letter" means a letter substantially in the form set out in the Eleventh Schedule (Form of Commitment Increase Letter);

"Compliance Certificate" means a certificate demonstrating compliance with the covenants set forth in Clause 27 (Financial Condition) as of the date specified in such certificate, substantially in the form set out in the Ninth Schedule (Form of Compliance Certificate);

"Event of Default" means any of those events specified in Clause 29 (Events of Default);

"Facility" means each of Facility A and Facility B granted to the Borrowers in this Agreement;

"Facility A" means the sterling revolving cash advance facility granted to the Tranche A Borrowers hereunder;

"Facility B" means the Canadian Dollar revolving cash advance and acceptance credit facility granted to the Tranche B Borrowers hereunder;

"Facility Office" means, in respect of Facility A and any Tranche A Bank, the office in the United Kingdom identified with the relevant Tranche A Bank's signature below (or, in the case of a Transferee, at the end of the Transfer Certificate to which it is a party as Transferee) or such other office in the United Kingdom as it may from time to time notify to the Facility Agent and the Sterling Agent, and in relation to Facility B and any Tranche B Bank, the office

in Canada identified with the relevant Tranche B Bank's signature below (or, in the case of a Transferee, at the end of the Transfer Certificate to which it is a party as Transferee) or such other office in Canada as it may from time to time notify to the Facility Agent and the Canadian Dollar Agent;

"Final Maturity Date" means, the day which is thirty-six months after the date hereof or such later day, if any, as may be agreed in accordance with the provisions of Clause 6. 10 (Optional Increase of Final Maturity Date) Provided that if the Final Maturity Date determined as aforesaid would fall on a day which is not a business day, it shall be the immediately following business day which is a business day in London and a business day in Toronto;

"Finance Documents" means each of this Agreement, the Guarantee, the Bills, any Borrower Accession Memorandum, any New Guarantee, any fee letter entered into by any Obligor pursuant to any of the terms hereof or thereof, any Compliance Certificate, any notice delivered in connection herewith or therewith and any other agreement or document designated as such by the Facility Agent and the Original Guarantor;

"Group" means, at any time, the Original Guarantor and each of its Subsidiaries at such time;

"Guarantee" means the guarantee of even date herewith to be given by the Original Guarantor in favour of the Beneficiaries in substantially the form set out in the Twelfth Schedule (Form of Guarantee);

"Guarantors" means each of the Original Guarantor and any Acceding Guarantor and "Guarantor" means any one of them;

"Information Memorandum" means the document concerning the Original Obligors which, was prepared in relation to this transaction and distributed by the Arrangers to selected banks during July 1997;

"Instructing Group" means:

- (i) whilst no Advances or Bills are outstanding hereunder, a group of Banks for whom the aggregate of their Tranche A Commitments and the Sterling Amount (on the date of the request to the Banks) of the aggregate of their Tranche B Commitments amount (or, if each Bank's Commitment has been reduced to zero, did immediately before such reduction to zero, amount) in aggregate to more than sixty six and two-thirds per cent. of the aggregate of the Tranche A Commitments and the Sterling Amount (on the date of the request to the Banks) of the aggregate of the Tranche B Commitments; and

(ii) whilst at least one Advance or Bill is outstanding hereunder, a group of Banks to whom in aggregate more than sixty six and two-thirds per cent. of the Outstandings is owed;

"LIBOR" means, in relation to any amount owed by an Obligor hereunder on which interest for a given period is to accrue, the rate per annum equal to the offered quotation which appears on the relevant page (as defined in Clause 1.7 (Screen Rates)) for such period at or about 11.00 a.m. on the Quotation Date for such period;

"Margin" means, at any time, the rate set out in the table below under the heading which sets out the Relevant Ratings at such time of the Original Guarantor, any Acceding Guarantors and the relevant Borrower to which any Tranche A Advance in relation to which such margin is being calculated is being or has been made:

| Relevant Ratings | A- and A3 | BBB+ and Baa1 | BBB and Baa2 | BBB- and Baa3 | BB+ and Ba1 | Less-than and Ba1 | BB+ |
|------------------------------|-----------|---------------|--------------|---------------|-------------|-------------------|-----|
| Margin (per cent. per annum) | 0.25 | 0.30 | 0.35 | 0.40 | 0.575 | 1.10 | |

"Material Adverse Effect" means with respect to an Obligor, a material adverse effect on (a) the property, business, operations, financial condition, prospects or capitalisation of such Obligor and its Subsidiaries taken as a whole, (b) the ability of such Obligor to perform its obligations under the Finance Documents to which it is a party, (c) the validity or enforceability of the obligations of such Obligor under the Finance Documents to which it is a party, (d) the rights and remedies of the Beneficiaries against such Obligor or (e) the timely payment of the principal of or interest on or in connection with any Advance or Bill or other amounts payable by such Obligor in connection therewith;

"Maturity Date" means, in relation to any Bill, the last day of the Tenor thereof;

"New Guarantee" means a guarantee to be given by any Acceding Guarantor in favour of the Beneficiaries in the agreed form;

"Obligors" means, at any time, the Borrowers and the Guarantors at such time;

"Original Financial Statements" means:

- (i) in relation to the Original Guarantor, its audited consolidated financial statements for its financial year ended 31 December 1996 together with its consolidated management accounts for its financial period ended 30 June 1997;

- (ii) in relation to COFC, a statement of such financial information concerning COFC included in the consolidated financial statements for the year ended 31 December 1996 supplied pursuant to paragraph (i) so certified by an officer of the Original Guarantor together with its consolidated management accounts for its financial period ended 30 June 1997;
- (iii) in relation to COI, a statement of such financial information concerning COI included in the consolidated financial statements for the year ended 31 December 1996 supplied pursuant to paragraph (i) so certified by an officer of the Original Guarantor together with its consolidated management accounts for its financial period ended 30 June 1997;
- (iv) in relation to any Acceding Borrower, its consolidated management accounts delivered pursuant to the requirement set out in the Eighth Schedule (Documents to Accompany Borrower Accession Memorandum and Borrower Transfer Certificate); and
- (v) in relation to any Acceding Guarantor, its audited financial statements delivered pursuant to the requirement set out in the Schedule to the Guarantee;

"Original Obligors" means the Original Guarantor and the Original Borrowers;

"Outstandings" means the total of:

- (i) in relation to Facility A, at any time, the aggregate of each outstanding Tranche A Advance at such time; and
- (ii) in relation to Facility B, at any time, the aggregate:
 - (a) each outstanding Tranche B Advance; and
 - (b) each outstanding Bill accepted by the Canadian Dollar Agent under Facility B;

"Permitted Disposal" means any of the following:-

- (i) the merger or consolidation of any Subsidiary of any Obligor with or into, or the transfer by such Subsidiary of all or substantially all of its business or property to (x) such Obligor if such Obligor is the continuing, surviving or transferee corporation or (y) any other Subsidiary of such Obligor;

- (ii) the conveyance, sale, lease, transfer or other disposal by any Obligor of, by one or more transactions or series of transactions (whether related or not), all or substantially all its revenues or its assets other than any Managed Receivables (as defined in Clause 27 (Financial Condition));
- (iii) the merger or consolidation of any Obligor with or into, or the transfer by such Obligor (other than the Original Guarantor) of all or substantially all of its business or property to any other Obligor;
- (iv) the merger or consolidation of any Subsidiary of any Obligor with or into, or the transfer by any such person of all or substantially all of its business or property to any other person so long as (x) the continuing, surviving or transferee corporation is a Subsidiary of such Obligor and (y) no Event of Default has occurred and is continuing immediately prior to such merger, consolidation or transfer or would result therefrom; and
- (v) the sale by any Obligor or any of its Subsidiaries of credit card loans and other finance receivables pursuant to securitisations;

"Permitted Encumbrances" means:

- (i) any encumbrance existing on any property of any corporation at the time such corporation becomes a Subsidiary of a Borrower and not created in contemplation of such event;
- (ii) any encumbrance on any property securing indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such property, provided that such encumbrance attaches to such property concurrently with or within 90 days after the acquisition thereof;
- (iii) any encumbrance on any property of any corporation existing at the time such corporation is merged or consolidated with or into the Original Guarantor or any of its Subsidiaries and not created in contemplation of such event;
- (iv) any encumbrance existing on any property prior to the acquisition thereof by the Original Guarantor or any of its Subsidiaries and not created in contemplation of such acquisition-;
- (v) any encumbrance arising out of the refinancing, extension, renewal or refunding of any indebtedness secured by any encumbrance permitted by paragraphs (i), (ii), (iii) or (iv) above provided that such indebtedness is not increased and is not secured by any additional property;

- (vi) encumbrances for taxes not yet due or encumbrances for taxes being contested in good faith by appropriate proceedings for which adequate reserves (in the good faith judgment of the management of the relevant Borrower) have been established;
- (vii) encumbrances in respect of property of the Original Guarantor or any of its Subsidiaries imposed by law:
 - (a) which are incurred in the ordinary course of business and (x) which do not in the aggregate materially detract from the value of such property or materially impair the use thereof in the operation of the business of the Original Guarantor or any of its Subsidiaries or (y) which are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property subject to such encumbrance; or
 - (b) which do not relate to material liabilities of the Original Guarantor and its Subsidiaries and do not in the aggregate materially detract from the value of the property of the Original Guarantor and its Subsidiaries taken as a whole; provided that no encumbrance permitted under this paragraph (vii) may secure any obligation in an amount exceeding \$10,000,000;
- (viii) encumbrances arising in the ordinary course of business in connection with securitisations of credit cards and other finance receivables by the Original Guarantor or any of its Subsidiaries;
- (ix) encumbrances on cash and readily marketable securities securing obligations in respect of swap agreements in an amount not to exceed the (a) net mark to market exposure of the counterparty thereunder (subject to customary minimum transfer thresholds and periodic valuations) plus (b) any additional amounts requested by counterparties in accordance with their general internal credit guidelines or policies with respect to particular types of swap agreements; and
- (x) encumbrances on property of a Borrower and its Subsidiaries not otherwise permitted by the above paragraphs (i) to (ix) securing indebtedness of such Borrower or any of its Subsidiaries in an aggregate principal or face amount not to exceed 10% of Tangible Net Worth with respect to such Borrower;

"Permitted Transfer Amount" means:

- (a) with respect to the Tranche A1 Banks and any transfer under Clause 2.3 (Transfers of Part of Total A1 Commitments) an amount such that the Total A1

Commitments shall not, at the effective time of the relevant transfer, be reduced to less than the original Total A1 Commitments as at the date hereof less (Pounds)34,573,600.00; and

- (b) with respect to the Tranche B1 Banks and any transfer under Clause 2.7 (Transfers of Part of Total B1 Commitments) an amount such that the Total B1 Commitments shall not, at the effective time of the relevant transfer, be reduced to less than the original Total B1 Commitments as at the date hereof less C\$76,910,200.00;

"Potential Event of Default" means any event that with notice or lapse of time or both would become an Event of Default;

"Proportion" means, in relation to a Bank:

- (i) whilst no Advances or Bills are outstanding hereunder, the proportion borne by the Sterling Amount of its Commitment to the Sterling Amount of Total Commitments (or, if the Total Commitments are then zero, by its Commitment to the Total Commitments immediately prior to their reduction to zero); or
- (ii) whilst at least one Advance or Bill is outstanding hereunder, the proportion borne by its share of the Outstandings to the Outstandings;

"Quotation Date" means, in relation to any period for which an interest rate is to be determined under Facility A, the day on which quotations would ordinarily be given by prime banks in the London Interbank Market for deposits in sterling for delivery on the first day of that period Provided that, if, for any such period, quotations would ordinarily be given on more than one date, the Quotation Date for that period shall be the last of those dates;

"Reference Banks" means the principal London offices of Bank of Montreal, Barclays Bank PLC, The Chase Manhattan Bank and Deutsche Bank AG London or such other bank or banks as may from time to time be agreed between the Original Guarantor and the Facility Agent;

"Relevant Ratings" means, in relation to any relevant group of Obligors and in relation to any table set out in this Agreement for the calculation of commitment commission, Margin or Stamping Fee Rate, the highest combined rating of any Obligor in such group by Standard & Poor's Rating Services and Moody's Investors Service, Inc. provided that where one of the ratings making up such highest combined rating corresponds to a rating in one of the headings in the relevant table but the other rating is lower than the second rating in such heading, the Relevant Ratings shall be the ratings in the heading of the next column of such table where such second rating is listed and for the avoidance of doubt a "relevant group of Obligors" shall mean the group of Obligors specified in the relevant definition or provision in respect of which the Relevant Ratings are being ascertained;

"Repayment Date" means, in relation to any Advance, the last day of the Term thereof or, if such day is not a business day, the next business day following;

"Requested Amount" means, in relation to any Utilisation Request, the aggregate principal amount of the Advance(s) or, as the case may be, the aggregate face amount of the Bill(s) therein requested;

"Schedule I Bank" means a banking entity which is named in Schedule I of the Bank Act (Canada) S.C. 1991 C. 46, as such schedule may be amended from time to time;

"Schedule II Bank" means a Canadian Subsidiary of a non-resident banking entity, which Subsidiary is named in Schedule II of the Bank Act (Canada) S.C. 1991 C.46, as such schedule may be amended from time to time;

"Stamping Fee Rate" means, at any time, the rate set out in the table below under the heading which sets out the Relevant Ratings at such time of the Original Guarantor, any Acceding Guarantors and the relevant Borrower which has drawn the Bill(s) in relation to which such stamping fee is being calculated:

| Relevant Ratings | A- and A3 | BBB+ and Baa1 | BBB and Baa2 | BBB- and Baa3 | BB+ and Ba1 | less than BB+ and Ba1 |
|--------------------------------|-----------------|---------------------|--------------------|---------------------|-------------------|-----------------------------|
| Stamping (per cent. per annum) | 0.25 | 0.30 | 0.35 | 0.40 | 0.575 | 1.10 |

"Sterling Amount" means:

- (i) at any time, in relation to any Tranche B Commitment, the sterling equivalent of the Canadian Dollar amount of such Tranche B Commitment at such time;
- (ii) in relation to any Tranche A Advance, the principal amount thereof at the date of the Utilisation Request in respect of such Advance;
- (iii) at any time, in relation to any Tranche B Advance, the sterling equivalent of the Canadian Dollar principal amount of such Advance at such time; and
- (iv) at any time, in relation to any Bill accepted by the Canadian Dollar Agent under Facility B, the sterling equivalent of the Canadian Dollar face amount of such Bill at such time,

and the Sterling Amount of a Requested Amount shall be determined accordingly;

"Subsidiary" of any corporation (the "Parent") means any other corporation of which more than 50% of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such other corporation (irrespective of whether or not at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by the Parent or by the Parent and/or one or more Subsidiaries of the Parent, and shall include any corporation that is a direct or indirect Subsidiary of any such first mentioned Subsidiary;

"Tenor" means, in relation to any Bill, the period from the Utilisation Date on which it is accepted until its maturity as specified in the Utilisation Request relating thereto;

"Term" means in relation to any Advance, the period for which such Advance is borrowed as specified in the Utilisation Request relating thereto;

"Termination Date" means the day falling one month prior to the Final Maturity Date;

"Total A Commitments" means the aggregate for the time being of the Commitments of the Tranche A Banks;

"Total A1 Commitments" means the aggregate for the time being of the Commitments of the Tranche A1 Banks;

"Total B Commitments" means the aggregate for the time being of the Commitments of the Tranche B Banks;

"Total B1 Commitments" means the aggregate for the time being of the Commitments of the Tranche B1 Banks;

"Total Commitments" means the aggregate for the time being of the Total A Commitments and the Total B Commitments;

"Tranche A Advance" means, save as otherwise provided herein, a cash advance made or to be made by the Tranche A Banks under Facility A;

"Tranche A Bank" means each Tranche A1 Bank and each Tranche A2 Bank;

"Tranche A Borrower" means initially COFC and any Acceding Borrower and Borrower Transferee to Facility A but excluding any Borrower Transferor to Facility A which has assigned and transferred all of its rights and obligations in respect of Facility A in accordance with Clause 42.5 (Transfer by Borrowers);

"Tranche A1 Bank" means a Bank whose name is set out in part A of Part I and part A of Part 2 of the First Schedule (The Banks) or whose name is set out in part A of Part 1 and is an Affiliate of a Bank whose name is set out in part A of Part 2 of the First Schedule (The Banks) and whose Tranche A Commitment and Tranche B Commitment have not been cancelled or reduced to zero pursuant to the provisions of this Agreement and any bank or other financial institution which becomes a "Tranche A1 Bank" party to this Agreement pursuant to the terms hereof;

"Tranche A2 Bank" means a Bank whose name is set out in part B of Part 1 of the First Schedule (The Banks) but not in Part A of Part 1 of the First Schedule (The Banks) and whose Tranche A Commitment has not been cancelled or reduced to zero pursuant to the provisions of this Agreement and any bank or other financial institution which becomes a "Tranche A2 Bank" party to this Agreement pursuant to the terms hereof;

"Tranche A Commitment" means, in relation to a Bank at any time and save as otherwise provided herein, the aggregate of the amounts set opposite its name in part A and part B of Part I of the First Schedule (The Banks) under the heading "Tranche A Banks";

"Tranche A1 Commitment" means, in relation to a Tranche A1 Bank, the Tranche A Commitment in respect of such Tranche A1 Bank;

"Tranche A Utilisation" means a utilisation of Facility A hereunder;

"Tranche B Advance" means, save as otherwise provided herein, an advance in Canadian Dollars, bearing interest based on the Canadian Prime Rate made or to be made by the Tranche B Banks under Facility B including deemed Tranche B Advances as provided for in Clause 9.3 (Deemed Requests for Advances);

"Tranche B Bank" means each Tranche B1 Bank and each Tranche B2 Bank;

"Tranche B1 Bank" means a Bank whose name is set out in part A of Part 2 and part A of Part I of the First Schedule (The Banks) or whose name is set out in part A of Part 2 and is an Affiliate of a Bank whose name is set out in part A of Part 1 of the First Schedule (The Banks) and whose Tranche B Commitment and Tranche A Commitment have not been cancelled or reduced to zero pursuant to the provisions of this Agreement and any bank or other financial institution which becomes a "Tranche B1 Bank" party to this Agreement pursuant to the terms hereof;

"Tranche B2 Bank" means a Bank whose name is set out in part B of Part 2 of the First Schedule (The Banks) but not in part A of Part 2 of the First Schedule (The Banks) and whose Tranche B Commitment has not been cancelled or reduced to zero pursuant to the provisions of this Agreement and any bank or other financial institution which becomes a "Tranche B2

Bank" party to this Agreement pursuant to the terms hereof;

"Tranche B Borrower" means initially COI and any Acceding Borrower and Borrower Transferee to Facility B but excluding any Borrower Transferor to Facility B which has assigned and transferred all of its rights and obligations in respect of Facility B in accordance with Clause 42.5 (Transfers by Borrowers);

"Tranche B Commitment" means, in relation to a Bank at any time and save as otherwise provided herein, the aggregate of the amounts set opposite its name in part A and part B of Part 2 of the First Schedule (The Banks) under the heading "Tranche B Banks";

"Tranche B1 Commitment" means, in relation to a Tranche B1 Bank, the Tranche B Commitment in respect of such Tranche B1 Bank;

"Tranche B Utilisation" means a utilisation of Facility B hereunder;

"Transfer Certificate" means a certificate substantially in the form set out in the Second Schedule (Form of Transfer Certificate) signed by a Bank and a Transferee whereby:

- (i) such Bank seeks to procure the transfer to such Transferee of all or a part of such Bank's rights and obligations hereunder upon and subject to the terms and conditions set out in Clause 40 (Assignments and Transfers by Banks); and
- (ii) such Transferee undertakes to perform the obligations it will assume as a result of delivery of such certificate to the Facility Agent as is contemplated in Clause 40.3 (Transfers by Banks);

"Transfer Date" means, in relation to any Transfer Certificate, the date for the making of the transfer as specified in the schedule to such Transfer Certificate;

"Transferee" means a bank or other financial institution to which a Bank seeks to transfer or, as the case may be, has transferred all or part of such Bank's rights and obligations hereunder;

"UK Qualifying Lender" shall have the meaning ascribed to it in Clause 18.1 (Tax Gross-Up);

"Utilisation" means a utilisation of either Facility hereunder;

"Utilisation Date" means the date of a Tranche A Utilisation or a Tranche B Utilisation, being the date on which the Advances in respect thereof are to be made or the Bills in respect thereof are to be accepted; and

"Utilisation Request" means a notice given to the relevant Agent pursuant to Clause 6.1 (Delivery of a Utilisation Request) in the form set out in the Fourth Schedule (Utilisation Request).

1.2 Interpretation. Any reference in this Agreement to:

any "Agent" or any "Bank" shall be construed so as to include its and any subsequent successors, permitted Transferees and permitted assigns in accordance with their respective interests;

a document is in an "agreed form" when it has been initialled by or on behalf of the Original Borrowers, the Original Guarantor and the Facility Agent;

a "business day" shall be construed as a reference to a day (other than a Saturday or Sunday) on which banks are generally open for business in London in relation to Facility A or in Toronto in relation to Facility B and in each case a day on which banks are generally open for business in the commonwealth of Virginia, United States of America;

"BZW" is a reference to BZW - the investment banking division of Barclays Bank PLC;

a "Clause" shall, subject to any contrary indication, be construed as a reference to a clause hereof;

an "encumbrance" shall be construed as a reference to a mortgage, charge, pledge, hypothecation, security interest, lien or other encumbrance securing any obligation of any person or any other type of preferential arrangement (including, without limitation, title transfer and retention arrangements) having the effect of creating a security interest;

the "equivalent" on any given date in one currency (the "first currency") of an amount denominated in another currency (the "second currency") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted by the relevant Agent at or about 9.15 a.m. on such date for the purchase of the first currency with the second currency;

"financial indebtedness" shall be construed, with respect to any person, as a reference to any indebtedness of such person for or in respect of:

- (i) 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);

- (ii) 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;
- (iii) indebtedness of others secured by an encumbrance on the property of such person, whether or not the respective indebtedness so secured has been assumed by such person;
- (iv) non-contingent obligations of such person (and, for the purposes of the definition of "Permitted Encumbrance" and Clause 29.2 (Cross Default), all 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;
- (v) capital lease obligations of such person (being all obligations of such person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) property to the extent such obligations are required to be classified and accounted for as a capital lease on a balance sheet of such person under GAAP (as defined in Clause 27.3 (Definition of Financial Terms) or in any similar or equivalent manner under the relevant generally accepted accounting principles applicable to the preparation of such person's financial statements if these are other than GAAP) and, for the purposes of this Agreement, the amount of such obligations shall be the capitalised amount thereof, determined in accordance with GAAP (as so defined); and
- (vi) financial indebtedness of others guaranteed by such person;

a "holding company" of a person shall be construed as a reference to any person of which the first-mentioned person is a Subsidiary;

"indebtedness" shall be construed so as to include any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;

a "month" is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a business day, it shall end on the next succeeding business day, unless that day falls in the calendar month succeeding that in which it would otherwise have ended, in which case it shall end on the immediately preceding business day. Provided that, if a period starts on the last business day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end

on the last business day in that later month (and references to "months" shall be construed accordingly);

a "Part" shall, subject to any contrary indication, be construed as a reference to a part hereof;

a "person" shall be construed as a reference to any person, firm, company, corporation, government, state or province or agency of a state or province or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;

a "Schedule" shall, subject to any contrary indication, be construed as a reference to a schedule hereto;

"tax" shall be construed so as to include any tax, levy, impost, duty or other charge of a similar nature (including, without limitation, any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same);

"VAT" shall be construed as a reference to value added tax under English law, any goods and services tax under Canadian law and any other similar tax under any other jurisdiction, including, in each case, similar tax which may be imposed in place thereof from time to time;

a "wholly-owned subsidiary" of a person shall be construed as a reference to any person which has no other members or shareholders except that other person and that other person's wholly-owned Subsidiaries or persons acting on behalf of that other person or its wholly-owned Subsidiaries; and

the "winding-up", "dissolution" or "administration" of a company or corporation shall be construed so as to include any equivalent or analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or any jurisdiction in which such company or corporation carries on business including, without limitation, being subject to or the seeking of liquidation, bankruptcy, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors or compromise, arrangement or proposals with creditors.

1.3 Currency ("Pound") and "sterling" denote the lawful currency of the United Kingdom from time to time; "C\$" and "Canadian Dollars" denote the lawful currency of Canada from time to time; "US\$" and "\$" denotes the lawful currency of the United States of America from time to time.

1.4 References save where the contrary is indicated, any reference in this Agreement to:

- (i) this Agreement or any other agreement or document shall be construed as a reference to this Agreement or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, restated, varied, novated or supplemented;
- (ii) a statute shall be construed as a reference to such statute as the same may have been, or may from time to time be, amended or re-enacted;
- (iii) a time of day shall be construed as a reference to London time; and
- (iv) a person, shall mean that person's successor, permitted transferee or assignee.

1.5 Headings Clause, Part and Schedule headings are for ease of reference only.

1.6 Timetables There are set out in the Fifth Schedule (Timetables) timetables of certain of the procedures provided for in this Agreement. For the purpose of construction, any reference herein to a specified time shall be construed as a reference to the relevant time set forth in the relevant timetable.

1.7 Screen Rates For the purposes of the definition of "LIBOR":

- (a) "relevant page" means page "3750" of the Telerate screen which displays an average British Bankers Association Interest Settlement Rate for sterling (or, if such page or such service shall cease to be available, such other page or such other service (as the case may be) for the purpose of displaying an average British Bankers Association Interest Settlement Rate for sterling as the Sterling Agent, after consultation with the Banks and the Original Guarantor, shall select); or
- (b) if no quotation for sterling and the relevant period is displayed and the Sterling Agent has not selected an alternative service on which a quotation is displayed, "LIBOR" shall mean the arithmetic mean (rounded upwards, if not already such a multiple, to the nearest whole multiple of one-sixteenth of one per cent.) of the rates (as notified to the Sterling Agent) at which each of the Reference Banks was offering to prime banks in the London Interbank Market deposits in sterling and for such period at or about 11.00 a.m. on the Quotation Date for such period.

THE FACILITIES

2. The Facilities

2.1 Grant of Facility A The Tranche A Banks grant to the Tranche A Borrowers upon the terms and subject to the conditions hereof, a sterling revolving cash advance facility, in a total aggregate amount of (Pounds)156,457,500.00 of which; (Pounds)42,465,300 shall be made available by the Tranche A1 Banks and (Pounds)113,992,200.00 shall be made available by the Tranche A2 Banks.

2.2 Grant of Facility B The Tranche B Banks grant to the Tranche B Borrowers upon the terms and subject to the conditions hereof, a Canadian Dollar revolving cash advance and acceptance credit facility, in a total aggregate amount of C\$139,608,700.00 of which C\$76,910,200.00 shall be made available by the Tranche BI Banks and C\$62,698,500.00 shall be made available by the Tranche B2 Banks.

2.3 Transfers of Part of Total A1 Commitments Not less than fifteen nor more than thirty days prior to the last day of any month, the Borrowers may by notice (to be delivered by the Original Guarantor only on behalf of each of the Borrowers) to the Facility Agent notify the Tranche A1 Banks to cancel temporarily the whole or, in their pro rata portions, any part (being a minimum amount of (Pounds)5,000,000 and a maximum amount of no more than the Permitted Transfer Amount) of the Total A1 Commitments and increase the Total BI Commitments by an equivalent amount (determined on the last day of such month) in Canadian Dollars (rounded to the nearest one hundred Canadian Dollars).

2.4 Facility Agent to Notify Banks of Request Following the receipt of a request from the Borrowers pursuant to Clause 2.3 (Transfer of Part of Total A1 Commitments), the Facility Agent shall promptly notify each Bank of such request and the amount by which the Available Tranche A1 Commitment of each Tranche A1 Bank will be reduced and the Available Tranche B1 Commitment will be increased.

2.5 Effect of Notification Subject to:

- (a) each to the representations which are to be deemed repeated at any time after the date hereof in accordance with Clause 25.15 (Repetition of Representations) being true and correct on and as of the date on which such reduction and increase is to be effective by reference to the facts and circumstances existing at the time (or, if any such representation is expressly stated to have been made as of a specific date, as of such specific date), except to any extent waived pursuant to Clause 44 (Amendments and Waivers); and

- (b) no Event of Default or Potential Event of Default having occurred and being continuing as at such date

then with effect from the last day of the relevant month such cancellation and increase shall take effect in the amounts notified.

2.6 Effect of any such Cancellation and Increase Each such cancellation of the Tranche A1 Commitments shall reduce the Tranche A1 Commitment of each Tranche A1 Bank rateably and shall increase the Tranche B1 Commitment of each Tranche B1 Bank rateably.

2.7 Transfers of Part of Total B1 Commitments Not less than fifteen nor more than thirty days prior to the last day of any month, the Borrowers may by notice (to be delivered by the Original Guarantor only on behalf of each of the Borrowers) to the Facility Agent notify the Tranche B1 Banks to cancel temporarily the whole or, in their pro rata proportions, any part (being a minimum amount of C\$5,000,000 and a maximum amount of no more than the Permitted Transfer Amount) of the Total B1 Commitments and increase the Total A1 Commitments by an equivalent amount (determined on the last day of such month) in sterling (rounded to the nearest one hundred sterling).

2.8 Facility Agent to Notify Banks of Request Following the receipt of a request from the Borrowers pursuant to Clause 2.7 (Transfers of Part of Total B1 Commitments), the Facility Agent shall promptly notify each Bank of such request and the amount by which the Available Tranche B1 Commitment of each Tranche B1 Bank will be reduced and the Available Tranche A1 Commitment will be increased.

2.9 Effect of Notification Subject to:

- (a) each of the representations which are to be deemed repeated at any time after the date hereof in accordance with Clause 25.15 (Repetition of Representations) being true and correct on and as of the date on which such reduction and increase is to be effective by reference to the facts and circumstances existing at the time (or, if any such representation is expressly stated to have been made as of a specific date, as of such specific date), except to any extent waived pursuant to Clause 44 (Amendments and Waivers); and
- (b) no Event of Default or Potential Event of Default having occurred and being continuing as at such date

then, with effect from the last day of the relevant month such cancellation and increase shall take effect in the amount notified.

2.10 Effect of any such Cancellation and Increase Each such cancellation of the Tranche B1 Commitments shall reduce the Tranche B1 Commitment of each Tranche B1 Bank rateably and shall increase the Tranche A1 Commitment of each Tranche A1 Bank rateably.

2.11 Limitation on Requests The Borrowers may not make more than two requests (in aggregate) for a transfer of Commitments pursuant to the above provisions in any year.

3. Purpose

3.1 Purpose Facility A is intended to finance the expansion of the loan book of COFC in the United Kingdom and for the general corporate purposes of the Tranche A Borrowers and Facility B is intended to finance the expansion of the loan book of COI in Canada and for the general corporate purposes of the Tranche B Borrowers and, accordingly, each of the Borrowers shall apply all amounts raised by it hereunder in or towards satisfaction of such purposes.

3.2 Application Without prejudice to the obligations of the Borrowers under Clause 3.1 (Purpose), neither the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the Banks nor any of them shall be obliged to concern themselves with the application of amounts raised by any of the Borrowers hereunder.

4. Conditions Precedent

4.1 Save as the Banks may otherwise agree none of the Banks shall be under any obligation hereunder unless the Facility Agent has confirmed to the Borrowers and the Banks that it has received (or waived receipt of) all of the documents listed in the Third Schedule (Conditions Precedent Documents) and that each is, in form and substance, satisfactory to the Facility Agent.

4.2 The Facility Agent shall, on request by an Original Borrower, certify in writing whether or not it has received or waived receipt of any of the documents listed in the Third Schedule (Condition Precedent Documents) and whether each is in form and substance satisfactory to it.

5. Nature of Banks' Obligations

The obligations of each Bank hereunder are several and the failure by a Bank to perform its obligations hereunder shall not affect the obligations of COFC, COI, any of the other Borrowers or any of the Guarantors towards any other party hereto nor shall any other party be liable for the failure by such Bank to perform its obligations hereunder nor shall the failure by any Bank to perform its obligations hereunder affect the obligations of any other Bank towards any Borrower hereunder.

UTILISATION OF FACILITY A AND FACILITY B

6. Utilisation of Facility A and Facility B

6.1 Delivery of a Utilisation Request Save as otherwise provided herein, and if there would not, immediately after such Utilisation, be more than twenty Utilisations outstanding in relation to each of Facility A or, as the case may be, Facility B, any Borrower may from time to time utilise any such Facility by delivering to the Sterling Agent and the Facility Agent in the case of Facility A and the Canadian Dollar Agent and the Facility Agent in the case of Facility B, by no later than the time specified in the applicable part of the Fifth Schedule, a duly completed Utilisation Request.

6.2 Utilisation Request Each Utilisation Request delivered to the relevant Agent pursuant to Clause 6.1 (Delivery of a Utilisation Request) shall be irrevocable and shall specify:

- (i) the Facility under which the requested Utilisation is to be made;

- (ii) in the case of Facility B, whether the Utilisation is to be by means of Advances or Bills;

- (iii) the proposed Utilisation Date which shall be a business day falling one month or more (or such later date as is agreed between the relevant Borrower and the relevant Agent under paragraph (v) below in respect of a Term or Tenor of less than 1 month) before the Final Maturity Date;

- (iv) the Requested Amount (to be determined in accordance with Clause 6.3 (Requested Amount));

- (v) the Term or Tenor in question, being:
 - (a) in respect of Advances, a period of one, two, three or six months (or such other period as may be agreed between the relevant Borrower and the relevant Agent (acting on the instructions of all the Tranche A Banks or, as the case may be, the Tranche B Banks)); and

 - (b) in respect of Bills a period of 30, 60, 90 or 180 days (or such other period as may be agreed between the Canadian Dollar Agent on the instructions of all the Tranche B Banks and the relevant Borrower);

which will begin on the proposed Utilisation Date and end on a business day which is or precedes the Final Maturity Date; and

- (vi) the account to which the proceeds of the proposed Utilisation are to be paid.

6.3 Requested Amount The Requested Amount to be specified in a Utilisation Request delivered pursuant to Clause 6.1 (Delivery of a Utilisation Request) shall be:

- (i) in the case of a Tranche A Utilisation, a Sterling Amount which does not exceed the Available Tranche A Facility for such Utilisation and which, if less than the Available Tranche A Facility, is a minimum amount of (Pounds)5,000,000 and an integral multiple of (Pounds)1,000,000; and
- (ii) in the case of a Tranche B Utilisation by means of Tranche B Advances or Bills, a Canadian Dollar Amount which does not exceed the Available Tranche B Facility for such Utilisation and which, if less than the Available Tranche B Facility, is a minimum amount of C\$5,000,000 and an integral multiple of C\$1,000,000.

6.4 Allocation in relation to Tranche A Utilisations If and whenever, on the occasion of a Tranche A Utilisation, Banks are required to make Tranche A Advances pursuant hereto, the aggregate principal Sterling Amount of such Advances to be made shall be allocated to, and apportioned among, the Tranche A Banks rateably to their respective Available Tranche A Commitments for such Utilisation Provided that no amount shall be allocated to any Bank in respect of any Tranche A Utilisation if such Bank's Tranche A Commitment is to be reduced to zero pursuant to the terms hereof prior to or during the Term of the proposed Tranche A Advances.

6.5 Allocation in relation to Tranche B Utilisations If and whenever, on the occasion of a Tranche B Utilisation, Banks are required to make Tranche B Advances or reimburse the Canadian Dollar Agent in respect of Bills, the aggregate principal Canadian Dollar Amount of such Advances to be made or, as the case may be, such reimbursement obligations in respect of Bills shall be allocated to, and apportioned among, the Tranche B Banks rateably to their respective Available Tranche B Commitments for such Utilisation Provided that no amount shall be allocated to any Bank in respect of any Tranche B Utilisation if such Bank's Tranche B Commitment is to be reduced to zero pursuant to the terms hereof prior to or during the Term of the proposed Tranche B Advance or, as the case may be, the Tenor of the proposed Bills.

6.6 Obligation of Tranche A Banks Each Tranche A Bank shall, subject to the terms hereof, be obliged, through its Facility Office, to make a Tranche A Advance on the proposed Tranche A Utilisation Date in a principal amount equal to the amount allocated to it pursuant to Clause 6.4 (Allocation in relation to Tranche A Utilisations).

6.7 Obligation of Tranche B Banks Each Tranche B Bank shall, subject to the terms hereof, be obliged, through its Facility Office, to make a Tranche B Advance in a principal amount equal to the amount allocated to that Tranche B Bank pursuant to Clause 6.5 (Allocation in relation to Tranche B Utilisations) and the Canadian Dollar Agent shall, subject to the terms hereof, be obliged, through its Facility Office in Canada to accept a Bill on the proposed Tranche B Utilisation Date.

6.8 Agents to notify Banks of Allocation The Sterling Agent shall not later than the time specified in the applicable part of the Fifth Schedule, notify each Tranche A Bank of the principal amount allocated to it in respect of Advances to be denominated in sterling pursuant to this Clause 6. The Canadian Dollar Agent shall not later than the time specified in the applicable part of the Fifth Schedule, notify each Tranche B Bank of the principal amount or, as the case may be, the face amount allocated to it in respect of Bills or Advances to be denominated in Canadian Dollars pursuant to this Clause 6.

6.9 Reduction of Available Tranche Commitment If a Bank's Tranche A Commitment and/or its Tranche B Commitment is reduced, in accordance with the terms hereof, after the relevant Agent has received a Utilisation Request or made an allocation hereunder then such part of the proposed Utilisation as is attributable to that Bank and exceeds its Available Tranche A Commitment or its Available Tranche B Commitment (as so reduced) shall not be made and the amount of such Utilisation shall be reduced accordingly.

6.10 Optional Extension of Final Maturity Date Not less than 60 nor more than 90 days prior to any anniversary of the date hereof, each Borrower and the Original Guarantor acting jointly, may by notice to the Facility Agent request the Banks to agree that the Final Maturity Date shall thereafter be the day falling twelve months after the then current Final Maturity Date (the "Existing Final Maturity Date"). The Facility Agent shall notify the Banks of receipt of any such request as soon as reasonably practicable thereafter, and the Banks shall respond thereto within 30 days of receipt of such request. If (i) whilst no Advances or Bills are outstanding hereunder, a group of Banks for whom the aggregate of their Tranche A Commitments and the sterling equivalent (on the date of the request to the Banks) of the aggregate of their Tranche B Commitments amount (or, if each Bank's Commitment has been reduced to zero, did immediately before such reduction to zero, amount) in aggregate to more than fifty per cent. of the aggregate of the Tranche A Commitments and the sterling equivalent (on the date of the request to the Banks) of the aggregate of the Tranche B Commitments; and (ii) whilst at least one Advance or Bill is outstanding hereunder, a group of Banks to whom in aggregate more than fifty per cent. of the Outstandings is owed agrees and subject to:

- (a) each of the representations which are to be deemed repeated at any time after the date hereof in accordance with Clause 25.15 (Repetition of Representations) being true and correct on and as of the date on which such extension of the Existing Final Maturity Date is to be effective by reference to the facts and

circumstances existing at the time (or, if any such representation is expressly stated to have been made as of a specific date, as of such specific date), except to any extent waived pursuant to Clause 44 (Amendments and Waivers); and

- (b) no Event of Default or Potential Event of Default having occurred and being continuing as at such date,

then the Existing Final Maturity Date shall thereafter, save as otherwise provided herein, for the purposes of this Agreement be amended as so requested Provided always that the Final Maturity Date may not be extended beyond the day falling 60 months after the date hereof.

6.11 No Obligation on a Bank to Agree to Extend the Final Maturity Date No Bank shall at any time be obliged to agree to a request to extend the Final Maturity Date and where a Bank does not so agree then, after the date falling one month before the Existing Final Maturity Date (or such later date in relation to any Term or Tenor of less than 1 month) such Bank shall not thereafter be obliged to participate in the making of any Advances or assume any new obligations on account of any Bill and the Borrowers and the Original Guarantor shall have the right at any time thereafter but prior to the Existing Final Maturity Date to locate a new lender to which all the rights and obligations of such Bank hereunder may be transferred. If by the Existing Final Maturity Date such new lender has been located then such Bank and such new lender shall execute and deliver a Transfer Certificate pursuant to which all of the rights and obligations of such Bank hereunder shall be transferred to such new lender with effect from the Existing Final Maturity Date and subject to the Final Maturity Date thereafter to apply in relation to all such rights and obligations being the Final Maturity Date as then amended pursuant to Clause 6.10 (Optional Extension of Final Maturity Date). If by the Existing Final Maturity Date no such new lender has been located then the amount of such Bank's Commitment shall be reduced to zero on the Existing Final Maturity Date and the relevant Borrower or Borrowers shall on such date as the Sterling Agent or, as the case may be, Canadian Dollar Agent on behalf of such Bank shall have specified (which shall be on the Existing Final Maturity Date or, if earlier, at the end of the relevant Term or Tenor) repay such Bank's share of each outstanding Advance together with accrued interest thereon and all other amounts owing to such Bank and comply with its obligations under Clause 9.1 (Face Amount) in respect of any Bills accepted by the Canadian Dollar Agent to the extent of that Bank's share of such Bill.

6.12 Increase of Commitments At any time on or after the first anniversary of the date hereof, the Borrowers acting jointly, may by notice to the Facility Agent request the Banks to agree to increase the aggregate amount of the Tranche A Commitments or, as the case may be, the Tranche B Commitments hereunder to an amount not to exceed the equivalent at such time of US\$400,000,000 by having one or more banks or other financial institutions become a "Bank" under this Agreement (an "Acceding Bank") or (in the case of a Bank already party to this Agreement) by an increase in the Commitment of all or any of the existing Banks; provided that the Commitment of an Acceding Bank and any increase in the amount of the

Commitment of any existing Bank, shall be in an amount equal to an integral multiple of (Pounds)1,000,000 and not less than the equivalent of (Pounds)5,000,000.

6.13 **Increases Effective** Any increase in the amount of the Commitments pursuant to Clause 6.12 (Increase of Commitments) hereof shall be effective only upon the execution of a Commitment Increase Letter not less than five business days prior to the date such increase is to become effective (the "Commitment Increase Date") and shall specify (i) the amount of the Commitment (and the Facility) of the Acceding Bank or the amount of any increase in the amount of the Commitment under any Facility of any existing Bank and (ii) the Commitment Increase Date.

6.14 **Conditions to Effectiveness** Any increase in the aggregate amount of the Commitments pursuant to Clause 6.12 (Increase of Commitments) shall not be effective unless:

- (i) no Event of Default or Potential Event of Default shall have occurred and be continuing on the Commitment Increase Date;
- (ii) each of the representations which are to be deemed repeated at any time after the date hereof in accordance with Clause 25.15 (Repetition of Representations) shall be true and correct in all material respects on and as of the Commitment Increase Date with the same force and effect as if made on and as of such date by reference to the facts and circumstances existing at the time (or, if any such representation is expressly stated to have been made as of a specific date, as of such specific date) except to any extent waived pursuant to Clause 44 (Amendments and Waivers);
- (iii) immediately after giving effect to such increase in the amount of the Commitments, no Bank would hold a Commitment in an aggregate amount exceeding 33 1/3% of the Total Commitments of all the Banks at such time; and
- (iv) the Sterling Agent or, as the case may be, the Canadian Dollar Agent shall have received (with sufficient copies for each of the Tranche A Banks or, as the case may be, the Tranche B Banks) each of (x) a certificate of a duly authorised officer of each of the Borrowers as to the taking of any corporate action necessary in connection with such increase and (y) an opinion or opinions of counsel to each of the Borrowers as to their corporate power and authority to borrow hereunder after giving effect to such increase.

6.15 **No Obligation on a Bank to Agree to Increase its Commitment** No Bank shall at any time be obliged to agree to a request of the Borrowers to increase its Commitment or obligations hereunder and where an existing Bank does not so agree, its Commitment shall not be increased and its Available Tranche A Commitment and its Available Tranche B Commitment shall each be calculated on the basis of its existing Commitment.

BILLS

7. Acceptance of Bills by the Canadian Dollar Agent

The Canadian Dollar Agent hereby agrees to accept Bills (in amounts not less than C\$100,000) from time to time and each Tranche B Bank agrees to assume ratably in the proportion borne by its Available Tranche B Commitment to the Available Tranche B Facility at such time, on each occasion that the Canadian Dollar Agent accepts a Bill, the obligations of the relevant Borrower to pay or reimburse the Canadian Dollar Agent for all monies paid by the Canadian Dollar Agent on account of such Bill. Each occasion on which the Canadian Dollar Agent accepts a Bill as provided herein shall be deemed to constitute a Tranche B Utilisation equal to the face amount of such Bill.

8. Bills

8.1 Supply of Bills The Canadian Dollar Agent will provide each Tranche B Borrower with a supply of serially numbered Bills used by it from time to time in the normal course of the Canadian Dollar Agent's business, which, in turn, the relevant Borrower shall properly execute in blank and furnish from time to time to the Canadian Dollar Agent which shall hold such Bills (subject to Clause 11 (Canadian Dollar Agent's Responsibility in Respect of Bills) hereof) until delivered as hereafter provided. The receipt by the Canadian Dollar Agent of a Utilisation Request for Bills shall be sufficient authority for the Canadian Dollar Agent to complete the Bills and the Canadian Dollar Agent shall, subject to the terms and conditions of this Agreement, complete the pre-signed Bills in accordance with such Utilisation Request and the drafts so completed shall thereupon be deemed to have been presented for acceptance.

8.2 Execution of Bills A Tranche B Borrower may, at its option execute any Bill provided to it by the Canadian Dollar Agent by the mechanically reproduced facsimile signatures of any two designated signing officers of such Borrower and the Canadian Dollar Agent is hereby authorised to accept as provided herein or pay, as the case may be, any Bill of such Borrower which purports to bear such facsimile signatures notwithstanding that any such individual has ceased to be a designated signing officer of such Borrower and any such Bill shall be valid as if such individual were a designated signing officer of such Borrower at the date of issue of such Bill. Any such Bill may be dealt with by the Canadian Dollar Agent as provided herein to all intents and purposes and shall bind such Borrower as if duly signed in the signing officer's own handwriting and issued by such Borrower and such Borrower will and hereby does undertake to hold the Canadian Dollar Agent harmless and indemnified against all loss, costs, damages and expenses arising out of the payment or negotiation of any such Bill on which a facsimile signature has been wrongly affixed. The Canadian Dollar Agent shall not be liable for its failure to accept a Bill as required hereunder if the cause of such failure is, in the

whole or in part, due to the failure of such Borrower to provide executed Bills to the Canadian Dollar Agent on a timely basis.

8.3 Canadian Dollar Agent to Give Notice The Canadian Dollar Agent shall give prompt notice to the Facility Agent and each of the Tranche B Banks of any Utilisation Request given by a Tranche B Borrower in respect of Bills and the Canadian Dollar Agent shall determine and specify to each Tranche B Bank its proportionate share of the liabilities of the Canadian Dollar Agent to be incurred pursuant to the acceptance of Bills by the Canadian Dollar Agent. Each Tranche B Bank's contingent liability shall be in proportion borne by its Available Tranche B Commitment to the Available Tranche B Facility immediately prior to the acceptance of such Bills by the Canadian Dollar Agent.

8.4 Acceptance of Bills If on the proposed Utilisation Date relating to any Bills:

- (i) each of the representations which are to be deemed repeated at any time after the date hereof in accordance with Clause 25.15 (Repetition of Representations) are true and correct on and as of such Utilisation Date by reference to the facts and circumstances existing at the time (or, if any such representation is expressly stated to have been made as of a specific date, as of such specific date), except to any extent waived pursuant to Clause 44 (Amendments and Waivers); and
- (ii) no Event of Default or Potential Event of Default has occurred and has not been remedied or waived pursuant to Clause 44 (Amendments and Waivers),

the Canadian Dollar Agent shall accept the Bills and credit the account of the relevant Borrower specified in the relevant Utilisation Request by no later than the time specified in the applicable part of the Fifth Schedule with an amount equal to the face amount of each such Bill less the aggregate of (a) the amount to the discount, which shall be calculated as the Canadian Dollar Bankers' Acceptance Discount Rate quoted by the Canadian Dollar Agent on the Utilisation Date requested by the relevant Borrower and (b) the applicable stamping fee payable pursuant to Clause 10 (Commission on Bills) if not otherwise satisfied.

9. Payment on Maturity of Bills

9.1 Face Amount Subject to Clause 9.3 (Deemed Requests for Advances), the Borrower whose Bills have been accepted by the Canadian Dollar Agent shall pay to the Canadian Dollar Agent on the Maturity Date of each Bill the face amount thereof. Such obligation is absolute, unconditional and irrevocable, subject to the account of the relevant Borrower having been credited as provided in Clause 8.4 (Acceptance of Bills). If a Bill is not so paid by the relevant Borrower upon its maturity each Tranche B Bank, acting through its Facility Office shall be obliged on such Maturity Date (subject to having received notice from the Canadian Dollar Agent to pay the same as specified in Clause 9.2 (Obligations of Tranche B Banks)) to

pay to the Canadian Dollar Agent in order to reimburse the Canadian Dollar Agent in respect of payments made under such Bills, such Tranche B Bank's proportionate share (as determined in accordance with Clause 7 (Acceptance of Bills by the Canadian Dollar Agent)) of the face amount of such Bills.

9.2 Obligations of Tranche B Banks The obligation of each Tranche B Bank to the Canadian Dollar Agent in respect of amounts paid by the Canadian Dollar Agent under a matured Bill shall be absolute, unconditional and irrevocable, shall be due on the date notice of the same is received from the Canadian Dollar Agent (provided that it is given not later than 12 noon (Toronto time) or, if given later, shall be due on the immediately succeeding business day) and shall bear interest payable on demand at the Canadian Prime Rate calculated daily from and including the Maturity Date of the relevant Bill up to but excluding the date of payment thereof on the basis of the actual number of days elapsed and compounded monthly.

9.3 Deemed Requests for Advances Notwithstanding the foregoing provisions of this Clause 9, unless the relevant Borrower has notified the Canadian Dollar Agent by 10.00 a.m. (Toronto time) on the first business day prior to the Maturity Date of any Bill that it intends to comply with the provisions of Clause 9.1 (Face Amount), then it shall be deemed to have given a Utilisation Request for a Tranche B Advance in an amount equal to the face value of the maturing Bill, with a proposed Utilisation Date which is the same as the Maturity Date of such Bill and with an initial Term of one month. In such event, the Canadian Dollar Agent shall promptly notify the Tranche B Banks accordingly and subject to the provisions of Clause 6 (Utilisation of Facility A and Facility B) relating to Tranche B Advances, the Tranche B Banks shall on such Maturity Date make such Tranche B Advance in accordance with Part 5 and the making of such Tranche B Advance shall pro tanto satisfy the relevant Borrower's obligations under Clause 9.1 (Face Amount).

9.4 The relevant Borrower hereby renounces, and shall not claim from the Canadian Dollar Agent, any days of grace for the payment at maturity of any Bill and hereby waives any defence to payment which might otherwise exist if for any reason a Bill shall be held by the Canadian Dollar Agent in its own right at the maturity thereof.

10. Commission on Bills

The Borrower whose Bills are being accepted by the Canadian Dollar Agent will pay to the Canadian Dollar Agent for account of the Tranche B Banks in the proportions specified in Clause 8.3 (Agent to Give Notice), in Canadian Dollars, on acceptance of each Bill a stamping fee at the Stamping Fee Rate on the face amount thereof from and including the date of acceptance by the Canadian Dollar Agent up to but excluding the Maturity Date of the Bill. Such stamping fee shall be payable by deduction in accordance with Clause 8.4 (Acceptance of Bills).

11. Canadian Dollar Agent's Responsibility in respect of Bills

11.1 The Obligors agree that the responsibility of the Canadian Dollar Agent in respect of safekeeping the executed blank draft forms of Bills which are delivered to the Canadian Dollar Agent under this Agreement shall be limited to the exercise of the same degree of care which the Canadian Dollar Agent gives to its own property of a like nature, provided that the Canadian Dollar Agent shall not be deemed to be an insurer thereof. The Obligors agree that the Canadian Dollar Agent may complete such draft forms in accordance with its instructions without incurring liability to the relevant Borrower other than as provided herein. Upon termination of this Agreement, the Canadian Dollar Agent shall deliver back to the relevant Borrower all Bill draft forms executed in blank then held by the Canadian Dollar Agent and not accepted as provided herein. Notwithstanding such termination, all drafts of the relevant Borrower accepted by the Canadian Dollar Agent as provided herein prior to the receipt of written notice requiring return of such forms shall be valid obligations of the relevant Borrower and the provisions hereof shall continue to apply to the same.

11.2 Subject to the account of the relevant Borrower having been credited as provided in Clause 8.4 (Acceptance of Bills) the obligations of the relevant Borrower with respect to Bills under this Agreement shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including, without limitation, the following circumstances:

- (i) any lack of validity or enforceability of any draft accepted as provided herein by the Canadian Dollar Agent or any Bank as a Bill; or
- (ii) the existence of any claim, set-off, defence or other right which the relevant Borrower may have at any time against the holder of the Bill, the Canadian Dollar Agent, a Bank or any other person or entity, whether in connection with this Agreement or otherwise.

THE ADVANCES

12. Making of Advances under Facility A and Facility B

If the Sterling Agent or, as the case may be, the Canadian Dollar Agent notifies any Tranche A Bank or, as the case may be, any Tranche B Bank in accordance with Clause 6 (Utilisation of Facility A and Facility B) that it is to make a Tranche A Advance or a Tranche B Advance, (including, without limitation, a deemed Tranche B Advance under Clause 9.3 (Deemed Requests for Advances)), and if on the proposed Utilisation Date relating to such an Advance:

- (i) no Event of Default or Potential Event of Default has occurred and has not been remedied or waived pursuant to Clause 44 (Amendments and Waivers); and
- (ii) each of the representations which are to be deemed repeated at any time after the date hereof in accordance with Clause 25.15 (Repetition of Representations) are true and correct on and as of such Utilisation Date by reference to the facts and circumstances existing at the time (or, if any such representation is expressly stated to have been made as of a specific date, as of such specific date), except to any extent waived pursuant to Clause 44 (Amendments and Waivers),

then, on such Utilisation Date, such Bank shall, subject to all the terms of this Agreement and, in particular, Clause 23 (Market Disruption) make such Advance through its Facility Office to the Borrower who requested or is deemed to have requested such Advance.

13. Payment of Interest

On the Repayment Date relating to each Advance (and, in the case of a Tranche A Advance, if the period of the Term of such Advance exceeds six months, on the expiry of each period of six months during such Term and, in the case of a Tranche B Advance, if the period of the Term of such Advance exceeds three months, on the expiry of each period of three months during such Term) the Borrower to whom such Advance has been made shall pay to the Sterling Agent, in the case of a Tranche A Advance, or to the Canadian Dollar Agent, in the case of a Tranche B Advance unpaid accrued interest on that Advance.

14. Calculation of Interest

14.1 Interest Applicable to Tranche A Advances The rate of interest applicable to a Tranche A Advance from time to time during the Term of such Tranche A Advance shall be the rate per annum determined by the Sterling Agent to be the sum of:

- (i) LIBOR on the Quotation Date for such Advance;
- (ii) the Margin from time to time; and
- (iii) the Associated Costs Rate applicable thereto.

14.2 Sterling Agent to Notify The Sterling Agent shall not later than the time specified in the applicable part of the Fifth Schedule notify the relevant Borrower and the Tranche A Banks of each determination of the rate of interest made by it pursuant to Clause 14.1 (Interest Applicable to Tranche A Advances).

14.3 Interest Applicable to Tranche B Advances The rate of interest applicable on any day to a Tranche B Advance shall be the rate per annum determined by the Canadian Dollar Agent to be the Canadian Prime Rate for that day.

14.4 Canadian Dollar Agent to Notify The Canadian Dollar Agent shall promptly notify (and in any event no later than one business day prior to the time such interest is required to be paid) the relevant Borrower and the Tranche B Banks of each determination of the Canadian Prime Rate made by it pursuant to Clause 14.3 (Interest Applicable to Tranche B Advances). Notwithstanding the time of such notification, the Canadian Prime Rate shall be the rate as so determined and not the rate at the time of such notification, if different.

15. Repayment of Advances

Except as otherwise provided herein, each Borrower shall repay each Advance made to it in full on the Repayment Date relating thereto and no Borrower shall repay or prepay all or any part of any Advance outstanding hereunder except at the times and in the manner expressly provided herein.

CANCELLATION

16. Cancellation

16.1 Cancellation Prior to the day falling one month before the Final Maturity Date, in respect of Facility A, the Tranche A Borrowers may, and in respect of Facility B, the Tranche B Borrowers may, in each case by giving to the Facility Agent not less than 15 days' prior notice to that effect, cancel the whole or any part (being a minimum amount of ,5,000,000 in the case of Facility A and a minimum amount of C\$5,000,000 in respect of Facility B, or equal to the amount of the Available Tranche A Facility or the Available Tranche B Facility, as the case may be, if less) of the Total A Commitments or, as the case may be, the Total B Commitments. Any such cancellation of the Tranche A Commitments shall reduce the Tranche A Commitment of each Tranche A Bank rateably, and any such cancellation of the Tranche B Commitments shall reduce the Tranche B Commitment of each Tranche B Bank rateably.

16.2 Notice of Cancellation Any notice of cancellation given by any Borrower pursuant to Clause 16.1 (Cancellation) shall be irrevocable and shall specify the date upon which such cancellation is to be made and the amount of such cancellation.

17. Prepayment

A Borrower may, on any business day, prepay all (or any part thereof being in aggregate at least ,5,000,000 and an integral multiple of ,1,000,000) of any Tranche A Advance made to it without premium or penalty but without prejudice to such Borrower's obligations under Clause 30.4 (Broken Periods), by giving to the Sterling Agent not less than 10 days' notice of the date of the prepayment. Any such notice shall be irrevocable and shall oblige the relevant Borrower to make the prepayment on the date therein stated. The Sterling Agent shall promptly notify the Facility Agent and each Tranche A Bank of the details of such notice and each Tranche A Bank shall, as soon as is practicable, compute and inform the Sterling Agent (which shall promptly notify the relevant Borrower) of all amounts payable under Clause 30.4 (Broken Periods). Any such prepayment shall be applied rateably between the Tranche A Banks.

CHANGES IN CIRCUMSTANCES

18. Taxes

18.1 Tax Gross-up All payments to be made by any of the Obligors to any person under any Finance Document shall be made free and clear of and without deduction for or on account of tax unless such Obligor is required to make such a payment subject to the deduction or withholding of tax, in which case the sum payable by such Obligor in respect of which such deduction or withholding is required to be made shall be increased to the extent necessary to ensure that, after the making of the required deduction or withholding, such person receives and retains (free from any liability in respect of any such deduction or withholding) a net sum equal to the sum which it would have received and so retained had no such deduction or withholding been made or required to be made, Provided however if:

(A) on the due date of an interest payment to a Tranche A Bank on a Tranche A Advance, that Bank is not a UK Qualifying Lender and as a result the relevant Obligor is required to deduct or withhold United Kingdom income tax from that payment of interest, the relevant Obligor shall not be so required to pay an additional amount in respect of that deduction or withholding unless it results from the introduction of or any change in, or in the interpretation or application of, any relevant law or any relevant published practice of the Inland Revenue, as the case may be, after this Agreement is entered into or such Obligor would have been required to make a deduction or withholding on account irrespective of whether such Bank is or is not a UK Qualifying Lender; or

(B) (i) on the due date of an interest payment to a Tranche B Bank on a Tranche B Advance, that Bank is not a Canadian Qualified Lender; and

(ii) as a result the relevant Obligor is required to deduct or withhold Canadian withholding tax pursuant to Part XIII of the Income Tax Act (Canada) from that payment of interest,

the relevant Obligor shall not be so required to pay an additional amount in respect of that deduction or withholding unless it results from the introduction of or change in, or in the interpretation or application of, any relevant law or any relevant practice of a Canadian taxing authority after this Agreement is entered into or such Obligor would have been required to make a deduction or withholding on account irrespective of whether such Bank is or is not a Canadian Qualified Lender.

For the purposes of this Clause, "UK Qualifying Lender" means any of the following:

- (a) any person which is a bank for the purposes of Section 349 of the Income and Corporation Taxes Act 1988 and beneficially entitled to interest payable by a Borrower to it under this Agreement and within the charge to UK corporation tax in respect thereof; or
- (b) any Bank which is an assignee of a Bank falling within (a) and is beneficially entitled to the interest payable by the relevant Borrower and within the charge to UK corporation tax in respect thereof; or
- (c) any Bank which, pursuant to the terms of a double tax treaty is entitled to an exemption from any UK taxation in respect of interest and which at the time of the relevant interest payment has validly made all appropriate filings and declarations in order to obtain the benefit of such entitlement; and

"Canadian Qualified Lender" means a Schedule I Bank or a Schedule II Bank or other person not being a "non-resident person" for the purposes of Section 212 of the Income Tax Act (Canada) except that, if any of those statutory provisions are repealed, modified, extended or re-enacted, the Facility Agent may at any time and from time to time amend the relevant definition in such manner as it may determine to be appropriate by giving notice of the amended definition or definitions to the Borrowers and the Banks.

18.2 US Tax Forms Any Tranche A Bank that is not a US Person (as such term is defined in Section 7701(a)(30) of the United States Internal Revenue Code of 1986, as amended) shall, to the extent that it is able to do so, provide a valid and completed Internal Revenue Service Form 1001 or 4224 or such other or successor form as may be required to claim such exemption and if such forms are not provided to the extent such Bank is able to do so, the provisions of Clause 18.1 (Tax Gross-Up) and Clause 18.3 (Tax Indemnity) shall not be applicable in relation to payments of interest to such Tranche A Bank.

18.3 Tax Indemnity Without prejudice to the provisions of Clause 18.1 (Tax Gross-Up), if any person or an Agent on its behalf is required to make any payment on account of tax (not being a tax imposed on the overall net income including profits and gains of its Facility Office by the jurisdiction in which it is incorporated or in which its Facility Office is located) or otherwise on or in relation to any sum received or receivable under any Finance Document by such person or such Agent on its behalf (including, without limitation, any sum received or receivable under this Clause 18) or any liability in respect of any such payment is asserted, imposed, levied or assessed against such person or such Agent on its behalf, the Obligor by whom such sum is paid or payable shall, upon demand of such Agent, promptly indemnify such person against such payment or liability, together with any interest, penalties and

reasonable expenses payable or incurred in connection therewith but not to the extent that such liability, interest, penalties and reasonable expenses have arisen as a result of undue delay in all the circumstances by any person or any agent on its behalf in the filing or the submission of tax returns, computations or claims or the default of any person or any agent on its behalf in doing any thing contemplated by the Finance Documents.

18.4 Notification A Beneficiary will notify the relevant Obligor through the relevant Agent as soon as it is reasonably practicable of any circumstances arising as a result of which it is reasonably likely that it will be making a claim under Clause 18.3 (Tax Indemnity) and if it intends to make a claim under such Clause it shall notify the relevant Obligor of the event by reason of which it is entitled to do so and shall deliver to the relevant Obligor through the relevant Agent a certificate to that effect setting out in reasonable detail the basis and computation of such claim Provided that nothing herein shall require such Beneficiary to disclose any confidential information relating to the organisation of its affairs.

18.5 Double Taxation Relief If, and to the extent that, the effect of Clause 18.1 (Tax Gross-up) or Clause 18.3 (Tax Indemnity) can be mitigated by virtue of the provisions of any applicable double tax Convention entered into between the United Kingdom, the United States of America or Canada, as the case may be, and the relevant Bank's jurisdiction of incorporation (whether by a claim to repayment of any taxes referred to in Clause 18.1 (Tax Gross-up) or Clause 18.3 (Tax Indemnity) or otherwise) each Bank agrees to co-operate with the Borrowers with a view to filing or providing any tax claims, forms, affidavits, declarations or other like documents which the relevant Borrower has requested and which are required for the purpose of ensuring the application of such double tax convention so far as relevant. To the extent that the effect of Clause 18.1 and Clause 18.3 can be mitigated and any Bank fails to co-operate to the extent required hereby to so mitigate the effect of such clauses, the provisions of clause 18.1 and clause 18.3 shall not be applicable in relation to payments of interest to such Bank.

19. Tax Receipts

19.1 Notification of Requirement to Deduct Tax If, at any time, any of the Obligors is required by law to make any deduction or withholding from any sum payable by it under any Finance Document (or if thereafter there is any change in the rates at which or the manner in which such deductions or withholdings are calculated), such Obligor shall as soon as reasonably practicable after becoming aware of the same, notify the Facility Agent.

19.2 Evidence of Payment of Tax If any of the Obligors makes any payment under any Finance Document in respect of which it is required to make any deduction or withholding, it shall pay or otherwise account for the full amount required to be deducted or withheld to the relevant taxation or other authority within the time allowed for such payment under applicable law and shall deliver to the Facility Agent for each relevant Beneficiary, within thirty days after the due date of such payment, withholding or deduction, evidence satisfactory to the

Facility Agent, or as the case may be, the relevant Beneficiary of that deduction, withholding or payment and (where remittance is required) of the remittance thereof to the relevant taxing or other authority.

20. Tax Undertaking by Banks and Tax Refunds

20.1 Tranche A Bank Undertaking Each Tranche A Bank undertakes, promptly upon its Facility Office becoming aware of the same, to notify (through the Facility Agent) each Tranche A Borrower if it shall cease to be a UK Qualifying Lender.

20.2 Tranche B Bank Undertaking Each Tranche B Bank undertakes, promptly upon its Facility Office becoming aware of the same, to notify (through the Facility Agent) each Tranche B Borrower if it shall cease to be a Canadian Qualified Lender.

20.3 Tax Credit Clawback If:

- (1) an Obligor makes a payment under Clause 18.1 (Tax Gross-Up) (a "Tax Payment") in respect of a payment to a Beneficiary under this Agreement; and
- (2) that Beneficiary determines in its absolute discretion and in good faith that it has obtained a refund of tax or obtained and used a credit against tax on its overall net income (a "Tax Credit") which that Beneficiary in its absolute discretion and in good faith is able to identify as attributable to that Tax Payment

then, if in its absolute discretion and in good faith it can do so without prejudicing the amount of any Tax Credit for that Beneficiary, that Beneficiary shall reimburse the relevant Obligor such amount as that Beneficiary in its absolute discretion determines, but in good faith, to be such proportion of that Tax Credit as will leave that Beneficiary (after that reimbursement) in no better or worse position than it would have been in if no Tax Payment had been required. A Beneficiary shall not be obliged to arrange its business or tax affairs in any particular way in order to be eligible for a Tax Credit (and, if it does make a claim, shall have absolute discretion as to the extent, order and manner in which it does so) and whether any amount is due from it under this Clause 20.3 (and, if so, what amount and when). No Beneficiary shall be obliged to disclose any information regarding its tax affairs and computations.

21. Increased Costs

21.1 Changes in Circumstances If, by reason of (i) any change in law in any jurisdiction or in its interpretation or administration and/or (ii) compliance with any request from or requirement of any central bank or other fiscal, monetary or other authority (including, without limitation, a request or requirement (x) which affects the manner in which a Beneficiary or any holding company of such Beneficiary is required to or does maintain capital resources having regard to such Beneficiary's obligations under any Finance Document and to

amounts owing to it under any Finance Document but excluding the implementation, as contemplated on the signing of this Agreement, of any of the matters set out in the July 1988 report of the Basle Committee on Banking Regulations and Supervisory Practices entitled "International Convergence of Capital Measurement and Capital Standards" (the "Cooke Report"), (y) which implements any change after the signing of this Agreement in, or in the interpretation or application of, such matters or any increase in the requirements of the Cooke Report after the date hereof; or (z) relating to the adoption of the euro (as defined under Clause 49 (European Monetary Union)):

- (a) a Beneficiary or any holding company of such Beneficiary incurs a cost as a result of such Beneficiary's having entered into and/or performing its obligations under any Finance Document and/or assuming or maintaining a commitment under any Finance Document and/or its having accepted one or more Bills and/or making one or more Advances;
- (b) a Beneficiary or any holding company of such Beneficiary suffers a reduction in the rate to return on its overall capital (not being a reduction by reason of the imposition of, or increase in the rates of tax payable on its overall profits or net income) as a result of a change in the manner in which such Beneficiary is required to allocate resources to its obligations under any Finance Document;
- (c) there is any increase in the cost to a Beneficiary or any holding company of such Beneficiary of funding or maintaining all or any of the advances comprised in a class of advances formed by or including the Advances made or to be made by such Beneficiary hereunder or accepting or discounting any Bills hereunder; or
- (d) a Beneficiary or any holding company of such Beneficiary becomes liable to make any payment on account of tax or otherwise (not being a tax imposed on the net income of such Beneficiary's Facility Office by the jurisdiction in which it is incorporated or in which its Facility Office is located) on or calculated by reference to the amount of the Advances made or to be made by such Beneficiary hereunder and/or the amount of Bills accepted or to be accepted by it hereunder and/or to any sum received or receivable by it hereunder,

then the Borrowers shall, provided that the Facility Agent has notified the Borrowers of such claim pursuant to Clause 21.2 (Increased Costs Claim), within 10 business days of receipt of a demand of the Facility Agent, pay to the Facility Agent for the account of that Beneficiary amounts sufficient to indemnify that Beneficiary or any such holding company against, as the case may be, (1) such cost, (2) such reduction in such rate of return (or such proportion of such reduction as is, in the opinion of that Beneficiary, attributable to its obligations hereunder), (3) such increased cost (or such proportion of such increased cost as is, in the opinion of that Beneficiary, attributable to its funding or maintaining Advances or accepting or

discounting Bills) or (4) such liability (save and to the extent that such Beneficiary has been compensated for such liability pursuant to Clause 18 (Taxes)).

21.2 Increased Costs Claim A Beneficiary intending to make a claim pursuant to Clause 21.1 (Changes in Circumstances) shall notify the Facility Agent of the event by reason of which it is entitled to do so within 90 days after becoming aware of the circumstances giving rise to the claim, whereupon the Facility Agent shall notify the Borrowers thereof by delivery of a certificate setting out in reasonable detail the basis and computation of such claim Provided that nothing herein shall require such Beneficiary to disclose any confidential information relating to the organisation of its affairs.

21.3 Option to repay in relation to increased costs claim If any Borrower is required to pay any amount to a Bank under Clause 21.1 (Changes in Circumstances), then subject to that Borrower giving the Facility Agent and that Bank not less than 10 days prior notice:

- (i) such Borrower may prepay all, but not part, of that Bank's share in the Advances and the Bills together with accrued interest on the amount prepaid. On any such prepayment the relevant Commitment of the relevant Bank shall be automatically cancelled; and/or
- (ii) such Borrower shall have the right at any time thereafter to locate a new lender to which all the rights and obligations of such Bank hereunder may be transferred. If such new lender has been located then such Bank and such new lender shall execute and deliver a Transfer Certificate pursuant to which all of the rights and obligations of such Bank hereunder shall be transferred to such new lender with effect from the Transfer Date specified in such Transfer Certificate.

22. Illegality

If, at any time, it is unlawful for a Beneficiary to make, fund or allow to remain outstanding all or any of the Advances made or to be made by it hereunder or for it or, in the case of Facility B for the Canadian Dollar Agent, to accept or allow to remain outstanding all or any of the Bills accepted or to be accepted by it or the Canadian Dollar Agent hereunder, then that Beneficiary shall, promptly after becoming aware of the same, deliver to the Original Guarantor through the Facility Agent a certificate to that effect and, unless such illegality is avoided in accordance with Clause 24 (Mitigation), to the extent of such illegality:

- (i) such Beneficiary shall not thereafter be obliged to participate in the making of such Advances or assume any new obligations on account of such Bill and the amount of its Commitment shall be immediately reduced accordingly; and

(ii) if the Facility Agent on behalf of such Beneficiary so requires, the relevant Borrower or Borrowers shall on such date as the Facility Agent shall have specified as being necessary to comply with the relevant law:

- (a) repay such Beneficiary's share of such Advance together with accrued interest thereon and all other amounts owing to such Beneficiary; and/or
- (b) comply prematurely with its obligations under Clause 9.1 (Face Value) in respect of such Bills accepted by the Facility Agent.

23. Market Disruption

23.1 Market Disruption in relation to Tranche A Advances If, in relation to any Tranche A Utilisation by way of Tranche A Advances:

- (i) LIBOR is to be calculated pursuant to Clause 1.7(b) (Screen Rates) and the Sterling Agent determines that at 11.00 a.m. on the Quotation Date in respect of such Tranche A Advances none or only one of the Reference Banks was offering to prime banks in the London Interbank Market deposits in Sterling for the proposed duration of such Term; or
- (ii) before 11.30 a.m. on the Quotation Date for such Term the Sterling Agent has been notified by two or more Tranche A Banks whose Tranche A Advances under that Utilisation would amount to at least 40% of the amount of that Utilisation, that the rate at which such deposits were being so offered does not accurately reflect the cost to it of obtaining such deposits,

then, notwithstanding the provisions of Clause 12 (Making of Advances under Facility A and Facility B):

- (a) the Sterling Agent shall promptly notify the other parties hereto of such event;
- (b) such Advances shall not be made; and
- (c) if the relevant Borrower so requires, the Sterling Agent and the relevant Borrower shall enter into negotiations with a view to agreeing a substitute basis for determining the rate of interest which may be applicable to Tranche A Advances in the future and any such substitute basis that is agreed by the relevant Borrower and all Tranche A Banks shall take effect in accordance with its terms and be binding on each party hereto.

23.2 Market Disruption in relation to Bills If, in relation to any Tranche B Utilisation by way of Bills:

- (i) the Canadian Dollar Agent determines that at 10.00 a.m. (Toronto time) on any date none of the Canadian Reference Banks was offering to prime banks in the Toronto Interbank Market to purchase Bills with a face amount of C\$5,000,000 and a Tenor equivalent to the Bills to be accepted on such date; or
- (ii) before 10.30 a.m. (Toronto time) on such date the Canadian Dollar Agent determines that the rate being so offered by the Canadian Reference Banks does not accurately reflect the cost to it of accepting those Bills,

then, notwithstanding the provisions of Clause 12 (Making of Advances under Facility A and Facility B):

- (a) the Canadian Dollar Agent shall promptly notify the other parties hereto of such event;
- (b) such Bills shall not be accepted; and
- (c) if the relevant Borrower so requires, the Canadian Dollar Agent and the relevant Borrower shall enter into negotiations with a view to agreeing a substitute basis for determining the acceptance discount rate which may be applicable to Tranche B Advances by way of Bills in the future and any such substitute basis that is agreed by the relevant Borrower and all Tranche B Banks shall take effect in accordance with its terms and be binding on each party hereto.

24. Mitigation

If, in respect of any Bank, circumstances arise which would, or would upon the giving of notice, result in:

- (i) the reduction of its Commitment to zero pursuant to Clause 22 (Illegality);
- (ii) an increase in the amount of any payment to be made to it or for its account pursuant to Clause 18.1 (Tax Gross-Up); or
- (iii) a claim for indemnification pursuant to Clause 18.3 (Tax Indemnity) or 21.1 (Changes in Circumstances).

then, without in any way limiting, reducing or otherwise qualifying the obligations of the Borrower under any of the Clauses referred to in (i), (ii) or (iii) above, such Bank shall notify the Facility Agent thereof as provided in Clause 18.3 (Tax Indemnity), 21.1 (Changes in Circumstances) or 22 (Illegality), as the case may be, and, in consultation with the Facility

Agent and the relevant Borrower, take such reasonable steps as such Bank acting in good faith considers appropriate to mitigate the effects of such circumstances including the transfer of its Facility Office to another jurisdiction or the transfer of its rights and obligations hereunder to another financial institution acceptable to the Borrowers willing to participate in the Facility Provided that such Bank shall be under no obligation to take any such action if, in the bona fide opinion of such Bank, to do so would or might have an adverse effect upon its business, operations or financial condition.

REPRESENTATIONS, COVENANTS AND EVENTS OF DEFAULT

25. Representations

Each of the Obligors makes the representations and warranties in respect of itself only set out in Clause 25.1 to Clause 25.14 and acknowledges that the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the Banks have entered into this Agreement in reliance on those representations and warranties.

25.1 Status and Due Authorisation It is a corporation duly organised, validly existing and in good standing under the laws of:

- (i) in the case of COFC, Delaware;
- (ii) in the case of COI, Canada;
- (iii) in the case of any Acceding Borrower, the country of its incorporation;
- (iv) in the case of the Original Guarantor, Delaware; or
- (v) in the case of any Acceding Guarantor, the country of its incorporation

with all requisite corporate or other power to execute and deliver the Finance Documents to which it is a party and to exercise its rights and perform its obligations thereunder and all corporate and other action required to authorise its execution and delivery of the Finance Documents to which it is a party and its performance of its obligations thereunder has been duly taken.

25.2 Validity and Admissibility in Evidence All acts, conditions and things required to be done, fulfilled and performed in order (a) to enable it lawfully to enter into, exercise its rights under and perform and comply with the obligations expressed to be assumed by it in each of the Finance Documents to which it is a party, (b) to ensure that the obligations expressed to be assumed by it in each of the Finance Documents to which it is a party are legal, valid and binding and (c) to make each Finance Document to which it is a party admissible in evidence in its jurisdiction of incorporation have been done, fulfilled and performed and all material governmental licences, authorisations, consents and approvals including any such thing requested pursuant to the Consumer Credit Act 1974 and the Data Protection Act 1984 or under any similar or analogous statutory requirement under the laws of any jurisdiction necessary to own its assets and carry on its business as now being or as proposed to be conducted have been obtained.

25.3 Most Recent Audited Financial Statements The most recent financial statements of the Original Guarantor, each of the Borrowers and each of the other Guarantors delivered in accordance with the terms of this Agreement were prepared in accordance with accounting principles generally accepted in the relevant jurisdiction of incorporation and consistently applied and in the case of the audited financial statements of the Original Guarantor and any Acceding Guarantor give (in conjunction with the notes thereto) a true and fair view of the financial condition of such Guarantor and its Subsidiaries, and in the case of the financial statements of the other Obligor delivered in accordance with the terms of this Agreement, show with reasonable accuracy the financial condition of the relevant Obligor in each case, at the date as of which they were prepared and the results of each such Borrower's, each such Guarantor's or, as the case may be, the Group's operations during the financial year then ended.

25.4 No Material Adverse Change Since publication of the Original Financial Statements of any Obligor, there has been no material adverse change in the property, business, operations, financial condition, prospects or capitalisation of such Obligor or, in the case of the Original Financial Statements of the Original Guarantor, there has been no material adverse change in the property, business, operations, financial condition, prospects or capitalisation of the Group taken as a whole.

25.5 No Undisclosed Liabilities As at the date as of which the most recent financial statements of each Obligor were prepared such Obligor had no, or, in the case of the Original Guarantor, no member of the Group had any, liabilities (contingent or otherwise) which were not disclosed thereby (or by notes thereto) or reserved against therein nor any unrealised or anticipated losses arising from commitments entered into by it which were not so disclosed or reserved against, in each case, as required under GAAP (as defined in Clause 27.3 (Definitions of Financial Terms)).

25.6 Litigation Other than as disclosed to the Facility Agent prior to the date hereof, there are no legal or arbitral proceedings, or any proceedings by or before any governmental or regulatory authority or agency, now pending or (to the knowledge of any Obligor) threatened against or affecting the Original Guarantor or any of its Subsidiaries as to which there is a reasonable possibility of an adverse determination that could (either individually or in the aggregate) have a Material Adverse Effect.

25.7 Execution of the Finance Documents Its execution and delivery of the Finance Documents to which it is a party and its exercise of its rights and performance of its obligations thereunder do not and will not:

- (i) conflict with any agreement, mortgage, bond or other instrument or treaty to which it is a party or which is binding upon it or any of its assets;

(ii) conflict with its charter, by-laws or any other constitutive documents and rules and regulations; or

(iii) conflict with any applicable law, regulation or official or judicial order, writ, injunction or decree,

which, in each case, is reasonably likely to have a Material Adverse Effect and could subject any Beneficiary to liability.

25.8 Full Disclosure The statements of fact contained in the Information Memorandum and all of the other written information supplied by any member of the Group to the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the Banks in connection herewith were true, and accurate in all material respects, when taken as a whole, at the date of the Information Memorandum. However, no representation is made with respect to the information in Appendices C or D of the Information Memorandum or any forward looking or competitors information.

25.9 Claims Pari Passu Under the laws of its jurisdiction of incorporation in force at the date hereof (or, in the case of an Acceding Borrower or Acceding Guarantor, the date on which such Acceding Borrower or, as the case may be, Acceding Guarantor becomes a party hereto), the claims of the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the Banks against it under the Finance Documents will rank at least pari passu with the claims of all its other unsecured creditors save those whose claims are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application.

25.10 No Immunity In the case of any Obligor incorporated in Canada, in any proceedings taken in Canada in relation to any of the Finance Documents, it will not be entitled to claim for itself or any of its assets immunity from suit, execution, attachment or other legal process.

25.11 No Winding-up No Obligor has taken any corporate action nor have any other steps been taken or legal proceedings been started or (to the best of its knowledge and belief) threatened against any Obligor for its winding-up, dissolution, administration or re-organisation or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of it or of any or all of its assets or revenues.

25.12 Encumbrances Save as permitted by Clause 28.5 (Negative Pledge), no encumbrance exists over all or any of the present or future revenues or assets of any Obligor.

25.13 No Obligation to Create Security Its execution and delivery of the Finance Documents to which it is a party and its exercise of its rights and performance of its obligations thereunder will not result in the existence of nor oblige any Obligor to create any encumbrance over all or any of its present or future revenues or assets.

25.14 Ownership of each of the Borrowers Each Borrower is a wholly-owned Subsidiary of the Original Guarantor or Capital One, F.S.B. or Capital One Bank save to the extent otherwise required by law, rule or regulation and COFC has a branch office which conducts business in the United Kingdom.

25.15 Repetition of Representations The representations contained in this Clause 25 (other than those made under Clauses 25.4, 25.5, 25.6, 25.8, 25.10, 25.11, 25.12 and 25.13) by any Obligor shall be deemed to be repeated by such Obligor on each date upon which an Advance is made (other than where the proposed Utilisation Date of such Advance is the same as the last day of the Term of one or more existing Advances and the aggregate principal amount of such Advance and any other Advance to be made on such Utilisation Date does not exceed the aggregate outstanding principal amount of all existing Advances whose Term ends on that Utilisation Date) by reference to the facts and circumstances then existing.

26. Financial Information

26.1 Annual Statements Each of the Obligors shall as soon as the same become available, but in any event within 120 days after the end of each of its financial years, deliver to the Facility Agent in sufficient copies for the Banks its financial statements (or, in the case of the Original Guarantor, the consolidated financial statements of the Group) for such financial year.

26.2 Semi-annual Statements Each of the Obligors shall as soon as the same become available, but in any event within 90 days after the end of the half of each of its financial years ending six months after the end of each of its financial years, deliver to the Facility Agent in sufficient copies for the Banks its unaudited financial statements (or, in the case of the Original Guarantor, the consolidated unaudited financial statements of the Group) for such period.

26.3 Other Financial Information Each of the Obligors shall from time to time on the request of the Facility Agent, furnish the Facility Agent with such information about the business and financial condition of the Group as the Facility Agent may reasonably require.

26.4 Requirements as to Financial Statements Each of the Obligors shall ensure that:

- (i) each set of financial statements delivered by it pursuant to this Clause 26 is prepared on the same basis as was used in the preparation of its Original Financial Statements and in accordance with accounting principles generally accepted in its jurisdiction of incorporation and consistently applied;
- (ii) each set of financial statements delivered by it pursuant to Clause 26.1 is certified by a duly authorised officer of such Obligor as giving a true and fair view of its financial condition (or, in the case of financial statements of the Original Guarantor, the financial condition of the Group) as at the end of the

period to which those financial statements relate and of the results of its (or, as the case may be, the Group's) operations during such period;

- (iii) in respect of the Original Guarantor and each Acceding Guarantor each set of financial statements delivered by the Original Guarantor and each Acceding Guarantor pursuant to Clause 26.1 (Annual Statements) has been audited by an internationally recognised firm of independent auditors licensed to practise in its jurisdiction of incorporation; and
- (iv) each set of consolidated financial statements and accounts delivered to the Facility Agent pursuant to Clause 26.1 (Annual Statements) or Clause 26.2 (Semi-annual Statements) shall be accompanied by a compliance certificate signed by a duly authorised officer of the Original Guarantor, substantially in the form set out in the Ninth Schedule (Form of Compliance Certificate), together with any other information required to determine whether or not the financial condition of the Group satisfies the provisions of Clause 27 (Financial Condition).

27. Financial Condition

27.1 Financial Condition of the Borrowers The Original Guarantor shall procure that, and each of the Borrowers from time to time shall ensure in relation to itself that, as evidenced by the most recent set of financial statements delivered by each Tranche A Borrower or, as the case may be, each Tranche B Borrower pursuant to Clause 26 (Financial Information):

(i) Minimum Net Worth

In the case of each Tranche A Borrower, its Tangible Net Worth shall not on any date be less than ,5,000,000 and, in the case of each Tranche B Borrower, its Tangible Net Worth shall not on any date be less than C\$5,000,000.

(ii) Maximum Debt to Total Capital

The ratio of its Debt to Total Capital shall not on any date be more than 9 to 1.

(iii) Minimum Equity to Total Assets

The ratio of its Equity to Total Assets shall not on any date be less than 7.5%.

(iv) Minimum Eligible Assets to Debt

The ratio of its Eligible Assets to Debt shall not on any date be less than 1.10 to 1.

27.2 Financial Condition of the Original Guarantor The Original Guarantor shall ensure that, as evidenced by the most recent set of financial statements delivered by it pursuant to Clause 26 (Financial Information):

(i) Maximum Delinquency Ratio

Its Delinquency Ratio shall not on the last day of any calendar month be more than 5.5%.

(ii) Minimum Tier 1 Capital to Managed Receivables Ratio

The ratio of its Tier 1 Capital to Managed Receivables shall not on any date be less than 4.0 % and remain so for more than 90 days and the ratio of its Tier 1 Capital to Managed Receivables shall not on any date be less than 3.5%.

(iii) Minimum Tangible Net Worth

The Tangible Net Worth of the Original Guarantor shall not on any date be less than US\$500,000,000 plus 40% of Cumulative Net Income as of the last day of the fiscal quarter of the Original Guarantor most recently ended plus 40% of Cumulative Equity Proceeds as of such date of determination.

(iv) Leverage Ratio

Its Leverage Ratio shall not on any date exceed 10.0 to 1.

(v) Double Leverage Ratio

Its Double Leverage Ratio shall not on any date exceed 1.25 to 1.

27.3 Definitions of Financial Terms In this Agreement:

"Cumulative Equity Proceeds" shall mean, as of any date of determination, the aggregate amount of all cash received on or prior to such date of determination by the Original Guarantor and its Subsidiaries in respect of any Equity Issuance effected after 30 June 1997, net of reasonable expenses incurred by the Original Guarantor and its Subsidiaries in connection therewith.

"Cumulative Net Income" shall mean, as of any date of determination, the consolidated net income of the Original Guarantor and its consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) for each fiscal quarter of the Original Guarantor (a) commencing with the fiscal quarter ended 30 September 1997 and (b) ending with the fiscal quarter most recently ended on or prior to such date of determination; provided that the Original Guarantor's Cumulative Net Income shall be determined exclusive of any fiscal quarter of the Original Guarantor for which the consolidated net income of the Original Guarantor and its consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) is less than zero.

"Debt" means at any time and in relation to any person, indebtedness of such person owed to the Banks under any Finance Document and any indebtedness of such person owed to any person which is not Subordinated Indebtedness, not including securitisation liability

"Delinquency Ratio" shall mean, on any date and with respect to the Original Guarantor, the ratio of (a) all Past Due Receivables with respect to the Original Guarantor on such date to (b) the aggregate amount of all Managed Receivables with respect to the Original Guarantor on such date.

"Double Leverage Ratio" shall mean, on any date, the ratio of (a) the sum of the Original Guarantor's Intangibles calculated on an unconsolidated basis on such date plus the amount of the aggregate investment of the Original Guarantor in the capital stock of its Subsidiaries to (b) the Original Guarantor's Net Worth on such date.

"Eligible Assets" means the consolidated cash, cash equivalents and marketable securities of each Borrower which are unrestricted or unpledged plus reported

loan receivables of each Borrower less any a) Past Due Receivables or b) reported loan receivables that are restricted, pledged or subordinated.

"Equity" means on any date and with respect to any person, the aggregate at such time of such person's called up share capital, any credit balance on such person's share premium account or consolidated profit and loss account and such person's consolidated reserves less any debit balance on the consolidated profit and loss account of such person.

"Equity Issuance" shall mean (a) any issuance or sale by the Original Guarantor or any of its Subsidiaries of (i) any of its capital stock, (ii) any warrants or options exercisable in respect of its capital stock (other than any warrants or options issued to directors, officers or employees of the Original Guarantor or any of its Subsidiaries pursuant to employee benefit plans established in the ordinary course of business and any capital stock of the Original Guarantor issued upon the exercise of such warrants or options) or (iii) any other security or instrument representing an equity interest (or the right to obtain any equity interest) in the Original Guarantor or any of its Subsidiaries or (b) the receipt by the Original Guarantor or any of its Subsidiaries from any person not a shareholder of the Original Guarantor of any capital contribution (whether or not evidenced by any equity security issued by the recipient of such contribution); provided that Equity Issuance shall not include (i) any such issuance or sale by any Subsidiary of the Original Guarantor to the Original Guarantor or any wholly owned Subsidiary of the Original Guarantor or (ii) any capital contribution by the Original Guarantor or any wholly owned Subsidiary of the Original Guarantor to any Subsidiary of the Original Guarantor.

"GAAP" shall mean on any date and with respect to any person, generally accepted accounting principles in the United States of America applied on a consistent basis with those used in the preparation of the latest annual or quarterly financial statements furnished by on behalf of such person to the Facility Agent pursuant hereto.

"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 30 June 1997 in the book value of any asset by any such person or any of its consolidated Subsidiaries, (b) all Investments in unconsolidated Subsidiaries and all equity investments in persons that are not Subsidiaries and (c) all unamortised debt discount and expense, unamortised deferred charges, goodwill, patents, trademarks, service marks, trade names, anticipated future benefit of tax loss carry-forwards, copyrights, organisation or developmental expense and other intangible assets.

"Investments" means for any person (a) the acquisition (whether for cash, Property, services or securities or otherwise) of capital stock, bonds, notes, debentures, partnership or other ownership interests or other securities of any other person or any agreement to make any such acquisition (including, without limitation, any "short sale" or any sale of any securities at a time when such securities are not owned by the person entering into such sale); (b) the making of any deposit with, or advance, loan or other extension of credit to, any other person (including the purchase of Property from another person subject to an understanding or agreement, contingent or otherwise, to resell such Property to such person), but excluding any such advance, loan or extension of credit having a term not exceeding 90 days arising in connection with the sale of inventory or supplies by such person in the ordinary course of business; or (c) the entering into of any guarantee of, or other contingent obligation with respect to, indebtedness or other liability of any other person and (without duplication) any amount committed to be advance, lent or extended to such person.

"Leverage Ratio" means on any date, the ratio of (A) the indebtedness (as determined on a consolidated basis without duplication in accordance with GAAP) of the Original Guarantor with respect to the Original Guarantor and its consolidated Subsidiaries at such date minus the aggregate amount of all on-balance sheet loans held for securitisation at such date to (B) the Original Guarantor's Tangible Net Worth at such date.

"Managed Receivables" means on any date and with respect to any person, the sum for such person and its consolidated Subsidiaries (determined on a consolidated basis without duplication 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 securitisation plus (c) all securitised credit card loans and other finance receivables of such person; provided that, as the term "Managed Receivables" is used in the Tier 1 Capital to Managed Receivables Ratio Calculation, clauses (a), (b) and (c) above shall be determined exclusive of securitised, non-revolving finance receivables.

"Net Worth" means on any date the consolidated stockholders' equity of the Original Guarantor and its consolidated Subsidiaries, all determined as of such date on a consolidated basis without duplication in accordance with GAAP.

"Past Due Receivables" means on any date and with respect to any person, (i) with respect to the definition of Delinquency Ratio, Managed Receivables and (ii) with respect to the definition of Eligible Assets, reported loan receivables, in each case contractually past due 90 days or more plus all other non performing assets Provided however that receivables which are loans, whether or not contractually past due 90 days or more, 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 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).

"Property" shall mean any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible.

"Subordinated Indebtedness" means at any time and in relation to any person, indebtedness of such person fully subordinated to the indebtedness of the Borrowers under any Finance Document by a subordination agreement in form and substance satisfactory to the Facility Agent or if the lender of such indebtedness is an Affiliate of any Borrower in a form which includes provisions providing for the relevant subordination in an agreed form.

"Tangible Net Worth" means on any date and with respect to any person, the consolidated stockholders' equity of such person and its consolidated Subsidiaries less Intangibles of such person and its consolidated Subsidiaries, all determined as of such date on a consolidated basis without duplication in accordance with GAAP.

"Tier 1 Capital" means on any date and with respect to any person, the amount, for such person and its consolidated Subsidiaries (determined on a consolidated basis) on such date of "Tier 1 Capital", within the meaning given to such term in 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, as amended, modified and supplemented, and in effect from time to time and any replacement thereof).

"Total Assets" means on any date and with respect to any person the amount, for such person, and its consolidated Subsidiaries (determined on a consolidated basis) of "average total consolidated assets" within the meaning given to such term in 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, as amended, modified and supplemented, and in effect from time to time and any replacement thereof).

"Total Capital" means on any date and with respect to any person, the Equity of such person plus Subordinated Indebtedness of such person.

27.4 Accounting Terms All accounting expressions which are not otherwise defined herein shall be construed in accordance with generally accepted accounting principles in the United States of America.

28. Covenants

28.1 Litigation Each Obligor shall promptly give to the Facility Agent notice of all legal or arbitral proceedings, and of all investigations or proceedings by or before any governmental or regulatory authority or agency, and any material development in respect of such legal or other proceedings, against or affecting such Obligor or any of its Subsidiaries, except investigations or proceedings (a) as to which there is no reasonable possibility of an adverse determination or (b) that, if adversely determined, would not (either individually or in the aggregate) have a Material Adverse Effect.

28.2 Maintenance of Legal Validity Each of the Obligors shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents required in or by the laws and regulations of its jurisdiction of incorporation to enable it lawfully to enter into and perform its obligations under each of the Finance Documents to which it is a party and to ensure the legality, validity, enforceability or admissibility in evidence in its jurisdiction of incorporation of each of the Finance Documents to which it is a party.

28.3 Insurance The Original Guarantor shall procure that each Obligor maintains insurances on and in relation to its business and assets with reputable underwriters or insurance companies against such risks and to such extent as is usual for companies carrying on a business such as that carried on by such Obligor.

28.4 Disposals The Original Guarantor shall ensure that no Obligor shall, without the prior written consent of an Instructing Group, enter into any transaction of merger or consolidation or amalgamation or liquidate, wind-up or dissolve itself or convey, sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), all or substantially all of its revenues or its assets other than by way of a Permitted Disposal.

28.5 Negative Pledge The Original Guarantor shall ensure that no Obligor shall, without the prior written consent of an Instructing Group, create or permit to subsist any encumbrance over all or any of its present or future revenues or assets other than a Permitted Encumbrance.

28.6 Claims Pari Passu Each of the Obligors shall, ensure that at all times the claims of the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the Banks against it under each of the Finance Documents rank at least pari passu with the claims of all its other unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or other similar laws of general application.

28.7 Notification of Events of Default Each of the Obligors shall promptly after becoming aware of the same inform the Facility Agent of the occurrence of any Event of Default or Potential Event of Default and upon receipt of a written request to that effect from the Facility Agent acting reasonably in circumstances which give reasonable grounds for belief that an Event of Default or Potential Event of Default may have occurred, confirm to the Facility Agent that, save as previously notified to the Facility Agent or as notified in such confirmation, no Event of Default or Potential Event of Default has occurred.

28.8 Acceding Guarantors The Original Guarantor shall procure that there is delivered to the Facility Agent, within thirty days of any company which is a wholly-owned Subsidiary (or would be a wholly-owned Subsidiary but for the operation of any applicable law, rule or regulation) of Capital One, F.S.B. or Capital One Bank, becoming a Borrower hereunder pursuant to Clause 42 (Acceding Borrowers) a New Guarantee duly executed by Capital One, F.S.B. or Capital One Bank, as the case may be, together, in each case, with the documents required to accompany any such New Guarantee as specified in the New Guarantee all in a form and substance satisfactory to the Facility Agent.

29. Events of Default

Each of Clause 29.1 to Clause 29.16 describes circumstances which constitute an Event of Default for the purposes of this Agreement. Clause 29.17 and Clause 29.18 deal with the rights of the Agents and the Banks after the occurrence of an Event of Default.

29.1 Failure to Pay Any of the Obligors fails to pay any sum due from it under any Finance Document at the time, in the currency and in the manner specified therein and such failure is not remedied within five days.

29.2 Cross Default Any financial indebtedness of any member of the Group in excess of an aggregate of US\$35,000,000 (or its equivalent in any other currency) is not paid when due, any such financial indebtedness of any member of the Group is declared to be or other-wise becomes due and payable prior to its specified maturity, any commitment for, or underwriting of, any such financial indebtedness of any member of the Group is cancelled or suspended or any creditor or creditors of any member of the Group become entitled to declare any such financial indebtedness of any member of the Group due and payable prior to its specified maturity.

29.3 Misrepresentation Any representation or statement made or deemed to be made by any of the Obligors in any of the Finance Documents to which it is a party or in any notice or other document, certificate or statement delivered by it pursuant hereto is or proves to have been incorrect or misleading in any material respect when made or deemed to be made.

29.4 Specific Covenants Any of the Obligors fails duly to perform or comply with any of the obligations expressed to be assumed by it in Clause 26 (Financial Information) or Clause 28 (Covenants) and, if such breach is capable of remedy, such breach has not been remedied within 30 days after notice of such breach has been given by the Facility Agent to the relevant Obligor.

29.5 Financial Condition At any time any of the requirements of Clause 27 (Financial Condition) is not satisfied.

29.6 Other Obligations Any of the Obligors fails duly to perform or comply with any other obligation expressed to be assumed by it in any Finance Document and such failure, if capable of remedy, is not remedied within thirty days after the Facility Agent has given notice thereof to such Obligor.

29.7 Insolvency and Rescheduling Any Obligor is unable to pay its debts as they fall due, commences negotiations with any one or more of its creditors with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of or a composition with its creditors.

29.8 Winding-up Any Obligor takes any corporate action or other steps are taken or legal proceedings are started for its winding-up, dissolution, administration or re-organisation or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of all or substantially all of its revenues and assets other than (a) in connection with a solvent reconstruction, the terms of which have been previously approved by the Facility Agent acting on the instructions of an Instructing Group, or (b) a winding up petition which is proved to the satisfaction of the Facility Agent to be frivolous or vexatious and which is, in any event, discharged within 21 days of its presentation.

29.9 Analogous Events Any event occurs which under the laws of any jurisdiction has a similar or analogous effect to any of those events mentioned in Clause 29.7 (Insolvency and Rescheduling), Clause 29.8 (Winding-up) or Clause 29.16 (Judgement Defaults).

29.10 Governmental Intervention By or under the authority of any government, (a) the management of the Original Guarantor is wholly or partially displaced or the authority of the Original Guarantor in the conduct of its business is wholly or partially curtailed which is likely to have a Material Adverse Effect or (b) all or a majority of the issued shares of the Original Guarantor or the whole or any part (the book value of which is twenty per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired which is likely to have a Material Adverse Effect.

29.11 Ownership of the Original Guarantor Any person or group of persons (within the meaning of Section 13 or 14 of the Exchange Act as amended) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the SEC under the Exchange Act) of 20% or more of the issued and outstanding shares of voting common stock issued by the Original Guarantor or the Original Guarantor shall at any time fail to own and control, beneficially and of record (free and clear of all encumbrances), at least 95% of the issued and outstanding shares of capital stock of each class of voting securities issued by Capital One Bank or the Original Guarantor shall at any time fail to own and control, beneficially and of record (free and clear of all encumbrances), at least 95% of the issued and outstanding shares of capital stock of each class of voting securities issued by Capital One, F.S.B.

29.12 The Group's Business Any Obligor (i) ceases to carry on the business it carries on at the date hereof the cession of which is likely to have a Material Adverse Effect or (ii) enters into any unrelated business the entry into which is likely to have a Material Adverse Effect.

29.13 Repudiation Any of the Obligors repudiates any Finance Document.

29.14 Illegality At any time it is or becomes unlawful for any of the Obligors to perform or comply with any or all of its obligations under any of the Finance Documents or any of the obligations of any of the Obligors under any of the Finance Documents are not or cease to be legal, valid and binding.

29.15 Performance of Obligations Any Obligor becomes unable to perform any of its obligations under any of the Finance Documents and such inability has a material adverse effect on the ability of any Borrower to perform its payment obligations under any of the Finance Documents.

29.16 Judgement Defaults A final judgment or judgments for the payment of money of US\$35,000,000 (or its equivalent in any other currency or currencies) or more in the aggregate shall be rendered by one or more courts, administrative tribunals or other bodies having jurisdiction against any Borrower or any of its Subsidiaries and the same shall not be discharged (or provision shall not be made for such discharge), or a stay of execution thereof shall not be procured, within 30 days from the date of entry thereof and the relevant Borrower or Subsidiary shall not, within said period of 30 days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal.

29.17 Acceleration and Cancellation Upon the occurrence of an Event of Default and at any time thereafter, the Facility Agent shall if so instructed by an Instructing Group by written notice to the Borrowers:

- (i) declare the Advances to be immediately due and payable (whereupon the same shall become so payable together with accrued interest thereon and any other

sums then owed by the relevant Borrower or Borrowers hereunder) or declare the Advances to be due and payable on demand of the Facility Agent; and/or

- (ii) require payment of an amount equal to the aggregate face amount of all outstanding Bills on such date as it may specify in such notice (whereupon the same shall become due and payable on such date) or require the Borrowers to procure that the obligations of each of the Beneficiaries under or in relation to each Bill are promptly reduced to zero or provide 100% cash security in respect thereof; and/or
- (iii) declare that the Facility shall be cancelled, whereupon the same shall be cancelled and the Commitment of each Bank shall be reduced to zero.

29.18 Advances Due on Demand If, pursuant to Clause 29.17 (Acceleration and Cancellation), the Facility Agent declares the Advances to be due and payable on demand of the Facility Agent, then, and at any time thereafter, the Facility Agent may (and, if so instructed by an Instructing Group, shall) by written notice to the Borrowers require repayment of the Advances on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon and any other sums then owed by the relevant Borrower or Borrowers hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

DEFAULT INTEREST AND INDEMNITY

30. Default Interest and Indemnity

30.1 Default Interest Period If any sum due and payable by any of the Obligors under any Finance Document to which it is a party is not paid on the due date therefor in accordance with the provisions of Clause 32 (Payments) or if any sum due and payable by any of the Obligors under any judgment of any court in connection herewith is not paid on the date of such judgment, the period beginning on such due date or, as the case may be, the date of such judgment and ending on the date upon which the obligation of such Obligor to pay such sum (the balance thereof for the time being unpaid being herein referred to as an "unpaid sum") is discharged shall be divided into successive periods, each of which (other than the first) shall start on the last day of the preceding such period and the duration of each of which shall (except as otherwise provided in this Clause 30) be selected by the Sterling Agent or, as the case may be, the Canadian Dollar Agent.

30.2 Default Interest During each such period relating thereto as is mentioned in Clause 30.1 (Default Interest Period) an unpaid sum shall bear interest at the rate per annum which is:

- (i) in respect of any sum denominated in Canadian Dollars the sum from time to time of one per cent. and the Canadian Prime Rate; or
- (ii) in the case of any sum denominated in sterling or any other currency the sum from time to time of one per cent., the Margin (and, in the case of any such sum denominated in sterling, the Associated Costs Rate in respect thereof at such time) and LIBOR on the Quotation Date therefor Provided that:
 - (a) if, for any such period, LIBOR cannot be determined, the rate of interest applicable to such unpaid sum shall be the sum from time to time of one per cent. per annum, the Margin (and, in the case of any such sum denominated in sterling, the Associated Costs Rate in respect thereof at such time) and the rate per annum determined by the Sterling Agent to be the arithmetic mean (rounded upwards, if not already such a multiple, to the nearest whole multiple of one-sixteenth of one per cent.) of the rates notified by each Reference Bank to the Sterling Agent before the last day of such period to be those which express as a percentage rate per annum the cost to it of funding from whatever source it may select its portion of such unpaid sum for such period; and
 - (b) if such unpaid sum is all or part of an Advance which became due and payable on a day other than the last day of the Term thereof, the first

such period applicable thereto shall be of a duration equal to the unexpired portion of that Term and the rate of interest applicable thereto from time to time during such period shall be that which exceeds by one per cent. per annum the rate which would have been applicable to it had it not so fallen due.

30.3 Payment of Default Interest Any interest which shall have accrued under Clause 30.2 (Default Interest) in respect of an unpaid sum shall be due and payable and shall be paid by the Obligor owing such unpaid sum at the end of the period by reference to which it is calculated or on such other date or dates as the relevant Agent may specify by written notice to such Obligor.

30.4 Broken Periods If any Bank or any Agent on its behalf receives or recovers all or any part of an Advance made by such Bank otherwise than on the last day of the Term thereof, the Borrower to whom such Advance was made shall pay to the relevant Agent on demand for account of such Bank an amount equal to the amount (if any) by which (i) the additional interest which would have been payable on the amount so received or recovered had it been received or recovered on the last day of the Term thereof exceeds (ii) the amount of interest which in the opinion of the relevant Agent would have been payable to the relevant Agent on the last day of the Term thereof in respect of a deposit in the currency of the amount so received or recovered equal to the amount so received or recovered placed by it with a prime bank in London or Toronto, as the case may be, for a period starting on the first business day following the date of such receipt or recovery and ending on the last day of the Term thereof.

30.5 Indemnities The Original Guarantor and each Borrower undertakes to indemnify:

- (i) each of the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the Banks and each of their respective officers, directors, employees, agents, and delegates against any cost, claim, loss, expense (including legal fees) or liability (other than any cost, claim, loss, expense or liability incurred as a result of such Agent, Arranger or Bank's own wilful misconduct or gross negligence) together with any VAT thereon, which any of them may reasonably sustain or incur as a consequence of the occurrence of any Event of Default or any default by any of the Obligors in the performance of any of the obligations expressed to be assumed by it in the Finance Documents (or any of them); and
- (ii) each Bank against any loss (other than any loss incurred as a result of such Bank's own wilful misconduct or gross negligence) it may suffer as a result of its funding an Advance requested by any of the Borrowers hereunder but not made by reason of the operation of any one or more of the provisions hereof.

30.5 Unpaid Sums or Advances Any unpaid sum shall (for the purposes of this Clause 30, Clause 21.1 (Changes in Circumstances) and the Sixth Schedule (Associated Costs Rate)) be treated as an advance and accordingly in this Clause 30, Clause 21.1 (Changes in Circumstances) and the Sixth Schedule (Associated Costs Rate) the term "Advance" includes any unpaid sum and "Term", in relation to an unpaid sum, includes each such period relating thereto as is mentioned in Clause 30.1 (Default Interest Periods).

PAYMENTS

31. Currency of Account and Payment

31.1 Currency of Account Sterling is the currency of account and payment in respect of Facility A and Canadian Dollars is the currency of account and payment in respect of Facility B, for each and every sum at any time due from any of the Obligors under each respective Facility and, in connection therewith, in the other Finance Documents Provided that:

- (i) each repayment of an Advance or a part thereof shall be made in the currency in which such Advance is denominated at the time of that repayment;
- (ii) each payment of interest shall be made in the currency in which the sum in respect of which such interest is payable is denominated;
- (iii) each payment in respect of costs and expenses shall be made in the currency in which the same were incurred;
- (iv) each payment pursuant to Clause 18.3 (Tax Indemnity) or Clause 21.1 (Changes in Circumstances) shall be made in the currency specified by the party acting reasonably and claiming thereunder; and
- (v) any amount expressed to be payable in a currency other than sterling and Canadian Dollar shall be paid in that other currency.

31.2 Currency Indemnity If any sum due from any of the Obligors under the Finance Documents or any order or judgment given or made in relation thereto has to be converted from the currency (the "first currency") in which the same is payable thereunder or under such order or judgment into another currency (the "second currency") for the purpose of (i) making or filing a claim or proof against such Obligor, (ii) obtaining an order or judgment in any court or other tribunal or (iii) enforcing any order or judgment given or made in relation thereto, the Original Guarantor shall indemnify and hold harmless each of the persons to whom such sum is due from and against any loss suffered as a result of any discrepancy between (a) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (b) the rate or rates of exchange at which such person may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

32. Payments

32.1 Payments to the Sterling Agent On each date on which any Finance Document requires an amount to be paid by any of the Obligors or any of the Banks under any of the Finance Documents (other than in respect of Facility B or otherwise to the Canadian Dollar Agent), such Obligor or, as the case may be, such Bank shall make the same available to the Sterling Agent:

- (i) where such amount is denominated in sterling, by payment in sterling and in immediately available, freely transferable, cleared funds by CHAPS code 20-00-34 to the Sterling Agent's account number 18291241 with Barclays Bank PLC, London Account CLAD re: Capital One Finance Company (or such other account or bank as the Sterling Agent may have specified for this purpose);
- (ii) where such amount is denominated in any other currency, by payment in such currency for value on the day in question to the Sterling Agent's account number specified for such purpose.

32.2 Payments to the Canadian Dollar Agent On each date on which any Finance Document requires an amount to be paid by any of the Obligors or any of the Banks under any of the Finance Documents in respect of Facility B or otherwise to the Canadian Dollar Agent, such Obligor or, as the case may be, such Bank shall make the same available to the Canadian Dollar Agent:

- (i) where such amount is denominated in Canadian Dollars, by payment in Canadian Dollars for value on the day in question to the Canadian Dollar Agent's account number 1283 - 935 Transit 002 with Toronto Main Branch of Bank of Montreal, First Canadian Place; F/0 Loan Agency/Capital One Inc., Canada (or such other account or bank as the Canadian Dollar Agent may have specified for this purpose);
- (ii) where such amount is denominated in any other currency, by payment in such currency for value on the day in question to the Canadian Dollar Agent's account number specified for such purpose.

32.3 Alternative Payment Arrangements If, at any time, it shall become impracticable (by reason of any action of any governmental authority or any change in law, exchange control regulations or any similar event) for any or all of the Obligors to make any payments hereunder in the manner specified in Clause 32.1 (Payments to the Sterling Agent) or Clause 32.2 (Payments to the Canadian Dollar Agent), then such Obligor may agree with each or any of the Banks alternative arrangements for the payment direct to such Bank of amounts due to such Bank hereunder Provided that, in the absence of any such agreement with any Bank, such

Obligor shall be obliged to make all payments due to such Bank in the manner specified herein. Upon reaching such agreement such Obligor and such Bank shall immediately notify the relevant Agent thereof and shall thereafter promptly notify the relevant Agent of all payments made directly to such Bank.

32.4 Payments by the Sterling Agent and the Canadian Dollar Agent Save as otherwise provided herein, each payment received by the Sterling Agent for the account of another person pursuant to Clause 32.1 (Payments to the Sterling Agent) or, as the case may be, by the Canadian Dollar Agent for the account of another person pursuant to Clause 32.2 (Payments to the Canadian Dollar Agent) shall:

- (i) in the case of a payment received for the account of any Borrower, be made available by the relevant Agent to such Borrower by no later than the time specified in the applicable part of the Fifth Schedule by application:
 - (a) first, in or towards payment (on the date, and in the currency and funds, of receipt) of any amount then due from such Borrower hereunder to the person from whom the amount was so received or in or towards the purchase at such Agent's spot rate then prevailing of any amount of any currency to be so applied; and
 - (b) secondly, in or towards payment for value the same day to such account with such bank in the principal financial centre of the country of the currency of such payment as such Borrower shall have previously notified to such Agent for this purpose,

but nothing in this Clause 32.4(i) shall constitute an encumbrance, and

- (ii) in the case of any other payment, be made available by the relevant Agent to the person for whose account such payment was received (in the case of a Bank, for the account of the Facility Office) for value the same day by transfer to such account of such person with such bank in the principal financial centre of the country of the currency of such payment as such person shall have previously notified to such Agent.

32.5 No Set-off All payments required to be made by any of the Obligors under the Finance Documents shall be calculated without reference to any set-off or counterclaim and shall be made free and clear of and without any deduction for or on account of any set-off or counterclaim.

32.6 Interest Act (Canada) For the purposes of the Interest Act (Canada) and disclosure thereunder, whenever interest to be paid hereunder or in connection herewith is to be calculated on the basis of a year of 365 days or any other period of time that is less than a

calendar year, the yearly rate of interest to which the rate determined pursuant to such calculation is equivalent is the rate so determined multiplied by the actual number of days in the calendar year in which the same is to be ascertained and divided by either 365 or such other period of time, as the case may be. The rates of interest under this Agreement are nominal rates, and not effective rates or yields. The principal of deemed reinvestment of interest does not apply to any Interest calculation under this Agreement.

32.7 Suspense Accounts Where and for so long as reasonably deemed necessary by the Sterling Agent or, as the case may be, the Canadian Dollar Agent or any Bank for the purpose of maximising its recoveries in any winding-up, dissolution or administration then taking place or reasonably likely to occur, all moneys received, recovered or realised by a Bank by virtue of the Guarantee may, in that Bank's discretion, be credited to a suspense or impersonal account and may be held in such account for so long as such Bank thinks reasonably fit pending the application from time to time (as such Bank may think fit) of such moneys in or towards the payment and discharge of any amounts owing by any of the Obligors to such Bank hereunder.

32.8 Clawback Where a sum is to be paid hereunder to the Sterling Agent or, as the case may be, the Canadian Dollar Agent for account of another person, such Agent shall not be obliged to make the same available to that other person or to enter into or perform any exchange contract in connection therewith until it has been able to establish to its satisfaction that it has actually received such sum, but if it does make such payment and it proves to be the case that it had not actually received such sum, then the person to whom such sum or the proceeds of such exchange contract was so made available shall on request refund the same to such Agent together with an amount sufficient to indemnify such Agent against any cost or loss (other than any cost or loss incurred as a result of such Agent's own wilful misconduct or gross negligence) it may have suffered or incurred by reason of its having paid out such sum or the proceeds of such exchange contract prior to its having received such sum. The relevant Agent may not request any Borrower to refund any sum made available to it by such Agent except to the extent that such Agent has still not received that sum from the Bank(s) in question by close of business in the principal financial centre of the country of the currency to be paid (or, if there is more than one such centre, one of those centres as reasonably selected by such Agent) on the second business day after the date on which such Agent made that sum available to such Borrower.

32.9 Non-Business Days In the event that any payment required to be made under any Finance Document falls to be made on a day which is not a business day it shall be made on the next business day.

33. Set-Off

Each of the Obligors authorises each Bank to apply any credit balance to which such Obligor is entitled on any account of such Obligor with that Bank in satisfaction of any sum due and

payable from such Obligor to such Bank hereunder but unpaid; for this purpose, each Bank is authorised to purchase with the moneys standing to the credit of any such account such other currencies as may be necessary to effect such application. No Bank shall be obliged to exercise any right given to it by this Clause 33. Nothing in this Clause 33 shall constitute an encumbrance.

34. Redistribution of Payments

34.1 Sharing Subject to Clause 34.3 (Recoveries through Legal Proceedings), if, at any time, the proportion which any Bank (a "Recovering Bank") has received or recovered, determined by reference to the Sterling Amount thereof on the date of receipt or recovery, (whether by payment, the exercise of a right of set-off or combination of accounts or otherwise) in respect of its portion of the Sterling Amount (determined on the due date therefor) of any payment (a "relevant payment") to be made under any Finance Document by any of the Obligors for account of such Recovering Bank and one or more other Banks in relation to the same Facility is greater (the portion of such receipt or recovery giving rise to such excess proportion being herein called an "excess amount") than the proportion thereof so received or recovered by the Bank or Banks so receiving or recovering the smallest proportion thereof, then:

- (i) such Recovering Bank shall pay to the Sterling Agent an amount equal to such excess amount;
- (ii) there shall thereupon fall due from such Obligor to such Recovering Bank an amount equal to the amount paid out by such Recovering Bank pursuant to paragraph (i) above, the amount so due being, for the purposes hereof, treated as if it were an unpaid part of such Recovering Bank's portion of such relevant payment; and
- (iii) the Sterling Agent shall treat the amount received by it from such Recovering Bank pursuant to paragraph (i) above as if such amount had been received by it from such Obligor in respect of such relevant payment and shall pay the same to the persons entitled thereto (including such Recovering Bank) pro rata to their respective entitlements thereto in relation to the same Facility,

Provided that to the extent that any excess amount is attributable to a payment to a Bank pursuant to Clause 32.4(i)(a) (Payments by the Sterling Agent and the Canadian Dollar Agent) such portion of such excess amount as is so attributable shall not be required to be shared pursuant hereto.

34.2 Repayable Recoveries If any sum (a "relevant sum") received or recovered by a Recovering Bank in respect of any amount owing to it by any of the Obligors becomes repayable and is repaid by such Recovering Bank, then:

- (i) each Bank which has received a share of such relevant sum by reason of the implementation of Clause 34.1 (Sharing) shall, upon request of the Sterling Agent, pay to the Sterling Agent for account of such Recovering Bank an amount equal to its share of such relevant sum; and
- (ii) there shall thereupon fall due from such Obligor to each such Bank an amount equal to the amount paid out by it pursuant to paragraph (i) above, the amount so due being, for the purposes hereof, treated as if it were the sum payable to such Bank against which such Bank's share of such relevant sum was applied.

34.3 Recoveries through Legal Proceedings If any Bank shall commence any action or proceeding in any court to enforce its rights hereunder after consultation with the other Banks and with the consent of an Instructing Group (such consent not to be unreasonably withheld) and, as a result thereof or in connection therewith, shall receive any excess amount (as defined in Clause 34.1 (Sharing)), then such Bank shall not be required to share any portion of such excess amount with any Bank which has the legal right to, but does not, join in such action or proceeding or commence and diligently prosecute a separate action or proceeding to enforce its rights in another court.

FEES, COSTS AND EXPENSES

35. Fees

35.1 Commitment Commission COFC shall pay to the Sterling Agent for account of each Tranche A Bank a commitment commission on the amount of such Bank's Available Tranche A Commitment, and COI shall pay to the Canadian Dollar Agent for account of each Tranche B Bank a commitment commission on the amount of such Bank's Available Tranche B Commitment, from day to day during the period beginning on the date hereof and ending on the Termination Date, such commitment commission to be calculated at the rate to be determined in accordance with Clause 35.2 (Determination of Rate of Commitment Commission) and payable in arrear on 29 September 1997 and thereafter on the last day of each successive period of three months the first of which starts on 30 September 1997 and each of which ends during such period and on the Termination Date.

35.2 Determination of Rate of Commitment Commission At any time when a commitment commission is to be calculated pursuant to Clause 35.1 (Commitment Commission), the rate at which such commission is to be calculated shall be the rate set out in the table below under the heading which sets out the Relevant Ratings at such time of the Original Guarantor, any Acceding Guarantors and the Borrowers party hereto at such time:

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Relevant Ratings      A-    BBB+    BBB    BBB-    BB+    Less-than BB+
                    and   and    and    and    and
                    A3   Baa1   Baa2   Baa3   Ba1
                    -----
commitment commission 0.10  0.125  0.15   0.175  0.225  0.35
(per cent. per annum)
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35.3 Agency Fees COFC shall pay to the Sterling Agent and COI shall pay to the Canadian Dollar Agent, each for its own account, the agency fees specified in the letter of even date herewith from the relevant Agent to COFC or, as the case may be, COI at the times, and in the amounts, specified in such letter.

35.4 Arrangement Fee The Original Borrowers shall pay to Chase Manhattan plc the arrangement fee specified in the letter of even date herewith from Chase Manhattan plc to the Original Borrowers at the times, and in the amounts, specified in such letter.

35.5 Underwriting Fees The Original Borrowers shall pay to the Sterling Agent for the account of Bank of Montreal, BZW and Deutsche Bank AG London (the "Specified Arrangers") the underwriting fees specified in the letter of even date herewith from the Specified Arrangers to the Original Borrowers at the times, and the amounts, specified in that letter.

35.6 Participation Fees COFC and COI shall pay to the Facility Agent, in each case for its own account and for the account of the Banks, the participation fees specified in the letter of even date herewith from the Facility Agent to the Original Borrowers at the times, and in the amounts, specified in such letter.

36. Costs and Expenses

36.1 Costs and Expenses The Borrowers shall, from time to time on demand of the Facility Agent, reimburse each of the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, and each of the Arrangers for all reasonable out-of-pocket costs and expenses (including legal fees) together with any VAT thereon incurred by it in connection with the negotiation, preparation and execution of the Finance Documents and the completion of the transactions therein contemplated except, for the avoidance of doubt, in relation to any transfer or assignment by any Bank of its rights or obligations hereunder.

36.2 Preservations and Enforcement of Rights The Borrowers shall, from time to time on demand of the Facility Agent, reimburse the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the Banks for all costs and expenses (including legal fees) together with any VAT thereon reasonably incurred in or in connection with the preservation and/or enforcement of any of their rights under any of the Finance Documents except, for the avoidance of doubt, in relation to any transfer or assignment by any Bank or its rights or obligations hereunder.

36.3 Stamp Tares The Borrowers shall pay all stamp, registration and other taxes to which any of the Finance Documents or any judgment given in connection therewith is or at any time may be subject and shall, from time to time on demand of the Facility Agent, indemnify the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the Banks against any liabilities, costs, claims and expenses resulting from any failure to pay or any delay in paying any such tax.

36.4 Banks' Liabilities for Costs If any Borrower fails to perform any of its obligations under this Clause 36, each Bank shall, in its Proportion, indemnify the Facility Agent, the Sterling Agent, the Canadian Dollar Agent and the Arrangers against any loss incurred by any of them as a result of such failure, and the Original Guarantor shall forthwith reimburse each Bank for any payment made by it pursuant to this Clause 36.4.

36.5 Waivers and Consents The Borrowers shall, from time to time on demand of the Facility Agent (and without prejudice to the provisions of Clause 36.2 (Preservations and Enforcements of Rights) and Clause 44.2 (Amendment Costs) compensate the Facility Agent for all reasonable costs, and expenses (including telephone, fax, copying and travel costs) incurred by the Facility Agent in connection with its taking such action as it may deem appropriate in complying with any instructions from an Instructing Group or any request by any Obligor in connection with:

- (a) the granting or proposed granting of any waiver or consent requested hereunder by any Obligor;
- (b) any actual breach by any Obligor of its obligations hereunder;
- (c) the occurrence of any event which is an Event of Default or a Potential Event of Default; or
- (d) any amendment or proposed amendment hereto requested by any Obligor.

AGENCY PROVISIONS

37. The Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the Banks

37.1 Appointment of Agents Each Arranger and each Bank hereby appoints each of the Facility Agent, the Sterling Agent and the Canadian Dollar Agent to act as their agent in connection with the Finance Documents and authorises each such Agent to exercise such rights, powers, authorities and, discretions as are specifically delegated to each such Agent by the terms of any of the Finance Documents together with all such rights, powers, authorities and discretions as are reasonably incidental thereto.

37.2 Agents' Discretions Each Agent may:

(i) assume that:

- (a) any representation made by any of the Obligors in connection with any of the Finance Documents is true;
- (b) no Event of Default or Potential Event of Default has occurred;
- (c) none of the Obligors is in breach of or default under its obligations under any of the Finance Documents; and
- (d) any right, power, authority or discretion vested in any of the Finance Documents upon an Instructing Group, the Banks or any other person or group of persons has not been exercised,

unless it has, in its capacity as agent for the Banks, received notice to the contrary from any other party hereto;

(ii) assume that the Facility Office of each Tranche A Bank and each Tranche B Bank is that identified with its signature below (or, in the case of a Transferee, at the end of the Transfer Certificate to which it is a party as Transferee) until it has received from such Bank a notice designating some other office of such Bank to replace its Facility Office and act upon any such notice until the same is superseded by a further such notice;

(iii) engage and pay for the advice or services of any lawyers, accountants, surveyors or other experts whose advice or services may to it seem necessary, expedient or desirable and rely upon any advice so obtained;

- (iv) rely as to any matters of fact which might reasonably be expected to be within the knowledge of any of the Obligors upon a certificate signed by or on behalf of such Obligor;
- (v) rely upon any communication or document believed by it to be genuine;
- (vi) refrain from exercising any right, power or discretion vested in it as agent under any of the Finance Documents unless and until instructed by an Instructing Group as to whether or not such right, power or discretion is to be exercised and, if it is to be exercised, as to the manner in which it should be exercised; and
- (vii) refrain from acting in accordance with any instructions of an Instructing Group to begin any legal action or proceeding arising out of or in connection with any of the Finance Documents until it shall have received such security as it may require (whether by way of payment in advance or otherwise) for all costs, claims, losses, expenses (including legal fees) and liabilities together with any VAT thereon which it will or may expend or incur in complying with such instructions.

37.3 Agents' Obligations Each Agent shall:

- (i) promptly inform each Bank of the contents of any notice or document received by it in its capacity as agent from any of the Obligors hereunder;
- (ii) promptly notify each Bank of the occurrence of any Event of Default or any default by any of the Obligors in the due performance of or compliance with its obligations under any of the Finance Documents of which such Agent has notice from any other party hereto;
- (iii) save as otherwise provided herein, act in accordance with any instructions given to it by an Instructing Group, which instructions shall be binding on all of the Arrangers, the Agents and the Banks; and
- (iv) if so instructed by an Instructing Group, refrain from exercising any right, power or discretion vested in it as Agent under any of the Finance Documents.

37.4 Excluded Obligations Notwithstanding anything to the contrary expressed or implied herein, no Agent nor any of the Arrangers shall:

- (i) be bound to enquire as to:

- (a) whether or not any representation made by any of the Obligors in connection with any of the Finance Documents is true;
 - (b) the occurrence or otherwise of any Event of Default or Potential Event of Default;
 - (c) the performance by any of the Obligors of its obligations under any of the Finance Documents; or
 - (d) any breach of or default by any of the Obligors of or under its obligations under any Finance Document;
- (ii) be bound to account to any Bank for any sum or the profit element of any sum received by it for its own account;
 - (iii) be bound to disclose to any other person any information relating to any member of the Group if such disclosure would or might in its opinion constitute a breach of any law or regulation or be otherwise actionable at the suit of any person; or
 - (iv) be under any fiduciary duty towards any Bank or a Borrower or an Obligor or under any obligations other than those for which express provision is made in any of the Finance Documents.

37.5 Indemnification Each Bank shall, in its Proportion, from time to time on demand by any Agent, indemnify such Agent, against any and all costs, claims, losses, expenses (including legal fees) and liabilities together with any VAT thereon which such Agent may incur, otherwise than by reason of its own negligence or wilful misconduct, in acting in its capacity as agent under the Finance Documents.

37.6 Exclusion of Liabilities Neither the Agents and the Arrangers nor any of them accepts any responsibility for the accuracy and/or completeness of the Information Memorandum or any other information supplied by any of the Obligors in connection herewith or for the legality, validity, effectiveness, adequacy or enforceability of any of the Finance Documents and neither the Agents and the Arrangers nor any of them shall be under any liability as a result of taking or omitting to take any action in relation to any of the Finance Documents, save in the case of negligence or wilful misconduct.

37.7 No Actions Each of the Banks agrees that it will not assert or seek to assert against any director, officer or employee of any Agent or any Arranger any claim it might have against any of them in respect of the matters referred to in Clause 37.6 (Exclusion of Liabilities).

37.8 Business with the Group Each of the Agents and each of the Arrangers may accept deposits from, lend money to and generally engage in any kind of banking or other business with any member of the Group.

37.9 Resignation Any Agent may resign its appointment hereunder at any time without assigning any reason therefor by giving not less than thirty days' prior written notice to that effect to each of the other parties hereto Provided that no such resignation shall be effective until a successor for such Agent is appointed in accordance with the succeeding provisions of this Clause 37.

37.10 Successor Agent If any Agent gives notice of its resignation pursuant to Clause 37.9 (Resignation), then any reputable and experienced bank or other financial institution (approved by an Instructing Group and the Original Guarantor) in the same jurisdiction may be appointed as a successor to such Agent by an Instructing Group during the period of such notice but, if no such successor is so appointed, such Agent may itself appoint such a successor approved by the Original Guarantor.

37.11 Rights and Obligations If a successor to any Agent is appointed under the provisions of Clause 37. 10 (Successor Agent), then (i) the retiring Agent shall be discharged from any further obligation hereunder but shall remain entitled to the benefit of the provisions of this Clause 37 and (ii) its successor and each of the other parties hereto shall have the same rights and obligations amongst themselves as they would have had if such successor had been a party hereto.

37.12 Own Responsibility It is understood and agreed by each Bank that it has itself been, and will continue to be, solely responsible for making its own independent appraisal of and investigations into the financial condition, creditworthiness, condition, affairs, status and nature of each member of the Group and, accordingly, each Bank warrants to each of the Agents and the Arrangers that it has not relied on and will not hereafter rely on the Agents and the Arrangers nor any of them:

- (i) to check or enquire on its behalf into the adequacy, accuracy or completeness of any information provided by any of the Obligors in connection with any of the Finance Documents or the transactions herein contemplated (whether or not such information has been or is hereafter circulated to such Bank by the Agents and the Arrangers or any of them); or
- (ii) to assess or keep under review on its behalf the financial condition, creditworthiness, condition, affairs, status or nature of any member of the Group.

37.13 Agency Division Separate In acting as Agent and/or Arranger for the Banks, the agency division of each Agent and each Arranger shall be treated as a separate entity from any other of its divisions or departments and, notwithstanding the foregoing provisions of this Clause 37, in the event that any Agent or, as the case may be, any Arranger should act for any member of the Group in any capacity in relation to any other matter, any information given by such member of the Group to such Agent or, as the case may be, such Arranger in such other capacity may be treated as confidential by such Agent or, as the case may be, such Arranger.

ASSIGNMENT'S AND TRANSFERS

38. Benefit of Agreement

This Agreement shall be binding upon and enure to the benefit of each party hereto and its or any subsequent successors and permitted Transferees and assigns.

39. Assignments and Transfers by the Obligors

None of the Obligors shall be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder except in accordance with Clause 42 (Acceding Borrowers).

40. Assignments and Transfers by Banks

40.1 Assignments and Transfers Any Bank may assign all or any of its rights and benefits hereunder or transfer in accordance with Clause 40.3 (Transfers by Banks) all or any of its rights, benefits and obligations hereunder or transfer its Facility Office Provided that:

- (i) (save in the case of an assignment of rights and benefits to any Affiliate of such Bank) no such assignment or transfer may be of an amount of less than ,3,000,000 (in the case of transfers or assignments in relation to Tranche A) or C\$5,000,000 (in the case of transfers or assignments in relation to Tranche B) or may be made without the prior written consent of the Borrowers such consent not to be unreasonably withheld or delayed (and, for the avoidance of doubt, it shall not be unreasonable for the Borrowers to withhold or delay their consent in the case of an assignment of rights and benefits to any proposed assignee whose long-term debt obligations are then rated below Baa3 by Moody's Investors Service, Inc. or below BBB- by Standard & Poor's Ratings Services); and
- (ii) any Tranche A1 Bank which has agreed pursuant to Clause 2 (The Facilities) to an increase in its Available Tranche B1 Commitments in its capacity as Tranche B1 Bank and any Tranche B1 Bank which has agreed pursuant to Clause 2 (The Facilities) to an increase in its Available Tranche A1 Commitments in its capacity as Tranche A1 Bank must, at the same time as it transfers all or any portion of its Tranche A1 Commitment or, as the case may be, its Tranche B1 Commitment transfer a pro rata portion of its Tranche B1 Commitment or, as the case may be, its Tranche A1 Commitment, in each case to the same transferee. Notwithstanding the foregoing, no consent from any Obligor shall be required with respect to any such assignment or transfer at any time after any

notice has been delivered pursuant to Clause 29.17 (Acceleration and Cancellation).

40.2 Assignments by Banks If any Bank assigns all or any of its rights and benefits hereunder in accordance with Clause 40.1 (Assignments and Transfers), then, unless and until the assignee has agreed with the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the other Banks that it shall be under the same obligations towards each of them as it would have been under if it had been an original party hereto as a Bank, the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the other Banks shall not be obliged to recognise such assignee as having the rights against each of them which it would have had if it had been such a party hereto.

40.3 Transfers by Banks If any Bank wishes to transfer all or any of its rights, benefits and/or obligations hereunder as contemplated in Clause 40.1 (Assignments and Transfers), then such transfer may be effected by the delivery to the Facility Agent of a duly completed and duly executed Transfer Certificate in which event, on the later of the Transfer Date specified in such Transfer Certificate and the fifth business day after (or such earlier business day endorsed by the Facility Agent on such Transfer Certificate falling on or after) the date of delivery of such Transfer Certificate to the Facility Agent:

- (i) to the extent that in such Transfer Certificate the Bank party thereto seeks to transfer its rights, benefits and obligations hereunder, each of the Obligors and such Bank shall be released from further obligations towards one another hereunder and their respective rights against one another shall be cancelled (such rights, benefits and obligations being referred to in this Clause 40.3 as "discharged rights and obligations");
- (ii) each of the Obligors and the Transferee party thereto shall assume obligations towards one another and/or acquire rights against one another which differ from such discharged rights and obligations only insofar as such Obligor and such Transferee have assumed and/or acquired the same in place of such Obligor and such Bank; and
- (iii) the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers, such Transferee and the other Banks shall acquire the same rights and benefits and assume the same obligations between themselves as they would have acquired and assumed had such Transferee been an original party hereto as a Bank with the rights, benefits and/or obligations acquired or assumed by it as a result of such transfer.

40.4 Transfer Fees On the date upon which a transfer takes effect pursuant to Clause 40.3 (Transfers by Banks), the Transferee in respect of such transfer shall pay to the Facility Agent for its own account a transfer fee of (Pounds)750.

41. Disclosure of Information

Any Bank may, disclose to any actual or potential assignee or Transferee or to any sub-participant in relation to any of the Finance Documents such information about the Obligors and the Group as such Bank shall consider appropriate. Provided that, prior to the disclosure of such information it has obtained a duly completed confidentiality undertaking (substantially in the form set out in the Tenth Schedule (Form of Confidentiality Undertaking)) from such potential assignee, Transferee or sub-participant.

MISCELLANEOUS

42. Acceding Borrowers and Transferee Borrowers

42.1 Delivery of Borrower Accession Memorandum If the Facility Agent has confirmed to the Borrowers that the conditions set forth in the Third Schedule (Condition Precedent Documents) have been satisfied and no Event of Default or Potential Event of Default has occurred (which has not been remedied or waived pursuant to Clause 44 (Amendments and Waivers)) the Borrowers may request that any Subsidiary of the Original Guarantor become an Acceding Borrower for the purposes of utilising the Facility by delivering, or procuring the delivery to, the Facility Agent of a Borrower Accession Memorandum duly executed by the Original Guarantor and such Subsidiary.

42.2 Conditions to Becoming a Borrower Upon delivery of a Borrower Accession Memorandum, the Acceding Borrower shall, subject to the terms and conditions of this Agreement, acquire all the rights and assume all the obligations of a Borrower hereunder Provided that:

- (i) in the case of any such Borrower which is not Capital One, F.S.B. or Capital One Bank or a wholly-owned Subsidiary of Capital One, F.S.B. or Capital One Bank, the Facility Agent (acting on the instructions of an Instructing Group) has notified the Original Guarantor that it agrees to the choice of such Borrower; and
- (ii) the Facility Agent has confirmed to the Original Guarantor that it has received, in a form satisfactory to it, all the documents set out in the Eighth Schedule (Documents to Accompany Borrower Accession Memorandum and Borrower Transfer Certificate).

42.3 Assignments and Transfers Subject to the terms and conditions of this Agreement and to the provisos set out in Clause 42.2(i) and (ii) (Conditions to Becoming a Borrower) any Borrower may assign all or any of its rights and benefits hereunder or transfer in accordance with Clause 42.5 (Transfers by Borrowers) all or any of its rights, benefits and obligations hereunder to any Subsidiary of the Original Guarantor.

42.4 Assignments by Borrowers If any Borrower assigns all or any of its rights and benefits hereunder in accordance with Clause 42.3 (Assignments and Transfers), then, unless and until the assignee has agreed with the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers, the Banks and the other Obligors that it shall be under the same obligations towards each of them as it would have been under if it had been an original party

hereto as a Borrower and if the conditions in Clause 42.3 (Assignments and Transfers) are satisfied, the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers, the Banks and the other Borrowers shall not be obliged to recognise such assignee as having the rights against each of them which it would have had if it had been such a party hereto.

42.5 Transfers by Borrowers If any Borrower wishes to transfer all or any of its rights, benefits and/or obligations hereunder as contemplated in Clause 42.3 (Assignments and Transfers), then such transfer may be effected by the delivery to the Facility Agent of a duly completed and duly executed Borrower Transfer Certificate in which event, on the Transfer Date specified in such Borrower Transfer Certificate and if the conditions in Clause 42.3 (Assignments and Transfers) are satisfied, then

- (a) to the extent that in such Borrower Transfer Certificate the Borrower party thereto seeks to transfer its rights, benefits and obligations hereunder, each of the Beneficiaries and such Obligor shall be released from further obligations towards one another hereunder and their respective rights against one another shall be cancelled (such rights, benefits and obligations being referred to in this Clause 42.5 as "discharged rights and obligations");
- (b) each of the Beneficiaries and the Borrower Transferee party thereto shall assume obligations towards one another and/or acquire rights against one another which differ from such discharged rights and obligations only insofar as such Beneficiaries and such Borrower Transferee have assumed and/or acquired the same in place of such Beneficiaries and such Borrower; and
- (c) the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers, such Borrower Transferee, the Banks and the other Borrowers shall acquire the same rights and benefits and assume the same obligations between themselves as they would have acquired and assumed had such Borrower Transferee been an original party hereto as a Borrower with the rights, benefits and/or obligations acquired or assumed by it as a result of such transfer.

43. Calculations and Evidence of Debt

43.1 Basis of Accrual Subject to Clause 32.6 (Interest Act (Canada)), interest and commitment commission shall accrue from day to day and shall be calculated on the basis of a year of 365 days (or, in any case where market practice differs, in accordance with market practice) and the actual number of days elapsed. The stamping fee in respect of any Bill shall be calculated on the basis of a year of 365 days and the actual number of days in the Tenor thereof. Each rate of interest stipulated as an annual rate of interest pursuant to any Finance Document which is calculated with reference to a period (the "deemed interest period") that is less than the actual number of days in the calendar year of calculation is, for the purposes of disclosure required pursuant to the Interest Act (Canada), equivalent to such annual rate

multiplied by the actual number of days in the calendar year of calculation and divided by the number of days in the deemed interest period,

43.2 Quotations If on any occasion a Reference Bank or Bank fails to supply an Agent with a quotation required of it under the foregoing provisions of this Agreement, the rate for which such quotation was required shall be determined from those quotations which are supplied to such Agent.

43.3 Evidence of Debt Each Bank shall maintain in accordance with its usual practice accounts evidencing the amounts from time to time lent by and owing to it hereunder.

43.4 Control Accounts The Facility Agent shall maintain on its books a control account or accounts in which shall be recorded (i) the amount of any Advance made or arising hereunder and the face amount of any Bill accepted and, in each case, the name of the Bank to which such sum relates, (ii) the amount of all principal, interest and other sums due or to become due from any of the Obligors to any of the Banks hereunder and each Bank's share therein and (iii) the amount of any sum received or recovered by the Facility Agent hereunder and each Bank's share therein.

43.5 Prima Facie Evidence In any legal action or proceeding arising out of or in connection with any of the Finance Documents, the entries made in the accounts maintained pursuant to Clauses 43.3 (Evidence of Debt) and 43.4 (Control Account) shall be prima facie evidence of the existence and amounts of the obligations of the Obligors therein recorded.

43.6 Certificates of Banks A certificate of a Bank as to (i) the amount by which a sum payable to it hereunder is to be increased under Clause 18.1 (Tax Gross-Up) or (ii) the amount for the time being required to indemnify it against any such cost, payment or liability as is mentioned in Clause 18.3 (Tax Indemnity) or 21.1 (Changes in Circumstances) shall, in the absence of manifest error, be conclusive for the purposes of any of the Finance Documents and prima facie evidence in any legal action or proceeding arising out of or in connection with any of the Finance Documents.

43.7 Agents' Certificates A certificate of an Agent as to the amount at any time due from any Borrower hereunder or the amount which, but for any of the obligations of any Borrower hereunder being or becoming void, voidable, unenforceable or ineffective, at any time would have been due from such Borrower hereunder shall, in the absence of manifest error, be conclusive for the purposes of any of the Finance Documents.

44. Amendments and Waivers

44.1 Amendments and Waivers Save as otherwise provided herein, any provision of any of the Finance Documents may be amended or supplemented only if the Borrowers, the Original Guarantor and an Instructing Group so agree in writing and any Event of Default, Potential

Event of Default, provision or breach of any provision of any of the Finance Documents may be waived by an Instructing Group before or after it occurs but:

Provided that:

- (i) no such waiver or amendment shall subject any party hereto to any new or additional obligations without the consent of such party;
- (ii) without the prior written consent of all the Banks, no such amendment or waiver shall:
 - (a) amend or waive any provision of Clause 34 (Redistribution of Proceeds) or this Clause 44;
 - (b) reduce the proportion of any amount received or recovered (whether by way of set-off, combination of accounts or otherwise) in respect of any amount due from any of the Obligors under any of the Finance Documents to which any Beneficiary is entitled;
 - (c) change the principal amount of or currency of any Advance, or defer the term of the Facility or the Term of any Advance or the Tenor of any Bill;
 - (d) change the Margin, Stamping Fee Rate, change the amount or currency or defer the date for any payment of interest, commitment commission, fees or any other amount payable hereunder to all or any of the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the Banks under any of the Finance Documents;
 - (e) amend the definition of Instructing Group, Event of Default, Permitted Encumbrance, Potential Event of Default, Termination Date, encumbrance or financial indebtedness;
 - (f) amend or waive any of the provisions of Clause 27 (Financial Condition);

- (g) waive, in relation to any Utilisation Request, the conditions set out in Clause 8.4(ii) (Acceptance of Bills) and Clause 12(ii) (Making of Advances under Facility A and Facility B) if (i) an Event of Default or Potential Event of Default which related to Clause 25 (Representations), Clause 27 (Financial Condition) or Clause 28.5 (Negative Pledge) has occurred and is continuing (ii) and the Outstandings (or any Bank's portion of the Outstandings) hereunder would increase as a result of such Utilisation;
 - (h) amend or waive any provision which contemplates the need for the consent or approval of all the Banks; or
 - (i) release the Guarantee or amend or waive any material provision of the Guarantee; and
- (iii) notwithstanding any other provisions hereof, the Facility Agent shall not be obliged to agree to any such amendment or waiver if the same would:
- (a) amend or waive any provision of this Clause 44, Clause 36 (Costs and Expenses) or Part 12 (Agency Provisions); or
 - (b) otherwise amend or waive any of the Facility Agent's rights under any of the Finance Documents or subject the Facility Agent, the Sterling Agent, the Canadian Dollar Agent or the Arrangers to any additional obligations thereunder.

44.2 Amendment Costs If any Obligor requests any amendment, supplement, modification or waiver in accordance with Clause 44.1 (Amendments and Waivers) then that Obligor shall within five business days of demand of the Facility Agent, reimburse the Facility Agent for all reasonable costs and expenses (including legal fees) together with any VAT thereon incurred by the Facility Agent in the negotiation, preparation and execution of any written instrument contemplated by Clause 44.1 (Amendments and Waivers).

45. Remedies and Waivers

No failure to exercise, nor any delay in exercising, on the part of the Facility Agent, the Sterling Agent, the Canadian Dollar Agent, the Arrangers and the Banks or any of them, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise thereof or the exercise of any other right or remedy. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

46. Partial Invalidity

If, at any time, any provision of any Finance Document is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions of the Finance Documents nor the legality, validity or enforceability of such provision under the law of any other jurisdiction shall in any way be affected or impaired thereby.

47. Notices

47.1 Communications in writing Each communication to be made under any Finance Document shall, unless otherwise stated, be made in writing but, unless otherwise stated, may be made by fax, telex or letter.

47.2 Delivery Any communication or document to be made or delivered by one person to another pursuant to any of the Finance Documents shall (unless that other person has by fifteen days' written notice to the Facility Agent specified another address) be made or delivered to that other person at the address identified with its signature below (or, in the case of a Transferee, at the end of the Transfer Certificate to which it is a party as Transferee) (or, in the case of an Acceding Borrower or an Acceding Guarantor, in the Borrower Accession Memorandum or, as the case may be, the New Guarantee to which it is a party) and shall be deemed to have been made or delivered when despatched and the appropriate answerback received (in the case of any communication made by telex) or (in the case of any communication made by letter) when left at that address or (as the case may be) ten days after being deposited in the post postage prepaid in an envelope addressed to it at that address or (in the case of any communication made by fax) transmission has been completed and, in the case of an Agent, when received by the department or officer identified with such Agent's signature below (or such other department or officer as such Agent shall from time to time specify for this purpose).

47.3 English language Each communication and document made or delivered by one party to another pursuant to any of the Finance Documents shall be in the English language or accompanied by a translation thereof into English certified (by an officer of the person making or delivering the same) as being a true and accurate translation thereof.

47.4 Notices Effective Each communication or document to be made or delivered to any Obligor hereunder shall be effective if made or delivered to the Original Guarantor.

48. Counterparts

This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts each of which, when executed and delivered, shall constitute an original, but all the counterparts shall together constitute but one and the same instrument.

49. European Monetary Union

49.1 Definitions In this Clause 49:

"commencement of the third stage of EMU" means commencement of the third stage of EMU or circumstances which (in the opinion of an Instructing Group) have substantially the same effect and result in substantially the same consequences as the third stage of EMU as contemplated by the Treaty establishing the European Community;

"EMU" means Economic and Monetary Union as contemplated in the Treaty establishing the European Community;

"EMU legislation" means any legislative measures of the European Council for the introduction of, changeover to or operation of a single currency (whether known as the euro or otherwise), being in part the implementation of the third stage of EMU;

"euro" means the single currency of participating member states;

"euro unit" means the unit of the single currency of participating member states;

"national currency unit" means the unit of the currency (other than the euro unit) of a participating member state;

"participating member state" means each state which adopts the single currency in accordance with the Treaty establishing the European Community; and

"Treaty establishing the European Community" means the Treaty of Rome of 25 March 1957, as amended by the Single European Act 1986 and the Maastricht Treaty, as amended from time to time.

49.2 Alternative Currencies during Transition Period If and to the extent that any EMU legislation provides that following the commencement of the third stage of EMU an amount denominated either in the euro or in the national currency unit of a participating member state and payable within that participating member state by crediting an account of the creditor can be paid by the debtor either in the euro unit or in that national currency unit, any Borrower otherwise required by the terms hereof to pay or repay an amount under any of the Finance Documents in such national currency unit shall be entitled under this Agreement to pay or repay any such amount either in the euro unit or in such national currency unit.

49.3 Advances during Transition Period If any Advance made (or to be made) on or after the commencement of the third stage of EMU would, but for this provision, be capable of

being made either in the euro unit or in a national currency unit, such Advance shall be made in the euro unit.

49.4 Business Days With effect on and from the commencement of the third stage of EMU, the definition of business day in Clause 1.2 (Interpretation) shall be amended by the addition thereto (at the end) of the following:

"and (iii) if such reference relates to a date for the payment or purchase of a sum denominated in the euro unit or in a national currency unit, (1) such clearing or settlement system as is determined by the Facility Agent to be suitable for clearing or settlement of the euro is open for business and (2) banks are generally open for business in such financial centre as is determined by the Facility Agent to be suitable for clearing or settlement of such national currency unit;"

49.5 Payments to the Facility Agent With effect on and from the commencement of the third stage of EMU, Clause 32.1 (Payments to the Sterling Agent) shall be amended by the deletion of the full stop at the end of paragraph (ii) thereof and the addition thereto of the following:

";or (iii) where such amount is denominated in the euro unit and payment thereof is to be made in the euro unit, by payment in the euro unit and in immediately available, freely transferable, cleared funds to such account with such bank in such principal financial centre as the Facility Agent shall have specified for this purpose."

and Clause 32.4 (Payments by the Sterling Agent and the Canadian Dollar Agent) shall be amended by the deletion of paragraph (b) thereof and the inclusion in its place of the following:

"(b) secondly, in or towards payment (on the date, and in the currency and funds, of receipt) to such account with such bank in the principal financial centre of the country of the currency of such payment or, in the case of any amount denominated in the euro unit, by payment to such account of such Borrower in such principal financial centre as in each case such Borrower shall have previously notified to such Agent for this purpose,"

49.6 Rounding and Other Consequential Charges With effect on and from the commencement of the third stage of EMU:

(a) each reference in this Agreement to a fixed amount or fixed amounts in a national currency unit to be paid to or by the Facility Agent shall be replaced by a reference to such comparable and convenient fixed amount

or fixed amounts in the euro unit as the Facility Agent may from time to time specify; and

- (b) save as expressly provided in this Clause 49, each provision of this Agreement shall be subject to such changes of construction as the Facility Agent may from time to time reasonably specify to be necessary to reflect any change of conventions applicable in the euro currency market by reason of the changeover to the euro in participating member states.

LAW AND JURISDICTION

50. Law

This Agreement shall be governed by, and shall be construed in accordance with, English law.

51. Jurisdiction

51.1 English Courts Each of the parties hereto irrevocably agrees for the benefit of each of the Agents, the Arrangers and the Banks that the courts of England shall have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the Finance Documents (respectively "Proceedings" and "Disputes") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

51.2 Appropriate Forum Each of the Obligors irrevocably waives any objection which it might now or hereafter have to the courts referred to in Clause 51.1 (English Courts) 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.

51.3 Service of Process Each of the Obligors agrees that the process by which any Proceedings are begun may be served on it by being delivered in connection with any Proceedings in England, to COFC at 18 Hanover Square, Third Floor, London W1R 9DA or other its principal place of business in England for the time being. If the appointment of the person mentioned in this Clause 51.3 ceases to be effective in respect of any or all of the Obligors, such Obligor or Obligors shall immediately appoint a further person in England to accept service of process on its behalf in England and, failing such appointment within 15 days, the Facility Agent shall be entitled to appoint such a person by notice to such Obligor or Obligors. Nothing contained herein shall affect the right to serve process in any other manner permitted by law.

51.4 Non-exclusive Submissions The submission to the jurisdiction of the courts referred to in Clause 51.1 (English Courts) shall not (and shall not be construed so as to) limit the right of the Agents, the Arrangers and the Banks or any of them to take Proceedings against any of the Obligors 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,

51.5 Consent to Enforcement Each of the Obligors hereby consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including, without limitation, the making, enforcement or execution against any

property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.

51.6 Waiver of Immunity To the extent that any of the Obligors may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), such Obligor hereby irrevocably agrees not to claim and hereby irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction and, in particular, to the intent that in any Proceedings taken in New York the foregoing waiver of immunity shall have effect under and be construed in accordance with the United States Foreign Sovereign Immunities Act of 1976.

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

SELECTED FINANCIAL AND OPERATING DATA

Year Ended December 31

| (Dollars in Thousands, Except Per Share Data) | 1997 | 1996 | 1995 | 1994/(1)/ | 1993/(1)/ | 1992/(1)/ | FIVE-YEAR COMPOUND GROWTH RATE |
|--|--------------|--------------|--------------|------------|--------------|-------------|--------------------------------------|
| INCOME STATEMENT DATA: | | | | | | | |
| Interest income | \$ 717,985 | \$ 660,483 | \$ 457,409 | \$ 258,672 | \$ 259,857 | \$ 120,630 | 42.87% |
| Interest expense | 334,847 | 294,999 | 249,396 | 93,695 | 67,994 | 29,888 | 62.13 |
| Net interest income | 383,138 | 365,484 | 208,013 | 164,977 | 191,863 | 90,742 | 33.39 |
| Provision for loan losses | 262,837 | 167,246 | 65,895 | 30,727 | 34,030 | 55,012 | 36.72 |
| Net interest income after provision for loan losses | 120,301 | 198,238 | 142,118 | 134,250 | 157,833 | 35,730 | 27.48 |
| Non-interest income | 1,069,130 | 763,424 | 553,043 | 396,902 | 194,825 | 121,642 | 54.45 |
| Non-interest expense/(2)/ | 883,978 | 713,182 | 497,430 | 384,325 | 181,804 | 108,508 | 52.12 |
| Income before income taxes | 305,453 | 248,480 | 197,731 | 146,827 | 170,854 | 48,864 | 44.27 |
| Income taxes | 116,072 | 93,213 | 71,220 | 51,564 | 60,369 | 16,614 | 47.52 |
| Net income | \$ 189,381 | \$ 155,267 | \$ 126,511 | \$ 95,263 | \$ 110,485 | \$ 32,250 | 42.48 |
| Dividend payout ratio | 10.90% | 13.24% | 12.55% | | | | |
| PER COMMON SHARE: | | | | | | | |
| Basic earnings/(3)(4)/ | \$ 2.87 | \$ 2.34 | \$ 1.93 | \$ 1.44 | \$ 1.67 | \$.49 | |
| Diluted earnings/(3)(4)/ | 2.80 | 2.32 | 1.91 | 1.44 | 1.67 | .49 | |
| Dividends | .32 | .32 | .24 | | | | |
| Book value as of year-end | 13.66 | 11.16 | 9.05 | 7.18 | | | |
| Average common shares | 66,069,897 | 66,227,631 | 65,690,838 | 66,067,250 | | | |
| Average common and common equivalent shares | 67,650,864 | 67,025,233 | 66,392,284 | 66,067,250 | | | |
| SELECTED AVERAGE BALANCES: | | | | | | | |
| Securities | \$ 1,650,961 | \$ 1,147,079 | \$ 962,624 | \$ 62,626 | | | |
| Allowance for loan losses | (132,728) | (83,573) | (69,939) | (66,434) | \$ (59,754) | \$ (43,767) | 24.84% |
| Total assets | 6,568,937 | 5,568,960 | 4,436,055 | 2,629,920 | 2,289,043 | 827,093 | 51.35 |
| Deposits | 958,885 | 1,046,122 | 769,688 | 36,248 | | | |
| Other borrowings | 4,350,864 | 3,623,104 | 2,952,162 | 2,287,474 | 2,148,155 | 762,762 | 41.66 |
| Preferred beneficial interests | 89,529 | | | | | | |
| Stockholders'/Division equity/(5)/ | 824,077 | 676,759 | 543,364 | 239,616 | 113,815 | 51,454 | 74.14 |
| SELECTED YEAR-END BALANCES: | | | | | | | |
| Securities | \$ 1,475,354 | \$ 1,358,103 | \$ 1,244,195 | \$ 425,570 | | | |
| Consumer loans | 4,861,687 | 4,343,902 | 2,921,679 | 2,228,455 | \$ 1,862,744 | \$1,304,560 | |
| Allowance for loan losses | (183,000) | (118,500) | (72,000) | (68,516) | (63,516) | (55,993) | |
| Total assets | 7,078,279 | 6,467,445 | 4,759,321 | 3,091,980 | 1,991,207 | 1,351,802 | |
| Deposits | 1,313,654 | 943,022 | 696,037 | 452,201 | | | |
| Other borrowings | 4,428,886 | 4,525,216 | 3,301,672 | 2,062,688 | 1,791,464 | 1,266,507 | |
| Preferred beneficial interests | 97,664 | | | | | | |
| Stockholders'/Division equity/(5)/ | 893,259 | 740,391 | 599,191 | 474,557 | 168,879 | 69,294 | |

MANAGED CONSUMER

LOAN DATA:

| | | | | | | | |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|------------|--------|
| Average reported loans | \$ 4,103,036 | \$ 3,651,908 | \$ 2,940,208 | \$ 2,286,684 | \$ 2,213,378 | \$ 772,742 | 39.64% |
| Average securitized loans | 8,904,146 | 7,616,553 | 6,149,070 | 3,910,739 | 1,052,187 | 680,000 | 67.27 |
| ----- | | | | | | | |
| Average total managed loans | 13,007,182 | 11,268,461 | 9,089,278 | 6,197,423 | 3,265,565 | 1,452,742 | 55.02 |
| Interest income | 2,045,967 | 1,662,990 | 1,192,100 | 733,659 | 432,521 | 249,082 | 52.37 |
| Year-end total managed loans | 14,231,015 | 12,803,969 | 10,445,480 | 7,378,455 | 4,832,400 | 1,984,560 | 48.29 |
| Year-end total accounts (000s) | 11,747 | 8,586 | 6,149 | 5,049 | 3,118 | 1,672 | 47.69 |
| Yield | 15.73% | 14.76% | 13.12% | 11.84% | 13.24% | 17.15% | |
| Net interest margin | 8.86 | 8.16 | 6.27 | 6.90 | 9.55 | 12.63 | |
| Delinquency rate | 6.20 | 6.24 | 4.20 | 2.95 | 2.39 | 5.30 | |
| Net charge-off rate | 6.59 | 4.24 | 2.25 | 1.48 | 2.09 | 5.18 | |

OPERATING RATIOS:

| | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|--|
| Return on average assets | 2.88% | 2.79% | 2.85% | 3.62% | 4.83% | 3.90% | |
| Return on average equity | 22.98 | 22.94 | 23.28 | 39.76 | 97.07 | 62.68 | |
| Equity to assets (average) | 12.55 | 12.15 | 12.25 | 9.11 | 4.97 | 6.22 | |
| Allowance for loan losses to loans as of year-end/(6)/ | 3.76 | 2.73 | 2.85 | 3.07 | 3.41 | 4.29 | |

- (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) Non-interest expense includes a \$49.0 million (\$31.9 million after-tax) nonrecurring charge for computer services termination expense in 1994.
- (3) Assumes 66,067,250 shares outstanding prior to November 22, 1994.
- (4) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, Earnings Per Share. For further discussion of earnings per share and the impact of Statement 128, see the Notes to Consolidated Financial Statements.
- (5) 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.
- (6) Excludes consumer loans held for securitization.

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. The principal subsidiaries are Capital One Bank (the "Bank"), which offers credit card products, and Capital One, F.S.B. (the "Savings Bank"), which provides certain consumer lending and deposit services. The Corporation and its subsidiaries are collectively referred to as the "Company." As of December 31, 1997, the Company had 11.7 million customers and \$14.2 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 margin 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 securitization 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 expense, 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 1997 results compared to 1996 results and 1996 results compared to 1995 results. Each component is discussed in further detail in subsequent sections of this analysis.

[graph omitted]

Year Ended December 31, 1997 Compared to Year ended December 31, 1996

Net income of \$189.4 million for the year ended December 31, 1997 increased \$34.1 million, or 22%, over net income of \$155.3 million in 1996. The increase in net income is primarily the result of an increase in 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 (on-balance sheet loans and loans held for securitization, collectively "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 the 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 managed accounts of 33%, a 17% increase in average securitized loans, 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 managed 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.

Year Ended December 31, 1996 Compared to Year Ended December 31, 1995

Net income of \$155.3 million for the year ended December 31, 1996 increased \$28.8 million, or 23%, over net income of \$126.5 million in 1995. The increase in net income is primarily a result of an increase in both asset volumes and rates. Net interest income increased \$157.5 million, or 76%, as average

earning assets increased 23% and the net interest margin increased to 7.62% from 5.35%. The provision for loan losses increased \$101.4 million, or 154%, as average reported consumer loans increased 24% and the reported net charge-off rate increased to 3.63% in 1996 from 2.03% in 1995, the result of seasoning. Non-interest income increased \$210.4 million, or 38%, primarily due to the increase in average managed consumer loans and a shift to more fee-intensive products. Increases in marketing costs of \$59.8 million, or 41%, and other non-interest expenses of \$155.9 million, or 44%, reflect the increase in marketing investment in existing and new product opportunities and the cost of operations to build infrastructure and manage the growth in accounts. Average managed consumer loans grew 24% for the year ended December 31, 1996, to \$11.3 billion from \$9.1 billion for the year ended December 31, 1995, and average managed accounts grew 30% for the same period to 7.5 million from 5.7 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 adjusts the balance sheet and income statement to add back the effect of securitizing 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 securitized loans. Securitized loans are not assets of the Company and, therefore, 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 | | | | |
|--|------------------------|---------------------|---------------------|--------------------|--------------------|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| Year-End Balances: | | | | | |
| Consumer loans held for securitization | | | \$ 400,000 | | |
| On-balance sheet consumer loans | \$ 4,861,687 | \$ 4,343,902 | 2,521,679 | \$2,228,455 | \$1,862,744 |
| Securitized consumer loans | 9,369,328 | 8,460,067 | 7,523,801 | 5,150,000 | 2,969,656 |
| Total managed consumer loan portfolio | \$14,231,015 | \$12,803,969 | \$10,445,480 | \$7,378,455 | \$4,832,400 |
| Average Balances: | | | | | |
| Consumer loans held for securitization | \$ 98,838 | \$ 699,044 | \$ 402,602 | \$ 432,581 | \$ 393,835 |
| On-balance sheet consumer loans | 4,004,198 | 2,952,864 | 2,537,606 | 1,854,103 | 1,819,543 |
| Securitized consumer loans | 8,904,146 | 7,616,553 | 6,149,070 | 3,910,739 | 1,052,187 |
| Total managed consumer loan portfolio | \$13,007,182 | \$11,268,461 | \$ 9,089,278 | \$6,197,423 | \$3,265,565 |

As of December 31, 1997, the managed consumer loan portfolio consisted of 62% fixed and 38% variable interest rate loans. The Company's reported consumer loan portfolio as of December 31, 1997 consisted of 58% fixed and 42% variable interest rate loans.

Since 1990, the Company has actively engaged in consumer loan securitization transactions. 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. Under SFAS 125, the Company records gains or losses on the securitization of consumer loan receivables based on the estimated fair value of assets obtained 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. However, exposure to credit losses on the securitized loans is contractually limited to these excess cash flows. The incremental effect of applying the new requirements, was to increase servicing and securitizations income in 1997 by \$32.0 million (\$19.8 million net of tax). 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.

[graph omitted]

For securitized loans prior to 1997, interest income, interest expense, service charges and provision for loan losses are included in non-interest income as servicing and securitizations income.

A securitization generally involves the transfer by the Company of the receivables generated by a pool of consumer loan accounts to an entity created for the securitization, generally a trust or other special purpose entity ("the trusts"). Certificates issued (\$9.4 billion outstanding as of December 31, 1997) by the trusts represent undivided ownership interests in those receivables transferred into the trusts. The credit quality of the receivables is supported by credit enhancement, 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. The securitization results in the removal of the receivables, other than the Company's retained interest ("seller's interest"), from the Company's balance sheet for financial and regulatory accounting purposes.

The receivables transferred to a securitization pool include those outstanding in the selected accounts at the time the trusts are formed and those arising under the accounts until the termination of the trusts. The Company also transfers to the trusts the cash collected in payment of principal, interest and fees received and the Company's interest in any collateral.

Certificates representing participation interests in the pool 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 amount of receivables transferred to the trusts exceeds the initial principal amount of the certificates issued by the trusts to investors. The Company retains an interest in the trusts equal to the amount of the receivables 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 Company acts as a servicing agent and receives loan servicing fees ranging from .75% to 2.0% per annum of the securitized receivables. As a servicing agent, the Company continues to provide customer service, to collect past-due accounts and to provide all other services typically performed for its customers. Accordingly, its relationship with its customers is not affected by the securitization.

The certificateholders are entitled to receive periodic interest payments at a fixed rate or a floating rate. In general, the Company's floating rate issuances are based on the London InterBank Offered Rate ("LIBOR"). Amounts collected in excess of that needed to pay the rate of interest are used to pay the credit enhancement fee and servicing fee and are available to absorb the investors' share of credit losses.

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 or if certain other events occur.

Prior to the commencement of the amortization or accumulation period, all principal payments received on the trusts' receivables are reinvested in new receivables of the selected accounts for the benefit of the trusts. 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. The trusts continue in existence until all amounts required to be paid to certificateholders of all series are repaid, at which time any remaining receivables and funds held in the trusts will be reassigned to the Company.

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 | | |
|------------------------|------------------------|--------------|--------------|
| | 1997 | 1996 | 1995 |
| Reported: | | | |
| Average earning assets | \$ 5,753,997 | \$ 4,798,987 | \$ 3,902,832 |
| Net interest margin(1) | 6.66% | 7.62% | 5.33% |
| Loan yield | 15.11 | 16.21 | 13.52 |
| Managed: | | | |
| Average earning assets | \$14,658,143 | \$12,415,540 | \$10,051,902 |
| Net interest margin(1) | 8.86% | 8.16% | 6.27% |
| Loan yield | 15.73 | 14.76 | 13.12 |

(1) Net interest margin is equal to net interest income divided by average earning assets.

Risk Adjusted Revenue and Margin

In originating its consumer loan portfolio since the early 1990's, the Company has pursued a low introductory interest rate strategy with accounts repricing to higher rates after six to sixteen months from the date of origination ("first generation products"). The amount of repricing is actively managed in an effort to maximize return at the consumer level, reflecting the risk and expected performance of the account. Separately, accounts also may be repriced upwards or downwards based on individual consumer performance. Many of the Company's first generation products have a balance transfer feature under which consumers can transfer balances from their other obligations to the Company. The Company's historic managed loan growth has been principally the result of this balance transfer feature. Industry competitors have continuously solicited the Company's customers with similar low introductory interest rate strategies. Management believes that the competition has put, and will continue to put, additional pressure on low introductory interest rate strategies.

In applying its information-based strategies ("IBS") and in response to competitive pressures during late 1994, the Company began to shift a significant amount of its marketing expense to second generation product opportunities. Second generation products consist of secured card products and other customized card products including affinity and co-branded cards, college student cards and other cards targeted to certain markets that were underserved by the Company's competitors. These products do not have the immediate impact on managed loan balances of the first generation products but typically consist of lower credit limit accounts and balances that build over time. The terms of the second generation products tend to include annual membership fees and higher annual finance charge rates. The profile of the consumers targeted for the second generation products, in some cases, may also tend to result in higher delinquency and consequently higher past-due and overlimit fees as a percentage of loan receivables outstanding than the first generation products.

Although these second generation products have differing characteristics than first generation products, both meet the Company's 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 portfolio. Risk adjusted revenue is defined as net interest income and non-interest income (exclusive of the impact resulting from the implementation of SFAS 125) less net charge-offs. Risk adjusted margin measures risk adjusted revenue as a percentage of average managed 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.

In the fourth quarter of 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, managed net interest income was reduced by \$15.1 million and managed non-interest income was reduced by \$8.0 million for

[graph omitted]

the reversal of previously accrued finance charges and fee income. In addition, this modification increased managed net charge-offs by \$47.4 million. Also, in the fourth quarter of 1997, the Company recognized 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 | | 1995 |
|----------------------------------|------------------------|------------------|-------------------|
| | 1997 | 1996 | |
| Managed Income Statement: | | | |
| Net interest income | \$1,299,317 | \$1,013,557 | \$ 629,996 |
| Non-interest income(1) | 743,516 | 460,492 | 276,269 |
| Net charge-offs | (856,704) | (477,732) | (204,828) |
| Risk adjusted revenue | \$1,186,129 | \$996,317 | \$ 701,437 |
| Ratios(2): | | | |
| Net interest margin | 8.86% | 8.16% | 6.27% |
| Non-interest income | 5.07 | 3.71 | 2.75 |
| Net charge-offs | (5.84) | (3.85) | (2.04) |
| Risk adjusted margin | 8.09% | 8.02% | 6.98% |

(1) Excludes the \$32 million pre-tax incremental impact on credit card securitizations income resulting from the implementation of SFAS 125 in 1997.

(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.

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 securitization and, as a result, removal from the balance sheet of higher yielding second generation 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.

Net interest income for the year ended December 31, 1996 was \$365.5 million compared to \$208.0 million for 1995, representing an increase of \$157.5 million, or 76%. Net interest income increased as a result of growth in earning assets and an increase in the net interest margin. Average earning assets increased 23% for the year ended December 31, 1996 to \$4.8 billion from \$3.9 billion for the year ended December 31, 1995. The reported net interest margin increased to 7.62% in 1996 from 5.35% in 1995 primarily attributable to a 269 basis point increase in the yield on consumer loans and a 38 basis point decrease in the cost of funds. The yield on consumer loans increased to 16.21% for the year ended December 31, 1996 from 13.52% for the year ended December 31, 1995. The yield increase was impacted by the repricing of introductory rate loans to higher rates in accordance with their respective terms, changes in product mix to higher yielding, second generation products and the increase in the amount of past-due fees from both a change in terms and an increase in the delinquency rate. The average rate paid on borrowed funds decreased to 6.32% for the year ended December 31, 1996 from 6.70% in 1995 primarily reflecting decreases in short-term market rates from year to year.

The managed net interest margin for the year ended December 31, 1996 increased to 8.16% from 6.27% for the year ended December 31, 1995. This increase was primarily the result of a 164 basis point increase in consumer loan yield for the year ended December 31, 1996 and a reduction of 46 basis points in borrowing costs for the same period, as compared to 1995. The increase in consumer loan yield to 14.76% for the year ended December 31, 1996 from 13.12% in 1995 principally reflected the 1996 repricing of introductory rate loans, changes in product mix and the increase in past-due fees charged on delinquent accounts as noted above. Additionally, the decrease in the average rate paid on managed interest-bearing liabilities to 5.84% for the year ended December 31, 1996 versus 6.30% for the year ended December 31, 1995, reflected decreases in short-term market rates from year to year.

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, 1997, 1996 and 1995.

Table 4: Statements of Average Balances, Income and Expense, Yields and Rates

| | Year Ended December 31 | | | | | | | | |
|---|------------------------|------------------|---------------|--------------------|------------------|---------------|--------------------|------------------|---------------|
| | 1997 | | | 1996 | | | 1995 | | |
| (Dollars in Thousands) | Average Balance | Income/Expense | Yield/Rate | Average Balance | Income/Expense | Yield/Rate | Average Balance | Income/Expense | Yield/Rate |
| Assets: | | | | | | | | | |
| Earning assets | | | | | | | | | |
| Consumer loans/(1)/ | \$4,103,036 | \$619,785 | 15.11% | \$3,651,908 | \$592,088 | 16.21% | \$2,940,208 | \$397,654 | 13.52% |
| Federal funds sold and resale agreements | 293,119 | 16,423 | 5.60 | 394,939 | 21,293 | 5.39 | 453,797 | 26,832 | 5.91 |
| Other | 1,357,842 | 81,777 | 6.02 | 752,140 | 47,102 | 6.26 | 508,827 | 32,923 | 6.47 |
| Total earning assets | 5,753,997 | \$717,985 | 12.48% | 4,798,987 | \$660,483 | 13.76% | 3,902,832 | \$457,409 | 11.72% |
| Cash and due from banks | (2,636) | | | 40,698 | | | 9,309 | | |
| Allowance for loan losses | (132,728) | | | (83,573) | | | (69,939) | | |
| Premises and equipment, net | 181,610 | | | 156,441 | | | 123,472 | | |
| Other assets | 768,694 | | | 656,407 | | | 470,381 | | |
| Total assets | \$6,568,937 | | | \$5,568,960 | | | \$4,436,055 | | |
| Liabilities and Equity: | | | | | | | | | |
| Interest-bearing liabilities | | | | | | | | | |
| Deposits | \$ 958,885 | \$ 41,932 | 4.37% | \$1,046,122 | \$56,272 | 5.38% | \$769,688 | \$49,547 | 6.44% |
| Other borrowings | 631,876 | 39,066 | 6.18 | 454,899 | 28,509 | 6.27 | 1,028,075 | 66,214 | 6.44 |
| Senior and deposit notes | 3,718,988 | 253,849 | 6.83 | 3,168,205 | 210,218 | 6.64 | 1,924,087 | 133,635 | 6.95 |
| Total interest-bearing liabilities | 5,309,749 | \$334,847 | 6.31% | 4,669,226 | \$294,999 | 6.32% | 3,721,850 | \$249,396 | 6.70% |
| Other liabilities | 345,582 | | | 222,975 | | | 170,841 | | |
| Total liabilities | 5,655,331 | | | 4,892,201 | | | 3,892,691 | | |
| Preferred beneficial interests | 89,529 | | | | | | | | |
| Equity | 824,077 | | | 676,759 | | | 543,364 | | |
| Total liabilities and equity | \$6,568,937 | | | \$5,568,960 | | | \$4,436,055 | | |
| Net interest spread | | | 6.17% | | | 7.44% | | | 5.02% |
| Interest income to average earning assets | | | 12.48 | | | 13.76 | | | 11.72 |
| Interest expense to average earning assets | | | 5.82 | | | 6.14 | | | 6.39 |
| Net interest margin | | | 6.66% | | | 7.62% | | | 5.33% |

(1) Interest income includes past-due fees on loans of approximately \$132,297,

\$94,393 and \$50,384 for the years ended December 31, 1997, 1996 and 1995, 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 | | | | | |
|--|------------------------|------------------------------|-------------------|------------------------|------------------------------|------------------|
| | 1997 vs. 1996 | | | 1996 vs. 1995 | | |
| | Increase (Decrease) | Change Due to/(1)/ Volume | Yield/Rate | Increase (Decrease) | Change Due to/(1)/ Volume | Yield/Rate |
| Interest Income: | | | | | | |
| Consumer loans | \$27,697 | \$ 69,924 | \$(42,227) | \$194,434 | \$106,761 | \$87,673 |
| Federal funds sold and resale agreements | (4,870) | (5,676) | 806 | (5,539) | (3,297) | (2,242) |
| Other | 34,675 | 36,545 | (1,870) | 14,179 | 16,127 | (1,948) |
| Total interest income | 57,502 | 123,085 | (65,583) | 203,074 | 117,398 | 85,676 |
| Interest Expense: | | | | | | |
| Deposits | (14,340) | (4,422) | (9,918) | 6,725 | 15,788 | (9,063) |
| Other borrowings | 10,557 | 10,947 | (390) | (37,705) | (35,967) | (1,738) |
| Senior and deposit notes | 43,631 | 37,446 | 6,185 | 76,583 | 82,799 | (6,216) |
| Total interest expense | 39,848 | 40,394 | (546) | 45,603 | 60,520 | (14,917) |
| Net interest income/(1)/ | \$ 17,654 | \$ 67,129 | \$(49,475) | \$157,471 | \$ 55,920 | \$101,551 |

(1) The change in interest due to both volume and yields/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

Servicing and securitizations income in 1997 includes gains on sale of consumer loans recognized under the provisions of SFAS125; the excess of interest and fee income earned over loan losses and interest paid on investor certificates for consumer loan balances securitized prior to January 1, 1997 and other fees earned relating to securitized loans. In absence of new securitization transactions, once the entire securitized consumer loan portfolio consists of transfers measured under SFAS 125, the aggregate gains recognized under SFAS 125 will approximate the excess servicing income recognized under the accounting method used prior to the implementation of SFAS 125. The incremental effect in 1997 of implementing SFAS 125 on servicing and securitizations income was \$32.0 million.

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 mentioned above, a 17% increase in

average securitized loans and increases in net interest income and non-interest income, offset by increased charge-offs on securitized loans. Net interest income on securitized loans increased \$268.1 million, or 41%, for the year ended December 31, 1997 as compared to the prior year, as a result of loan growth and an increase in the securitized portfolio's net interest margin to 10.29% for the year ended December 31, 1997 from 8.51% for 1996. This increase in net interest margin is the result of an increase in the yield on securitized loans of 196 basis points for the year ended December 31, 1997, which was a result of the securitization of second generation products and an increase in the amount of past-due fees charged as a result of both a change in terms and an increase in the delinquency rate on securitized loans from year to year. Non-interest income on serviced and securitized loans, excluding the incremental impact of SFAS 125, increased \$199.8 million, or 127%, for the year ended December 31, 1997 from 1996, as a result of loan and account growth, the securitization of second generation products and changes in the terms of overlimit fees charged. Charge-offs of securitized loans for the year ended December 31, 1997 increased \$317.7 million, or 92%, compared to 1996 due to the increase in average securitized loans, continued seasoning of accounts and general economic trends in consumer credit performance.

Servicing and securitizations income increased \$49.9 million, or 12%, to \$459.8 million for the year ended December 31, 1996 from \$409.9 million in 1995, primarily due to increases in net interest income on securitized credit card loans offset by increased charge-offs on such loans. Average securitized credit card loans increased 24% for the year ended December 31, 1996 compared to 1995. Net interest income on securitized loans increased \$226.1 million, or 54%, to \$648.1 million for the year ended December 31, 1996 from \$422.0 million for the year ended December 31, 1995, primarily as a result of loan growth and an increase in the securitized portfolio's net interest margin to 8.51% in 1996 versus 6.86% in 1995. This increase in net interest margin was the result of an increase in yield on securitized loans of 114 basis points for the year ended December 31, 1996, which was a result of repricing introductory rate accounts, and decreased cost of funds on securitized loans of 51 basis points as short-term rates declined from the prior year. Charge-offs on securitized loans for the year ended December 31, 1996 increased \$199.9 million, or 138%, compared to the prior year due to the increase in average securitized loans, worsening consumer credit and seasoning of the portfolio.

Other Non-Interest Income

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 second generation products in 1997 compared with 1996.

Other reported non-interest income, excluding interchange, 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 and changes in the terms of overlimit fees charged.

Managed other non-interest income increased \$283.0 million, or 61%, exclusive of the impact resulting from the implementation of SFAS 125, for the year ended December 31, 1997, primarily due to loan and account growth of second generation products and changes in the terms of overlimit fees charged.

Other reported non-interest income increased to \$303.6 million, or 112%, for the year ended December 31, 1996 compared to \$143.1 million for the year ended December 31, 1995. The increase in other non-interest income was due to a 30% increase in the average number of accounts for the year ended December 31, 1996 from 1995, an increase in charge volume, a shift to more fee intensive second generation products and changes in the terms of overlimit fees charged.

Non-Interest Expense

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 expense which increased \$18.2 million, or 9%, to \$224.8 million in 1997.

from \$206.6 million in 1996. Marketing expense represents the cost to select, print and mail the Company's product offerings to potential and existing consumers utilizing its IBS and account management techniques. 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 a result of a 33% increase in the average number of accounts for the year ended December 31, 1997, which resulted in a corresponding increase in infrastructure and other operational costs, offset by efficiencies gained from improved processes and investments in information technology.

[graph omitted]

Non-interest expense for the year ended December 31, 1996 increased \$215.8 million, or 43%, to \$713.2 million from \$497.4 million for the year ended December 31, 1995. Contributing to the increase in non-interest expense were marketing expenses which increased \$59.8 million, or 41%, to \$206.6 million in 1996 from \$146.8 million in 1995. All other non-interest expenses increased \$156.0 million, or 44%, to \$506.6 million for the year ended December 31, 1996 from \$350.6 million in 1995. The increase in other non-interest expense, including salaries and associate benefits, was primarily a result of a 30% increase in the average number of accounts for the year ended December 31, 1996. Other factors impacting 1996 non-interest expense levels include a product mix shift to more service-intensive, second generation accounts, additional staff associated with building infrastructure, an increase in charge volume and an increase in certain costs associated with information systems enhancements.

The Year 2000 compliance issue, which is common to most companies, concerns the improper storage and manipulation of date fields within software applications, systems, databases and hardware. In April 1996, the Company formed a Year 2000 project team to identify software systems and computer-related devices that require modification for the Year 2000. A project plan has been developed, and is well under way, with goals and target dates. The Company expects to have all systems and applications in place and fully tested by the end of 1998, allowing time in 1999 for any systems refinements that may be needed.

The Company could also be affected to the extent that other entities not affiliated with the Company are impacted by the Year 2000 issue. The Company has initiated formal communications with its critical third party service providers to determine the extent to which the Company is vulnerable to those third parties' failure to remediate their own Year 2000 issues. There is no guarantee that these other companies will be successful in addressing their Year 2000 issues.

The Company has incurred expenses throughout 1997 and 1996 related to this project and will continue to incur expenses over the next year. Costs to modify computer systems have been, and will continue to be, expensed as incurred and are not expected to have a material impact on the Company's future financial results or condition.

Income Taxes

The Company's income tax rate was 38% for the year ended December 31, 1997 as compared to 37.5% for 1996 and includes both state and federal income tax components.

Asset Quality

The asset quality of a portfolio is generally a function of the initial underwriting criteria used, seasoning of the accounts, levels of competition, account management activities and demographic concentration, as well as general economic conditions. The average age of the accounts is also an important indicator of the delinquency and loss levels of the portfolio. Accounts tend to exhibit a rising trend of delinquency and credit losses as they season. As of December 31, 1997, 53% of managed accounts, representing 43% of the total managed loan balance, were less than 18 months old. Accordingly, it is likely that the Company's managed loan portfolio will experience increased levels of delinquency and credit losses as the average age of the Company's accounts increases.

Another factor contributing to the expectation of a rising rate of delinquency and credit losses is a shift in the product mix. As discussed in "Risk Adjusted Revenue and Margin," certain second generation 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 1997, general economic conditions for consumer credit continued to worsen as industry levels of charge-offs (including bankruptcies) and delinquencies both increased. These trends have impacted the Company's 1997 results.

Delinquencies

Table 6 shows the Company's consumer loan delinquency trends for the years presented as reported for financial statement purposes and on a managed basis. The entire balance of an account is contractually delinquent if the minimum payment is not received by the payment due date. However, the Company generally continues to accrue interest considered to be collectible until the loan is charged off. 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 5.51% as of December 31, 1997, from 6.08% as of December 31, 1996. The decrease in 1997 reported delinquency reflects the modification in the Company's 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. In addition, in the fourth quarter of 1997, the Company recognized the estimated uncollectible portion of finance charge and fee income receivables. As of December 31, 1997, the reported consumer loan portfolio's delinquency rate without these modifications would have been 6.28%.

The 30-plus day delinquency rate for the managed consumer loan portfolio was 6.20% as of December 31, 1997, down from 6.24% as of December 31, 1996, while the dollar amount of delinquent managed consumer loans increased approximately \$82.9 million. As of December 31, 1997, the managed consumer loan portfolio's delinquency rate, without the modifications in charge-off policy and finance charge and fee income recognition, would have been 6.97%. The managed consumer loan portfolio's delinquency rate as of December 31, 1997 principally reflected the continued seasoning of accounts and consumer loan balances, the increased presence of second generation products, general economic trends in consumer credit performance and the modifications in charge-off policy and finance charge and fee income recognition.

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 the fourth quarter of 1997, the Company

TABLE 6: DELINQUENCIES/(1)/

| (DOLLARS IN THOUSANDS) | DECEMBER 31 | | | | | |
|------------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
| | 1997 | | 1996 | | 1995 | |
| | Loans | % of Total Loans | Loans | % of Total Loans | Loans | % of Total Loans |
| REPORTED: | | | | | | |
| Loans outstanding | \$ 4,861,687 | 100.00% | \$ 4,343,902 | 100.00% | \$ 2,921,679 | 100.00% |
| Loans delinquent: | | | | | | |
| 30-59 days | 104,216 | 2.14 | 96,819 | 2.23 | 65,711 | 2.25 |
| 60-89 days | 64,217 | 1.32 | 55,679 | 1.28 | 38,311 | 1.31 |
| 90 or more days | 99,667 | 2.05 | 111,791 | 2.57 | 79,694 | 2.73 |
| Total | \$ 268,100 | 5.51% | \$ 264,289 | 6.08% | \$ 183,716 | 6.29% |
| MANAGED: | | | | | | |
| Loans outstanding | \$14,231,015 | 100.00% | \$12,803,969 | 100.00% | \$10,445,480 | 100.00% |
| Loans delinquent: | | | | | | |
| 30-59 days | 327,407 | 2.30 | 279,787 | 2.19 | 165,306 | 1.58 |
| 60-89 days | 213,726 | 1.50 | 162,668 | 1.27 | 92,665 | .89 |
| 90 or more days | 340,887 | 2.40 | 356,700 | 2.78 | 181,243 | 1.73 |
| Total | \$ 882,020 | 6.20% | \$ 799,155 | 6.24% | \$ 439,214 | 4.20% |

| (DOLLARS IN THOUSANDS) | DECEMBER 31 | | | |
|------------------------|-------------|------------------|-------|------------------|
| | 1994 | | 1993 | |
| | Loans | % of Total Loans | Loans | % of Total Loans |
| | | | | |

| REPORTED: | | | | |
|-------------------|-------------|---------|-------------|---------|
| Loans outstanding | \$2,228,455 | 100.00% | \$1,862,744 | 100.00% |
| Loans delinquent: | | | | |
| 30-59 days | 29,032 | 1.30 | 19,186 | 1.03 |
| 60-89 days | 14,741 | .66 | 10,618 | .57 |
| 90 or more days | 24,445 | 1.10 | 18,255 | .98 |
| Total | \$ 68,218 | 3.06% | \$ 48,059 | 2.58% |
| MANAGED: | | | | |
| Loans outstanding | \$7,378,455 | 100.00% | \$4,832,400 | 100.00% |
| Loans delinquent: | | | | |
| 30-59 days | 90,733 | 1.23 | 46,391 | .96 |
| 60-89 days | 45,277 | .61 | 25,128 | .52 |
| 90 or more days | 81,720 | 1.11 | 43,975 | .91 |
| Total | \$ 217,730 | 2.95% | \$ 115,494 | 2.39% |

(1)Includes consumer loans held for securitization.

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. The impact of this modification was to increase reported and managed charge-offs by \$11.5 million and \$47.4 million, respectively. For the year ended December 31, 1997, net charge-offs of managed consumer loans increased 79% while average managed consumer loans grew 15%. The increase in net charge-offs was the result of continued seasoning of accounts and consumer loan balances, general economic trends in consumer credit performance and the modification to the charge-off policy described above. Table 7 shows the Company's net charge-offs for the years presented on a reported and managed basis.

For the year ended December 31, 1997, the Company's managed net charge-offs as a percentage of average managed loans was 6.59% and, without the modification in charge-off policy, would have been 6.22%. 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.

[graph omitted]

TABLE 7: NET CHARGE-OFFS/(1)/

| (Dollars in Thousands) | Year Ended December 31 | | | | |
|--|------------------------|--------------|-------------|-------------|-------------|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| REPORTED: | | | | | |
| Average loans outstanding | \$ 4,103,036 | \$ 3,651,908 | \$2,940,208 | \$2,286,684 | \$2,213,378 |
| Net charge-offs | 198,192 | 132,590 | 59,618 | 25,727 | 26,307 |
| Net charge-offs as a percentage of average loans outstanding | 4.83% | 3.63% | 2.03% | 1.13% | 1.19% |
| MANAGED: | | | | | |
| Average loans outstanding | \$13,007,182 | \$11,268,461 | \$9,089,278 | \$6,197,423 | \$3,265,565 |
| Net charge-offs | 856,704 | 477,732 | 204,828 | 91,648 | 68,332 |
| Net charge-offs as a percentage of average loans outstanding | 6.59% | 4.24% | 2.25% | 1.48% | 2.09% |

(1) Includes consumer loans held for securitization.

Provision and Allowance for Loan Losses

The provision for loan losses is the periodic expense of maintaining an adequate allowance at the amount estimated to be sufficient to absorb possible future losses, net of recoveries (including recovery of collateral), inherent in the existing on-balance sheet loan portfolio. In evaluating the adequacy of the allowance for loan losses, the Company takes into consideration several factors including economic trends and conditions, overall asset quality, loan seasoning and trends in delinquencies and expected charge-offs. The Company's primary guideline is a calculation which uses current delinquency levels and other measures of asset quality to estimate net charge-offs. Consumer loans are typically charged off (net of any collateral) at 180 days past-due, although earlier charge-offs may occur on accounts of bankrupt or deceased consumers. Bankrupt consumers' accounts are generally charged off within 30 days after receipt of the bankruptcy petition. Once a loan is charged off, it is the Company's policy to continue to pursue the collection of principal, interest and fees for non-bankrupt accounts.

Management believes that the allowance for loan losses is adequate to cover anticipated losses in the on-balance sheet 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 on-balance sheet consumer loan portfolio. 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.

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

Table 8: Summary of Allowance for Loan Losses

| (Dollars in Thousands) | Year Ended December 31 | | | | |
|--|------------------------|------------|-----------|-----------|-----------|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| Balance at beginning of year | \$ 118,500 | \$ 72,000 | \$ 68,516 | \$ 63,516 | \$ 55,993 |
| Provision for loan losses | 262,837 | 167,246 | 65,895 | 30,727 | 34,030 |
| Transfer to loans held for securitization | (2,770) | (27,887) | (11,504) | (4,869) | (2,902) |
| Increase from consumer loan purchase | | 9,000 | | | |
| Charge-offs | (223,029) | (115,159) | (64,260) | (31,948) | (39,625) |
| Recoveries | 27,462 | 13,300 | 13,353 | 11,090 | 16,020 |
| Net charge-offs/(1)/ | (195,567) | (101,859) | (50,907) | (20,858) | (23,605) |
| Balance at end of year | \$ 183,000 | \$ 118,500 | \$ 72,000 | \$ 68,516 | \$ 63,516 |
| Allowance for loan losses to loans at end of year/(1)/ | 3.76% | 2.73% | 2.85% | 3.07% | 3.41% |

(1) Excludes consumer loans held for securitization.

percentage of on-balance sheet 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 on-balance sheet consumer loans to \$4.9 billion as of December 31, 1997, an increase of 12% from December 31, 1996 and the continued growth of second generation products. In consideration of these factors, the Company increased the allowance for loan losses by \$64.5 million during 1997.

For the year ended December 31, 1996, the provision for loan losses increased to \$167.2 million, or 154%, from the 1995 provision for loan losses of \$65.9 million. The increase in the provision for loan losses resulted from increases in average reported consumer loans of 24%, continued loan seasoning, a shift in the composition of reported consumer loans and general economic trends in consumer credit performance. Net charge-offs as a percentage of average

reported consumer loans increased to 3.63% for the year ended December 31, 1996 from 2.03% in the prior year. Additionally, growth in second generation products, which in some cases have modestly higher charge-off rates than first generation products, increased the amount of provision necessary to absorb credit losses. In consideration of these factors, the Company increased the allowance for loan losses by \$46.5 million during 1996.

Funding

Table 9 reflects the costs of other borrowings of the Company as of and for each of the years ended December 31, 1997, 1996 and 1995.

Table 9: Other Borrowings

| (Dollars In Thousands) | Maximum Outstanding as of Any Month-end | Outstanding as of Year-end | Average Outstanding | Average Interest Rate | Year-end Interest Rate |
|---|---|-------------------------------|------------------------|--------------------------|---------------------------|
| 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% |
| 1995 | | | | | |
| Federal funds purchased and resale agreements | \$1,146,678 | \$709,803 | \$ 747,350 | 6.14% | 5.76% |
| Other | 1,000,000 | 100,000 | 280,725 | 7.24 | 6.03 |
| Total | | \$809,803 | \$1,028,075 | 6.44% | 5.79% |

Table 10 shows the maturation of certificates of deposit in denominations of \$100,000 or greater (large denomination CDs) as of December 31, 1997.

Table 10: Maturities of Domestic Large Denomination Certificates--\$100,000 or More

| (Dollars in Thousands) | December 31, 1997 | |
|--------------------------|-------------------|---------|
| | Balance | Percent |
| 3 months or less | \$97,363 | 42.62% |
| Over 3 through 6 months | 43,523 | 19.06% |
| Over 6 through 12 months | 49,210 | 21.54% |
| Over 12 months | 38,332 | 16.78% |
| Total | \$228,428 | 100.00% |

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 million. The chart on page 31 indicates that during 1997 the Company increased its interest-bearing deposits to \$1.3 billion as of December 31, 1997 from \$.9 billion in the prior year.

In November 1996, the Company entered into a four-year, \$1.7 billion unsecured revolving credit arrangement (the "Credit Facility"). The Credit Facility is comprised of two tranches: a \$1.375 billion Tranche A facility available to the Bank and the Savings Bank, including an option for up to \$225 million in multi-currency availability, and a \$325 million Tranche B facility available to the Corporation, the Bank and the Savings Bank, including an option for up to \$100 million in multi-currency availability. Each tranche under the facility is structured as a four-year commitment and is available for general corporate purposes. The borrowings of the Savings Bank are limited to \$750 million. All borrowings under the Credit Facility are based on varying terms of 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. Any borrowings under the Credit Facility will mature on November 24, 2000; however, the final maturity of each tranche may be extended for three additional one-year periods. As of December 31, 1997 and 1996, the Company had no outstandings under the Credit Facility. The unused commitment is available as funding needs arise.

In August 1997, the Company entered into a three-year, \$350 million equivalent unsecured revolving credit arrangement (the "UK/Canada Facility"), which will be used 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 (pound)156.5 million (\$249.8 million equivalent based on the exchange rate at closing) and a Tranche B facility in the amount of C\$139.6 million (\$100.2 million equivalent based on the exchange rate at closing). An amount of (pound)34.6 million or C\$76.9 million (\$55.2 million 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. Each tranche under the facility is structured as a three-year commitment and will be available for general corporate purposes. The Corporation serves as the guarantor of all borrowings under the UK/Canada Facility. As of December 31, 1997, the Company had no outstandings under the UK/Canada Facility.

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 \$7.8 billion of senior bank notes with maturities from thirty days to thirty years and up to \$200 million of subordinated bank notes (none issued as of December 31, 1997) with maturities from five to thirty years. As of December 31, 1997, the Company had \$3.2 billion in senior bank notes outstanding, a 10% decrease from \$3.6 billion outstanding as of December 31, 1996. As of December 31, 1997, bank notes issued totaling \$2.1 billion have fixed interest rates and mature from one to five years. The Company has entered into interest rate swap agreements ("swaps") to effectively convert fixed rates on senior notes to variable rates which match the variable rates earned on consumer loans (see "Interest Rate Sensitivity").

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 \$1.0 billion equivalent outstanding at any one time (none issued as of December 31, 1997). Instruments under this program may be denominated in any currency or currencies.

In September 1996, the Corporation filed a \$200 million shelf registration statement (\$125 million of senior debt securities issued as of December 31, 1997) with the Securities and Exchange Commission (the "SEC") 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 securities will be limited to \$200 million 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.

In April 1996, the Bank established a deposit note program under which the Bank from time to time may issue up to \$2.0 billion of deposit notes with maturities from thirty days to thirty years. As of December 31, 1997, the Company had \$300 million in deposit notes outstanding.

In January 1997, Capital One Capital I, a subsidiary of the Bank created as a Delaware statutory business trust, issued \$100 million 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 and qualify as Tier 1 capital at the Corporation and Tier 2 capital at the Bank. The net proceeds of the offering of \$97.4 million were lent to the Bank for general corporate purposes. As of December 31, 1997, the interest rate on these securities was 7.30%.

[graph omitted]

The Company's primary source of funding, securitization of consumer loans, increased to \$9.4 billion as of December 31, 1997 from \$8.5 billion as of December 31, 1996. In 1997, the Company securitized \$2.1 billion of consumer loans, consisting predominantly of LIBOR-based, variable-rate deals maturing from 2001 through 2004.

In January 1996, the Company implemented a dividend reinvestment and stock purchase plan (the "DRIP") to provide existing stockholders with the opportunity to purchase additional shares of the Company's common stock by reinvesting quarterly dividends or making optional cash investments. The Company uses proceeds from the DRIP for general corporate purposes.

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 in order to mitigate the dilutive impact of shares issuable under its benefit plans, including its dividend reinvestment and stock purchase plans, associate stock purchase plan and incentive plans. During 1997, the Company repurchased 1,318,641 shares under this program. Certain treasury shares were reissued in connection with the Company's benefit plans.

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 Company 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. Banking regulations applicable to the Bank and the Savings Bank 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 Company or the ability of the Company to pay dividends to its stockholders.

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 as calculated under Regulatory Accounting Principles. The inability to meet and maintain minimum capital adequacy levels could result in 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.

As of December 31, 1997 and 1996, notifications 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, 1997, 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. As of December 31, 1997, the Bank and the Savings Bank's ratios of capital to managed assets were 5.10% and 8.67%, respectively.

Table 11 shows the Bank and Savings Bank's regulatory capital ratios as of and for the years ended December 31, 1997 and 1996.

Table 11: Regulatory Capital Ratios

| Ratios | Minimum for Capital Adequacy Purposes | To Be "Well- Capitalized" Under Prompt Corrective Action Provisions |
|------------------------|--|--|
| ----- | | |
| December 31, 1997 | | |
| Capital One Bank | | |
| Tier 1 Capital | 10.49% | 4.00% |
| Total Capital | 13.26 | 8.00 |
| Tier 1 Leverage | 10.75 | 4.00 |
| Capital One, F.S.B.(1) | | |
| Tangible Capital | 11.26% | 1.50% |
| Total Capital | 17.91 | 12.00 |
| Core Capital | 11.26 | 8.00 |
| ----- | | |
| December 31, 1996 | | |
| Capital One Bank | | |
| Tier 1 Capital | 11.61% | 4.00% |
| Total Capital | 12.87 | 8.00 |
| Tier 1 Leverage | 9.04 | 4.00 |
| Capital One, F.S.B.(1) | | |
| Tangible Capital | 9.18% | 1.50% |
| Total Capital | 16.29 | 12.00 |
| Core Capital | 9.18 | 8.00 |

(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 such branch in the United Kingdom, the Company will maintain a minimum Tier 1 Leverage ratio of 3.0%. As of December 31, 1997 and 1996, the Company's Tier 1 Leverage ratio was 13.83% and 11.13%, 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, 1997, retained earnings of the Bank and the Savings Bank of \$99.6 million and \$24.8 million, respectively, were available for payment of dividends to the Corpo-

[graph omitted]

ration 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.

Off-Balance Sheet Risk

The Company is subject to off-balance sheet risk in the normal course of business including commitments to extend credit, excess servicing income from securitization transactions and swaps. In order to reduce the interest rate sensitivity and to match asset and liability repricings, the Company has entered into swaps which involve elements of credit or interest rate risk in excess of the amount recognized on the balance sheet. Swaps present the Company with certain credit, market, legal and operational risks. The Company has established credit policies for off-balance sheet instruments as it does for on-balance sheet instruments.

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 managed interest 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. However, due to the Company's use of swaps, the effects of these interest rate changes are mitigated. The Company manages its interest rate sensitivity through several techniques which include, but are not limited to, changing the maturity and distribution of assets and liabilities, entering into swaps and repricing of consumer loans.

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 4% below the mean managed net interest income of the distribution. As of December 31, 1997, 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 3.3% below the mean outcome. The interest rate scenarios evaluated as of December 31, 1997 included scenarios in which short-term interest rates rose by as much as 450 basis points or fell by as much as 250 basis points over twelve months.

Implementation of this policy represents a change from the asset/liability management policy in place as of December 31, 1996. At that time, interest rate sensitivity was assessed on the basis of the percent change in twelve-month managed net interest income for an instantaneous and sustained 100 basis point rate shock applied to an unchanging balance sheet. As of December 31, 1996, the Company's policy required that such a rate shock not result in an adverse change of more than 5% in managed net interest income; the exposure at the time was 2.1%.

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 interest rate repricing schedule for earning assets and interest-bearing liabilities as of December 31, 1997.

Table 12: Interest Rate Sensitivity

| (Dollars in Millions) | As of December 31, 1997 Subject to Repricing | | | |
|--|--|------------------------------|-----------------------------|------------------|
| | Within 180 days | greater than 180 Days-1 year | greater than 1 Year-5 Years | Over 5 Years |
| Earning assets: | | | | |
| Federal funds sold | \$ 174 | | | |
| Interest-bearing deposits at other banks | 59 | | | |
| Securities available for sale | 438 | \$ 150 | \$ 604 | \$ 51 |
| Consumer loans | 2,454 | 213 | 2,195 | |
| Total earning assets | 3,125 | 363 | 2,799 | 51 |
| Interest-bearing liabilities: | | | | |
| Interest-bearing deposits | 962 | 168 | 184 | |
| Other borrowings | 561 | 235 | | |
| Senior and other deposit notes | 1,025 | 250 | 2,018 | 340 |
| Total interest-bearing liabilities | 2,548 | 653 | 2,202 | 340 |
| Non-rate related assets | | | | (595) |
| Interest sensitivity gap | 577 | (290) | 597 | (884) |
| Impact of swaps | 640 | | (215) | 425 |
| Impact of consumer loan securitizations | (4,418) | 121 | 4,297 | |
| Interest sensitivity gap adjusted for impact of securitizations and swaps | \$(3,201) | \$ (169) | \$ 4,679 | \$(1,309) |
| Adjusted interest sensitivity gap percentage of managed assets | (19.48)% | (1.03)% | 28.47% | (7.97)% |
| Cumulative interest sensitivity gap | \$(3,201) | \$(3,370) | \$ 1,309 | |
| Adjusted cumulative gap as a percentage of managed assets | (19.48)% | (20.51)% | 7.97% | 0.00 |

The Company has entered into swaps to effectively convert certain of the interest rates on bank notes from fixed to variable. The swaps, which had a notional amount totaling \$450 million as of December 31, 1997, will mature in 1998 and 2000 to coincide with maturities of fixed bank notes. In 1997, the Company entered into swaps with notional amounts totaling \$450 million to effectively offset the swaps described above with matching maturities and terms which pay fixed and receive variable rates. As of December 31, 1997, the variable rate payments on the original and offsetting swaps were matched and will continue to offset each other through maturity. As of December 31, 1997, the weighted average fixed rate payment received on the original swaps was 7.39%, and the weighted average fixed rate payment paid on the offsetting swaps was 6.50%.

The Company has also entered into swaps to reduce the interest rate sensitivity associated with securitizations. The swaps, which had a notional amount totaling \$591 million as of December 31, 1997, will mature in 1998 and 1999 to coincide with the final payments of a 1995 securitization. In 1997, the Company entered into swaps with notional amounts totaling \$591 million to effectively offset the swaps described above with matching maturities and terms which pay fixed and receive variable rates. As of December 31, 1997, the variable rate payments on the original and offsetting swaps were matched and will continue to offset each other through maturity. As of December 31, 1997, the weighted average fixed rate payment received on the original swaps was 7.68%, and the weighted average fixed rate payment paid on the offsetting swaps was 6.52%.

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 1998 to 2004 and typically have accumulation periods during which principal payments are aggregated to make payments to investors. As payments on the loans are accumulated for the participants in the securitization 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 13 shows the amounts of investor principal from securitized consumer loans that will amortize or be otherwise paid over the periods indicated based on outstanding securitized consumer loans as of January 1, 1998. As of December 31, 1997 and 1996, 66% of the Company's total managed loans were securitized.

As such loans amortize or are otherwise paid, the Company believes that 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, 1997, the Company had \$1.5 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, 1997, the Company, the Bank and the Savings Bank collectively had over \$2.0 billion in unused commitments under its credit facilities available for liquidity needs.

Table 13: Securitizations--Scheduled Amortization Table

| (Dollars in Thousands) | 1998 | 1999 | 2000 | 2001 | 2002-2004 |
|------------------------------|--------------|-------------|--------------|--------------|------------|
| Balance at beginning of year | \$ 9,369,328 | \$7,202,549 | \$ 6,471,428 | \$ 4,412,078 | \$ 872,790 |
| Less repayment amounts | (2,166,779) | (731,121) | (2,059,350) | (3,539,288) | (872,790) |
| Balance at end of year | \$ 7,202,549 | \$6,471,428 | \$ 4,412,078 | \$ 872,790 | \$ -- |

Business Outlook

This business outlook section summarizes the Company's expectations for earnings for the year ending December 31, 1998, and its primary goals and strategies for continued growth. The statements contained in this section are based on management's current expectations. Certain of the statements are forward looking statements 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, 1997 (Part I, Item 1, Cautionary Statements).

The Company has set an earnings target, dependent on the factors set forth below, for its diluted earnings per share for the year ending December 31, 1998 to increase by more than 20% over its 1997 diluted earnings per share. 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 expense 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 credit card business as well as to other businesses, both financial and non-financial, to identify new product opportunities and to make informed investment decisions regarding its existing products. Historically, credit card opportunities have included, and are expected to continue to include, various first generation low-rate balance transfer products, as well as second generation credit card products. In recent years, the Company's second generation products have been distinguished by several characteristics, including better response rates, less adverse selection, higher margins (including fees), lower credit lines, less attrition and a greater ability to reprice. However, second generation products have also involved higher operational costs and, in some cases, higher delinquencies and credit losses than the Company's traditional low rate balance transfer products. More importantly, these second generation products continue to have overall higher and less volatile returns than the traditional balance transfer products in recent market conditions. Additionally, the Company has been applying, and expects to continue to apply, its IBS to other financial and non-financial products ("third generation products"). Third generation products and services include selected non-card consumer lending products and the reselling of telecommunication services. The Company has also expanded its existing credit card operations outside of the United States, with an initial focus on the United Kingdom and Canada. These second and third generation products are subject to competitive pressures, which management anticipates will increase as these markets mature.

The Company continues to apply its IBS in an effort to balance the mix of first and second generation credit card products together with third generation products and services, to optimize profitability within the context of acceptable risk. The Company intends to remain flexible in the allocation of marketing expenses to take advantage of market opportunities as they emerge based on then current market conditions. As a result, the Company expects to continue to offer a variety of first, second and third generation products but the mix of such products in the Company's portfolio may vary significantly over time. Management believes that, through the continued application of IBS, the Company can develop product and service offerings in each of its product generations to sustain growth and that it has the personnel, financial resources and business strategy necessary for continued success. However, there can be no assurance that the Company's historical financial information will necessarily reflect its results of operations and financial condition in the future.

Marketing Investment

The Company anticipates that its 1998 marketing expenses will exceed such expenses in 1997, as the Company continues to invest in existing and new first and second generation products and services, and third generation products and services. As stated above, 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 credit card industry, general economic conditions affecting consumer credit performance, the asset quality of the Company's portfolio and market opportunities for third generation products. With competition affecting the profitability of existing first generation products, the Company has been allocating and expects to continue to allocate a greater portion of its marketing expense to second and third generation products.

Moreover, the amount of marketing expense allocated to various product generations will influence the characteristics of the Company's portfolio because the various product generations are characterized by different account growth, loan growth and asset quality characteristics. The Company currently expects that its growth in consumer accounts and in managed consumer loans will continue in 1998. 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 affected by competitive pressures.

Impact of Delinquencies, Charge-off Rates 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 revenue impact of higher or lower charge-offs that ultimately result from varying levels of delinquencies. Delinquency and net charge-off rates are not only impacted by general economic trends in consumer credit performance but also by the continued seasoning of the Company's portfolio and the product mix. Charge-off rates are also impacted by bankruptcies. The Company's expectations for 1998 earnings are based on management's belief in a continued increase in revenues, together with a moderating level of increases in charge-offs and attrition. Management, however, cautions that delinquency and charge-off levels are not always predictable and may vary from projections. 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.

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); difficulties or delays in the development, production, testing and marketing of new products or services; losses associated with new products or services; 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 associate 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; 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, 1997 (Part I, Item 1, Cautionary Statements).

SELECTED QUARTERLY FINANCIAL DATA

| (Unaudited) | 1997 | | | | 1996 | | | |
|---|---------------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
| | Fourth Quarter/(1)/ | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Summary Of Operations: (In Thousands) | | | | | | | | |
| Interest income | \$203,551 | \$178,970 | \$166,870 | \$168,594 | \$201,353 | \$188,235 | \$137,753 | \$133,142 |
| Interest expense | 89,023 | 81,816 | 83,611 | 80,397 | 87,784 | 81,581 | 63,300 | 62,334 |
| Net interest income | 114,528 | 97,154 | 83,259 | 88,197 | 113,569 | 106,654 | 74,453 | 70,808 |
| Provision for loan losses | 94,356 | 72,518 | 46,776 | 49,187 | 63,035 | 53,933 | 25,110 | 25,168 |
| Net interest income after provision for loan losses | 20,172 | 24,636 | 36,483 | 39,010 | 50,534 | 52,721 | 49,343 | 45,640 |
| Non-interest income | 316,098 | 280,933 | 229,042 | 243,057 | 214,961 | 206,716 | 170,599 | 171,148 |
| Non-interest expense | 242,373 | 226,003 | 202,055 | 213,547 | 200,575 | 196,823 | 159,334 | 156,450 |
| Income before income taxes | 93,897 | 79,566 | 63,470 | 68,520 | 64,920 | 62,614 | 60,608 | 60,338 |
| Income taxes | 35,680 | 30,236 | 24,118 | 26,038 | 24,670 | 23,793 | 22,425 | 22,325 |
| Net income | \$ 58,217 | \$ 49,330 | \$ 39,352 | \$ 42,482 | \$ 40,250 | \$ 38,821 | \$ 38,183 | \$ 38,013 |
| Per Common Share: | | | | | | | | |
| Basic earnings/(2)/ | \$.89 | \$.75 | \$.59 | \$.64 | \$.61 | \$.59 | \$.58 | \$.57 |
| Diluted earnings/(2)/ | .86 | .73 | .58 | .63 | .60 | .58 | .57 | .57 |
| Dividends | .08 | .08 | .08 | .08 | .08 | .08 | .08 | .08 |
| Market prices | | | | | | | | |
| High | 54 3/16 | 45 3/4 | 39 7/8 | 43 5/8 | 36 5/8 | 31 7/8 | 32 1/8 | 27 7/8 |
| Low | 44 1/8 | 32 13/16 | 31 3/8 | 33 1/4 | 29 7/8 | 25 7/8 | 25 | 21 7/8 |
| Average common shares (000s) | 65,535 | 66,185 | 66,428 | 66,336 | 66,287 | 66,250 | 66,210 | 66,157 |
| Average common and common equivalent shares (000s) | 67,532 | 67,574 | 67,608 | 67,704 | 67,275 | 67,005 | 66,903 | 66,726 |
| Average Balance Sheet Data: (In Millions) | | | | | | | | |
| Consumer loans | \$ 4,508 | \$ 3,847 | \$ 3,997 | \$ 4,059 | \$ 4,648 | \$ 3,955 | \$ 3,249 | \$ 2,742 |
| Allowance for loan losses | (174) | (123) | (119) | (120) | (105) | (81) | (74) | (74) |
| Securities | 1,831 | 1,690 | 1,563 | 1,521 | 1,164 | 1,228 | 933 | 1,302 |
| Other assets | 899 | 1,143 | 1,117 | 939 | 929 | 990 | 793 | 721 |
| Total assets | \$ 7,064 | \$ 6,557 | \$ 6,558 | \$ 6,399 | \$ 6,636 | \$ 6,092 | \$ 4,901 | \$ 4,691 |
| Interest-bearing deposits | \$ 1,172 | \$ 852 | \$ 818 | \$ 993 | \$ 1,298 | \$ 1,234 | \$ 789 | \$ 859 |
| Other borrowings | 823 | 595 | 695 | 411 | 472 | 466 | 349 | 527 |
| Senior and deposit notes | 3,614 | 3,686 | 3,769 | 3,809 | 3,843 | 3,435 | 2,875 | 2,510 |
| Other liabilities | 465 | 485 | 380 | 357 | 290 | 259 | 244 | 164 |
| Preferred beneficial interests | 98 | 98 | 98 | 65 | | | | |
| Stockholders' equity | 892 | 841 | 798 | 764 | 733 | 698 | 644 | 631 |
| Total liabilities and equity | \$ 7,064 | \$ 6,557 | \$ 6,558 | \$ 6,399 | \$ 6,636 | \$ 6,092 | \$ 4,901 | \$ 4,691 |

The above schedule is a tabulation of the Company's unaudited quarterly results for the years ended December 31, 1997 and 1996. 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 10,585 and 14,562 common stockholders of record as of December 31, 1997 and 1996, 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.
- (2) The earnings per share amounts for the first three quarters of 1997 and for 1996 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, Earnings Per Share. For further discussion of earnings per share and the impact of Statement 128, see Note A to Consolidated Financial Statements.

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, 1997 and 1996, 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, 1997. 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, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, 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 15, 1998

CONSOLIDATED BALANCE SHEETS

DECEMBER 31

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

| | 1997 | 1996 |
|--|--------------|--------------|
| ASSETS: | | |
| Cash and due from banks | \$ 5,039 | \$ 48,724 |
| Federal funds sold and resale agreements | 173,500 | 450,000 |
| Interest-bearing deposits at other banks | 59,184 | 30,252 |
| | ----- | ----- |
| Cash and cash equivalents | 237,723 | 528,976 |
| Securities available for sale | 1,242,670 | 877,851 |
| Consumer loans | 4,861,687 | 4,343,902 |
| Less: Allowance for loan losses | (183,000) | (118,500) |
| | ----- | ----- |
| Net loans | 4,678,687 | 4,225,402 |
| Premises and equipment, net | 162,726 | 174,661 |
| Interest receivable | 51,883 | 78,590 |
| Accounts receivable from securitizations | 588,781 | 502,520 |
| Other assets | 115,809 | 79,445 |
| | ----- | ----- |
| Total assets | \$ 7,078,279 | \$ 6,467,445 |
| LIABILITIES: | | |
| Interest-bearing deposits | \$ 1,313,654 | \$ 943,022 |
| Other borrowings | 796,112 | 530,983 |
| Senior notes | 3,332,778 | 3,694,237 |
| Deposit notes | 299,996 | 299,996 |
| Interest payable | 68,448 | 80,362 |
| Other liabilities | 276,368 | 178,454 |
| | ----- | ----- |
| Total liabilities | 6,087,356 | 5,727,054 |
| COMMITMENTS AND CONTINGENCIES | | |
| GUARANTEED PREFERRED BENEFICIAL INTERESTS | | |
| IN CAPITAL ONE BANK'S FLOATING RATE | | |
| JUNIOR SUBORDINATED CAPITAL INCOME SECURITIES: | 97,664 | |
| STOCKHOLDERS' EQUITY: | | |
| 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, 66,557,230 and 66,325,261 | | |
| issued as of December 31, 1997 and 1996, respectively | 666 | 663 |
| Paid-in capital, net | 513,561 | 481,383 |
| Retained earnings | 427,679 | 258,345 |
| Less: Treasury stock, at cost; 1,188,134 shares | (48,647) | |
| | ----- | ----- |
| Total stockholders' equity | 893,259 | 740,391 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 7,078,279 | \$ 6,467,445 |

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

| (IN THOUSANDS, EXCEPT PER SHARE DATA) | YEAR ENDED DECEMBER 31 | | |
|--|------------------------|-------------------|-------------------|
| | 1997 | 1996 | 1995 |
| INTEREST INCOME: | | | |
| Consumer loans, including fees | \$ 619,785 | \$ 592,088 | \$ 397,654 |
| Federal funds sold and resale agreements | 16,423 | 21,293 | 26,832 |
| Other | 81,777 | 47,102 | 32,923 |
| Total interest income | 717,985 | 660,483 | 457,409 |
| INTEREST EXPENSE: | | | |
| Deposits | 41,932 | 56,272 | 49,547 |
| Other borrowings | 39,066 | 28,509 | 66,214 |
| Senior and deposit notes | 253,849 | 210,218 | 133,635 |
| Total interest expense | 334,847 | 294,999 | 249,396 |
| Net interest income | 383,138 | 365,484 | 208,013 |
| Provision for loan losses | 262,837 | 167,246 | 65,895 |
| Net interest income after provision for loan losses | 120,301 | 198,238 | 142,118 |
| NON-INTEREST INCOME: | | | |
| Servicing and securitizations | 682,345 | 459,833 | 409,927 |
| Service charges | 284,256 | 218,988 | 86,029 |
| Interchange | 49,030 | 51,399 | 33,457 |
| Other | 53,499 | 33,204 | 23,630 |
| Total non-interest income | 1,069,130 | 763,424 | 553,043 |
| NON-INTEREST EXPENSE: | | | |
| Salaries and associate benefits | 289,322 | 215,155 | 135,833 |
| Marketing | 224,819 | 206,620 | 146,810 |
| Communications and data processing | 98,135 | 76,841 | 61,508 |
| Supplies and equipment | 82,874 | 60,053 | 42,081 |
| Occupancy | 37,548 | 22,330 | 13,655 |
| Other | 151,280 | 132,183 | 97,543 |
| Total non-interest expense | 883,978 | 713,182 | 497,430 |
| Income before income taxes | 305,453 | 248,480 | 197,731 |
| Income taxes | 116,072 | 93,213 | 71,220 |
| Net income | \$ 189,381 | \$ 155,267 | \$ 126,511 |
| Basic earnings per share | \$ 2.87 | \$ 2.34 | \$ 1.93 |
| Diluted earnings per share | \$ 2.80 | \$ 2.32 | \$ 1.91 |
| Dividends paid per share | \$.32 | \$.32 | \$.24 |

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| (Dollars in Thousands, Except Per Share Data) | Common Stock | | Paid-In Capital, Net | Retained Earnings | Treasury Stock | Total Stockholders' Equity |
|---|--------------|--------|-------------------------|----------------------|-------------------|----------------------------------|
| | Shares | Amount | | | | |
| Balance, December 31, 1994 | 66,067,250 | \$661 | \$462,844 | \$ 11,052 | | \$474,557 |
| Net income | | | | 126,511 | | 126,511 |
| Cash dividends-\$.24 per share | | | | (15,883) | | (15,883) |
| Issuances of common stock | 65,645 | 1 | 1,256 | | | 1,257 |
| Exercise of stock options | 6,582 | | 132 | | | 132 |
| Tax benefit from stock awards | | | 1,578 | | | 1,578 |
| Restricted stock, net | 35,090 | | 4,020 | | | 4,020 |
| Change in unrealized gains on securities available for sale, net of income taxes of \$3,780 | | | | 7,019 | | 7,019 |
| Balance, December 31, 1995 | 66,174,567 | 662 | 469,830 | 128,699 | | 599,191 |
| Net income | | | | 155,267 | | 155,267 |
| 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 |
| Tax benefit from stock awards | | | 338 | | | 338 |
| Restricted stock, net | (664) | | 193 | | | 193 |
| Common stock issuable under incentive plan | | | 7,728 | | | 7,728 |
| Foreign currency translation | | | | (132) | | (132) |
| Change in unrealized gains on securities available for sale, net of income taxes of \$2,647 | | | | (4,916) | | (4,916) |
| Balance, December 31, 1996 | 66,325,261 | 663 | 481,383 | 258,345 | | 740,391 |
| Net income | | | | 189,381 | | 189,381 |
| Cash dividends-\$.32 per share | | | | (20,638) | | (20,638) |
| Purchases of treasury stock | | | 1,552 | | \$(52,314) | (50,762) |
| 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 |
| Tax benefit from stock awards | | | 379 | | | 379 |
| Restricted stock, net | (121) | | 106 | | | 106 |
| Common stock issuable under incentive plan | | | 24,772 | | | 24,772 |
| Foreign currency translation | | | | 59 | | 59 |
| Change in unrealized gains on securities available for sale, net of income taxes of \$481 | | | | 532 | | 532 |
| Balance, December 31, 1997 | 66,557,230 | \$666 | \$513,561 | \$427,679 | \$(48,647) | \$893,259 |

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In Thousands) | Year Ended December 31 | | |
|---|------------------------|-------------|-------------|
| | 1997 | 1996 | 1995 |
| Operating Activities: | | | |
| Net income | \$ 189,381 | \$ 155,267 | \$ 126,511 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | |
| Provision for loan losses | 262,837 | 167,246 | 65,895 |
| Depreciation and amortization, net | 46,550 | 41,894 | 33,424 |
| Stock compensation plans | 24,878 | 7,921 | 4,020 |
| Decrease (increase) in interest receivable | 26,707 | (23,017) | (40,958) |
| Increase in accounts receivable from securitizations | (86,261) | (143,141) | (122,364) |
| Increase in other assets | (41,469) | (24,795) | (11,786) |
| (Decrease) increase in interest payable | (11,914) | 6,431 | 64,667 |
| Increase (decrease) in other liabilities | 97,914 | 89,964 | (4,780) |
| Net cash provided by operating activities | 508,623 | 277,770 | 114,629 |
| Investing Activities: | | | |
| Purchases of securities available for sale | (1,275,900) | (947,478) | (400,117) |
| Proceeds from sales of securities available for sale | 483,592 | 773 | |
| Proceeds from maturities of securities available for sale | 450,787 | 490,040 | 100,000 |
| Proceeds from securitization of consumer loans | 2,114,695 | 2,695,000 | 3,525,000 |
| Net increase in consumer loans | (2,858,279) | (4,251,269) | (4,293,988) |
| Recoveries of loans previously charged off | 27,462 | 13,300 | 13,353 |
| Additions of premises and equipment, net | (51,602) | (74,871) | (61,623) |
| Net cash used for investing activities | (1,109,245) | (2,074,505) | (1,117,375) |
| Financing Activities: | | | |
| Net increase in interest-bearing deposits | 370,632 | 246,985 | 243,836 |
| Net increase (decrease) in other borrowings | 265,129 | (278,820) | (1,230,885) |
| Issuances of senior and deposit notes | 529,977 | 2,105,864 | 2,469,869 |
| Maturities of senior notes | (891,436) | (603,500) | |
| Issuance of preferred beneficial interests | 97,428 | | |
| Proceeds from exercise of stock options | 4,082 | 186 | 132 |
| Net proceeds from issuances of common stock | 4,957 | 3,109 | 1,257 |
| Purchases of treasury stock | (50,762) | | |
| Dividends paid | (20,638) | (20,573) | (15,883) |
| Net cash provided by financing activities | 309,369 | 1,453,251 | 1,468,326 |
| (Decrease) increase in cash and cash equivalents | (291,253) | (343,484) | 465,580 |
| Cash and cash equivalents at beginning of year | 528,976 | 872,460 | 406,880 |
| Cash and cash equivalents at end of year | \$ 237,723 | \$ 528,976 | \$ 872,460 |

See Notes to Consolidated Financial Statements

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 provides certain consumer lending and deposit services. 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 1997 presentation.

The following is a summary of the significant accounting policies used in preparation of the accompanying 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, 1997, 1996 and 1995, was \$346,761, \$288,568 and \$184,729, respectively. Cash paid for income taxes for the years ended December 31, 1997, 1996 and 1995, was \$131,052, \$107,065 and \$82,561, 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 retained earnings. 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 Held for Securitization

Consumer loans held for securitization are loans which management intends to securitize, generally within three to six months, and are carried at the lower of aggregate cost or market value.

Consumer Loans

Interest income is generally recognized until a loan is charged off. The accrued interest and fee portions of a charged off loan balance are deducted from current period income with the remaining principal balance charged off against the allowance for loan losses. In the fourth quarter of 1997, the Company recognized the estimated uncollectible portion of finance charge and fee income receivables, which decreased loans and pre-tax income by \$50,200. In addition, in the fourth quarter of 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, 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. Earlier charge-offs may occur on accounts of bankrupt or deceased consumers. 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 \$98,619 and \$58,059 as of December 31, 1997 and 1996, respectively.

Allowance for Loan Losses

The allowance for loan losses is maintained at the amount estimated to be sufficient to absorb possible future losses, net of recoveries (including recovery of collateral), inherent in the existing on-balance sheet loan portfolio. The provision for loan losses is the periodic cost of maintaining an adequate allowance. In evaluating the adequacy of the allowance for loan losses, management takes into consideration several of the following factors: historical charge-off and recovery activity (noting any particular trend changes over recent periods); trends in delinquencies; trends in loan volume and size of credit risks; the degree of risk inherent in the composition of the loan portfolio; current and anticipated economic conditions; credit evaluations and underwriting policies.

Securitizations

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). The Company records gains or losses on the securitization of consumer loan receivables based on the estimated fair value of assets obtained 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. 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. 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.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization (\$149,215 and \$99,104 as of December 31, 1997 and 1996, respectively). Depreciation and amortization expense are computed generally by the straight-line method over the estimated useful lives of the assets.

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.

Earnings Per Share

In February 1997, the FASB issued SFAS No. 128, "Earnings per Share" ("SFAS 128"). SFAS 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, 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 similar to the previously reported fully diluted earnings per share and is based on the weighted average number of common and common equivalent shares, including dilutive stock options and restricted stock outstanding during the year. Earnings per share amounts for all periods have been restated to conform to SFAS 128 requirements.

Interest Rate Swap Agreements

The Company enters into interest rate swap agreements ("swaps") for purposes of managing its interest rate sensitivity. The Company designates swaps to on-balance sheet instruments to alter the interest rate characteristics of such instruments and to modify interest rate sensitivity. The Company also designates swaps to off-balance sheet items to reduce the interest rate sensitivity associated with off-balance sheet cash flows (i.e., securitizations).

Swaps involve the periodic exchange of payments over the life of the agreements. Amounts received or paid on 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. The related amount receivable from counterparties of \$2,771 and \$41,548 as of December 31, 1997 and 1996, respectively, was included in other assets. Changes in the fair value of swaps are not reflected in the accompanying financial statements, where designated to existing or anticipated assets or liabilities and where swaps effectively modify or reduce interest rate sensitivity.

Realized and unrealized gains or losses at the time of maturity, termination, sale or repayment of a swap or designated item are recorded in a manner consistent with the original designation of the swap. Amounts are deferred and amortized as an adjustment to interest expense over the original period of interest exposure, provided the designated asset or liability continues to exist or is probable of occurring. Realized and unrealized changes in fair value of swaps, 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.

The Company's credit exposure on swaps is limited to the value of the swaps that have become favorable to the Company in the event of nonperformance by the 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. The Company actively monitors the credit ratings of counterparties and does not anticipate nonperformance by the counterparties with which it transacts its swaps.

Note B: Securities Available for Sale

Securities available for sale as of December 31, 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, 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 |
| | \$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 |
| | \$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, 1997 | | | | |
| Commercial paper | 6.05% | | | |
| U.S. Treasury and other U.S. government agency obligations | 6.79 | 6.24% | 8.69% | |
| Collateralized mortgage obligations | | | | 6.96% |
| Mortgage backed securities | | 5.17 | | 7.03 |
| Other | | 6.03 | 6.39 | 6.22 |
| | 6.55% | 6.21% | 8.29% | 6.70% |

Securities available for sale as of December 31, 1995 consisted of U.S. government agency obligations with an amortized cost of \$402,250.

Note C: Allowance for Loan Losses

The following is a summary of changes in the allowance for loan losses:

| | Year Ended December 31 | | |
|---|------------------------|------------|-----------|
| | 1997 | 1996 | 1995 |
| Balance at beginning of year | \$ 118,500 | \$ 72,000 | \$ 68,516 |
| Provision for loan losses | 262,837 | 167,246 | 65,895 |
| Transfer to loans held for securitization | (2,770) | (27,887) | (11,504) |
| Increase from consumer loan purchase | | 9,000 | |
| Charge-offs | (223,029) | (115,159) | (64,260) |
| Recoveries | 27,462 | 13,300 | 13,353 |
| Net charge-offs | (195,567) | (101,859) | (50,907) |
| Balance at end of year | \$ 183,000 | \$ 118,500 | \$ 72,000 |

Note D: Borrowings

Borrowings as of December 31, 1997 and 1996 were as follows:

| | 1997 | | 1996 | |
|---|-------------|-----------------------|-------------|-----------------------|
| | Outstanding | Weighted Average Rate | Outstanding | Weighted Average Rate |
| Interest-bearing deposits | \$1,313,654 | 4.49% | \$ 943,022 | 4.31% |
| Other borrowings | | | | |
| Federal funds purchased and resale agreements | \$ 705,863 | 5.75% | \$ 445,600 | 6.26% |
| Other | 90,249 | 7.09 | 85,383 | 6.43 |
| Total | \$ 796,112 | | \$ 530,983 | |
| Senior notes | | | | |
| Bank--fixed rate | \$2,793,778 | 7.03% | \$3,140,237 | 7.31% |
| Bank--variable rate | 414,000 | 6.19 | 429,000 | 5.99 |
| Corporation | 125,000 | 7.25 | 125,000 | 7.25 |
| Total | \$3,332,778 | | \$3,694,237 | |

Deposit notes

| | | | | |
|---------------|-----------|-------|-----------|-------|
| Fixed rate | \$224,996 | 6.71% | \$224,996 | 6.71% |
| Variable rate | 75,000 | 6.15 | 75,000 | 5.86 |
| ===== | | | | |
| Total | \$299,996 | | \$299,996 | |
| ----- | | | | |

As of December 31, 1997, the aggregate amount of interest-bearing deposits with accounts exceeding \$100 was \$228,428. 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. Each tranche under the facility is structured as a four-year commitment and is available for general corporate purposes. 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. Any borrowings under the Credit Facility will mature on November 24, 2000; however, the final maturity of each tranche may be extended for three additional one-year periods. As of December 31, 1997 and 1996, 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"), which will be used 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 (pound)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 (pound)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. Each tranche under the facility is structured as a three-year commitment and will be available for general corporate purposes. 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. As of December 31, 1997, the Company had no outstandings under the UK/Canada Facility.

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 \$7,800,000 of senior bank notes with maturities from thirty days to thirty years and up to \$200,000 of subordinated bank notes (none issued as of December 31, 1997 and 1996) 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 (none issued as of December 31, 1997). Instruments under this program may be denominated in any currency or currencies.

In September 1996, the Corporation filed a \$200,000 shelf registration statement (\$125,000 of senior debt securities issued as of December 31, 1997) with the Securities and Exchange Commission 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 securities will be limited to a \$200,000 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.

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, 1997, the interest rate on these securities was 7.30%.

The Company has entered into swaps to effectively convert certain interest rates on bank notes from fixed to variable. The swaps, which had a notional amount totaling \$450,000 as of December 31, 1997, will mature in 1998 and 2000 to coincide with maturities of fixed bank notes. In 1997, the Company entered into swaps with notional amounts totaling \$450,000 to effectively offset the swaps described above with matching maturities and terms which pay fixed and receive variable rates. As of December 31, 1997, the variable rate payments on the original and offsetting swaps were matched and will continue to offset each other through maturity. As of December 31, 1997, the weighted average fixed rate payment received on the original swaps was 7.39%, and the weighted average fixed rate payment paid on the offsetting swaps was 6.50%.

As of December 31, 1996, swaps with a notional amount totaling \$974,000, with maturity dates from 1997 through 2000, paid three-month LIBOR at a weighted average contractual rate of 5.59% and received a weighted average fixed rate of 7.71%. In 1995, the Bank entered into basis swaps (notional amounts totaling \$260,000) to effectively convert bank notes, with a variable rate based on six-month LIBOR to a variable rate based on three-month LIBOR. These swaps and bank notes matured in 1996.

Interest-bearing deposits, senior notes and deposit notes as of December 31, 1997, mature as follows (all other borrowings mature in 1998):

| | Interest-Bearing Deposits | Senior Notes | Deposit Notes | Total |
|------------|------------------------------|--------------|---------------|-------------|
| 1998 | \$1,129,742 | \$ 918,166 | \$299,996 | \$2,347,904 |
| 1999 | 95,901 | 789,978 | | 885,879 |
| 2000 | 48,979 | 649,614 | | 698,593 |
| 2001 | 4,898 | 523,114 | | 528,012 |
| 2002 | 34,134 | 112,000 | | 146,134 |
| Thereafter | | 339,906 | | 339,906 |
| Total | \$1,313,654 | \$3,332,778 | \$299,996 | \$4,946,428 |

Note E: Associate Benefit 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 \$10,264, \$9,048 and \$2,701 for the years ended December 31, 1997, 1996 and 1995, respectively. Effective January 1, 1996, the Company is required to make additional contributions for pay-based credits for eligible associates which were previously provided under the Cash Balance Pension Plan.

Through December 31, 1995, the Company provided its associate pension benefits through the Cash Balance Pension Plan and postretirement medical coverage and life insurance benefits through the Associate Welfare Benefits Plan. Effective December 31, 1995, the Company amended the Cash Balance Pension Plan so that no future pay-based credits will accrue. Future pay-based credits will accrue to the Associate Savings Plan discussed above. Neither the remaining obligations under the Cash Balance Pension Plan nor the obligations under the unfunded Associate Welfare Benefits Plan were material to the Company's financial statements.

Note F: Stock Plans

The Company has three stock-based compensation plans which are described below. 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 stock 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.

| Assumptions | For the Years Ended December 31 | | |
|--|---------------------------------|-------|-------|
| | 1997 | 1996 | 1995 |
| Dividend yield | .82% | .90% | .90% |
| Volatility factors of expected market price of stock | 40% | 32% | 33% |
| Risk-free interest rate | 6.27% | 5.90% | 6.30% |
| Expected option lives (in years) | 4.5 | 6.0 | 4.0 |

Pro Forma Information

| | | | |
|----------------------------|-----------|-----------|-----------|
| Net income | \$186,003 | \$151,853 | \$125,296 |
| Basic earnings per share | \$ 2.82 | \$ 2.29 | \$ 1.91 |
| Diluted earnings per share | \$ 2.74 | \$ 2.27 | \$ 1.89 |

Under the 1994 Stock Incentive Plan, the Company has reserved 7,370,880 common shares as of December 31, 1997 and 1996 (5,370,880 as of December 31, 1995) 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. The option's maximum term is ten years. The number of shares available for future grants was 97,814; 1,508,352 and 2,061,640 as of December 31, 1997, 1996 and 1995, respectively. Other than the performance-based options discussed below, options generally vest annually over three to five years and expire beginning November 2004 and all options vest immediately upon a change in control. The restrictions on restricted stock (of which 23,215 shares were issued in 1995 at the then fair value of \$16.75 per share) expire annually over three years.

In December 1997, the Company's Board of Directors approved a compensation program under which senior management was given the opportunity to forego future cash compensation in exchange for stock options. Under this program, the Company's Chairman and Chief Executive Officer and its President and Chief Operating Officer have agreed to forego all salary and any benefits under the Associate Stock Purchase Plan (the "Purchase Plan"), Associate Savings Plan, and the Company's unfunded excess savings plan benefits from 1998 through 2000 in exchange for a one-time option grant. The options granted to these top two executives are target stock price performance-based options to purchase a total of 685,755 shares. These options will vest if the fair market value of the common stock remains at or above \$84.00 for at least ten trading days in any thirty consecutive calendar day period by the third anniversary of the grant date (December 18, 2000). In the event that these options do not meet this vesting criteria on or before December 18, 2000, the options will terminate. In addition, substantially all of the Company's top managers elected to forego a portion of their annual cash bonuses and Associate Savings Plan benefits for the next three years in exchange for options. Under this program, certain key managers received target stock price performance-based options to purchase 457,466 shares with the same vesting provisions as the grant to the Company's top two executives. In addition, other senior managers received fixed options to purchase 223,900 shares, which vest in full on the third anniversary of the date of grant. The above option grants provide for the purchase of common shares at the December 18, 1997 market price of \$48.75 per share. All of these awards are subject to stockholder approval at the Company's next annual meeting of an increase in shares available for issuance under the 1994 Stock Incentive Plan in sufficient number to accommodate these awards.

In April 1996, stockholders approved an increase of 2,000,000 in shares available for issuance under the 1994 Stock Incentive Plan. With this approval, a September 15, 1995 grant to the Company's Chairman and Chief Executive Officer and its President and Chief Operating Officer became effective. This grant was for target stock price 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; the remaining 25% vested in January 1998 when the stock reached \$50.00 per share. The Company recognized \$24,772 and \$7,728 of compensation cost for these options for the years ended December 31, 1997 and 1996, respectively.

In April 1995, the Company adopted the 1995 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, 1997, 1996 and 1995, 382,500; 417,500 and 452,500 shares were available for grant under this plan, respectively. The options vest after one year and their maximum term is ten years. Restrictions on the restricted stock (of which 12,500 shares were issued in 1995 at the then fair value of \$19.88 per share) expired in 1996. The exercise price of each option equals the market price of the Company's stock on the date of grant.

A summary of the status of the Company's options as of December 31, 1997, 1996 and 1995, and changes for the years then ended is presented below (excluding the December 1997 grants subject to stockholder approval):

| | 1997 | | 1996 | | 1995 | |
|--|-------------------|---|-------------------|---|-------------------|---|
| | 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 | 5,894 | \$23.92 | 3,315 | \$19.67 | 2,036 | \$16.00 |
| Granted | 1,590 | 40.88 | 2,694 | 29.04 | 1,361 | 25.08 |
| Exercised | (215) | 20.76 | (12) | 16.40 | (6) | 16.00 |
| Canceled | (144) | 30.16 | (103) | 21.82 | (76) | 18.25 |
| Outstanding at end of year | 7,125 | \$27.67 | 5,894 | \$23.92 | 3,315 | \$19.67 |
| Exercisable at end of year | 3,815 | \$24.43 | 1,196 | \$18.98 | 454 | \$16.00 |
| Weighted-average fair value of options granted during the year | | \$16.03 | | \$11.22 | | \$ 8.19 |

The following table summarizes information about options outstanding as of December 31, 1997:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|-----------------------------|---------------------------------|---|---|---------------------------------|---|
| | Number Outstanding (000s) | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price Per Share | Number Exercisable (000s) | Weighted-Average Exercise Price Per Share |
| \$16.00-\$24.99 | 2,240 | 6.93 years | \$16.52 | 1,406 | \$16.38 |
| \$25.00-\$33.99 | 3,352 | 7.73 | 29.08 | 2,409 | 29.13 |
| \$34.00-\$47.99 | 1,533 | 9.52 | 40.90 | | |

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 have been authorized for issuance under the Purchase Plan, of which 682,427; 822,001 and 934,355 shares were available for issuance as of December 31, 1997, 1996 and 1995, respectively.

Pursuant to a Marketing and Management Services Agreement between Signet Bank (which has since been acquired by First Union Bank on November 30, 1997) and Fairbank Morris, Inc. ("FMI"), a corporation controlled by members of the Company's executive management, 464,400 shares of restricted stock, at the then fair value of \$16.00 per share, were awarded to FMI for services rendered for the period from January 1, 1994 to December 31, 1995. In connection with this award, \$3,715 in compensation cost was recognized in 1995. The restrictions on this stock expired on November 15, 1995, one year after the grant date.

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. 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 over the next two years in order to mitigate the dilutive impact of shares issuable under its benefit plans, including its Purchase Plan, dividend reinvestment and stock purchase plans and other incentive plans. During 1997, the Company repurchased 1,318,641 shares 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 | | |
|----------------------------------|------------------------|------------------|-----------------|
| | 1997 | 1996 | 1995 |
| Professional services | \$ 47,671 | \$ 43,968 | \$28,787 |
| Collections | 23,216 | 9,783 | 7,193 |
| Fraud losses | 16,749 | 26,773 | 27,721 |
| Bankcard association assessments | 16,074 | 15,045 | 13,116 |
| Other | 47,570 | 36,614 | 20,726 |
| Total | \$151,280 | \$132,183 | \$97,543 |

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, 1997 and 1996 were as follows:

| | December 31 | |
|--|------------------|-----------------|
| | 1997 | 1996 |
| Deferred tax assets: | | |
| Allowance for loan losses | \$ 60,900 | \$41,475 |
| Finance charge and fee income receivables | 17,570 | |
| Stock incentive plan | 11,466 | 2,758 |
| Unearned membership fees | 5,600 | 310 |
| State taxes, net of federal benefit | 2,694 | |
| Other | 11,290 | 7,232 |
| Total deferred tax assets | 109,520 | 51,775 |
| Deferred tax liabilities: | | |
| Securitizations | 26,822 | |
| Service charge accrual | 10,167 | 5,368 |
| Deferred issuance and replacement costs | 4,442 | 3,119 |
| Depreciation | 4,235 | 2,546 |
| Other | 456 | 542 |
| Total deferred tax liabilities | 46,122 | 11,575 |
| Net deferred tax assets before unrealized gains on securities available for sale | 63,398 | 40,200 |
| Unrealized gains on securities available for sale | (1,602) | (1,121) |
| Net deferred tax assets | \$ 61,796 | \$39,079 |

Significant components of the provision for income taxes attributable to continuing operations were as follows:

| | Year Ended December 31 | | |
|-----------------------|------------------------|------------------|-----------------|
| | 1997 | 1996 | 1995 |
| Federal taxes | \$138,877 | \$119,027 | \$63,162 |
| State taxes | 393 | 1,715 | 600 |
| Deferred income taxes | (23,198) | (27,529) | 7,458 |
| Income taxes | \$116,072 | \$ 93,213 | \$71,220 |

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 | | |
|--|------------------------|--------|--------|
| | 1997 | 1996 | 1995 |
| Income tax at statutory federal tax rate | 35.00% | 35.00% | 35.00% |
| Other, primarily state taxes | 3.00 | 2.50 | 1.00 |
| Income taxes | 38.00% | 37.50% | 36.00% |

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 | | |
|--|------------------------|-----------|-----------|
| | 1997 | 1996 | 1995 |
| Numerator: | | | |
| Net income | \$189,381 | \$155,267 | \$126,511 |
| Denominator: | | | |
| Denominator for basic earnings per share-- | | | |
| Weighted-average shares | 66,070 | 66,228 | 65,691 |
| Effect of dilutive securities: | | | |
| Stock options | 1,578 | 790 | 391 |
| Restricted stock | 3 | 8 | 310 |
| Dilutive potential common shares | 1,581 | 798 | 701 |
| Denominator for diluted earnings per share-- | | | |
| Adjusted weighted-average shares | 67,651 | 67,026 | 66,392 |
| Basic earnings per share | \$ 2.87 | \$ 2.34 | \$ 1.93 |
| Diluted earnings per share | \$ 2.80 | \$ 2.32 | \$ 1.91 |

For additional disclosures regarding the outstanding stock options and restricted stock, see Note F.

Options to purchase 949,484; 20,725 and 829,855 shares of common stock during 1997, 1996 and 1995, respectively, at prices ranging from \$23.38 to \$47.94 per share, 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: 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 as calculated under Regulatory Accounting Principles. The inability to meet and maintain minimum capital adequacy levels could result in 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.

As of December 31, 1997 and 1996, notifications 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, 1997, 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, 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 |
| ----- | | | |
| December 31, 1996 | | | |
| Capital One Bank | | | |
| Tier 1 Capital | 11.61% | 4.00% | 6.00% |
| Total Capital | 12.87 | 8.00 | 10.00 |
| Tier 1 Leverage | 9.04 | 4.00 | 5.00 |
| Capital One, F.S.B.(1) | | | |
| Tangible Capital | 9.18% | 1.50% | 6.00% |
| Total Capital | 16.29 | 12.00 | 10.00 |
| Core Capital | 9.18 | 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 such branch in the United Kingdom, the Company will maintain a minimum Tier 1 Leverage ratio of 3.0%. As of December 31, 1997 and 1996, the Company's Tier 1 Leverage ratio was 13.83% and 11.13%, 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, 1997, retained earnings of the Bank and the Savings Bank of \$99,600 and \$24,800, 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 K: Commitments and Contingencies

As of December 31, 1997, the Company had outstanding lines of credit of approximately \$33,800,000 committed to its customers. Of that total commitment, approximately \$19,600,000 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 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 2006, 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 \$13,644, \$12,603 and \$5,394 for the years ended December 31, 1997, 1996 and 1995, respectively.

Future minimum rental commitments as of December 31, 1997 for all non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

| | |
|------------|----------|
| 1998 | \$15,362 |
| 1999 | 13,881 |
| 2000 | 12,720 |
| 2001 | 8,388 |
| 2002 | 3,298 |
| Thereafter | 4,798 |
| | <hr/> |
| Total | \$58,447 |

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 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 judgments 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 February 1997, the California court entered judgment in favor of the Bank on all of the plaintiffs' claims. The plaintiffs have appealed the ruling to the California Court of Appeal First Appellate District Division 4, and the appeal is pending.

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 L: 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 collectability.

Note M: Securitizations

The Company securitized \$2,114,695, \$2,695,000 and \$3,525,000 of consumer loan receivables in 1997, 1996 and 1995, respectively. As of December 31, 1997, receivables under securitizations outstanding consisted of \$1,257,869 of retained ("seller's") interests and \$9,369,328 of investors' undivided interests, maturing from 1998 to 2004. The gains on securitizations and other income from securitizations are included in servicing and securitizations income.

The Company has entered into swaps to reduce the interest rate sensitivity associated with these securitizations. The swaps, which had a notional amount totaling \$591,000 as of December 31, 1997, will mature in 1998 and 1999 to coincide with the final payment of a 1995 securitization. In 1997, the Company entered into swaps with notional amounts totaling \$591,000 to effectively offset the swaps described above with matching maturities and terms which pay fixed and receive variable rates. As of December 31, 1997, the variable rate payments on the original and offsetting swaps were matched and will continue to offset each other through maturity. As of December 31, 1997, the weighted average fixed rate payment received on the original swaps was 7.68%, and the weighted average fixed rate payment paid on the offsetting swaps was 6.52%.

As of December 31, 1996, swaps with a notional amount totaling \$1,130,000, with maturity dates from 1997 through 1999, paid three-month LIBOR at a weighted average contractual rate of 5.55% and received a weighted average fixed rate of 7.23%.

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 securitization and was \$231,809 and \$266,813 as of December 31, 1997 and 1996, respectively.

Note N: 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. Foreign denominated consumer loans are included in the "Other" geographic region loan category. The geographic distribution of the Company's consumer loans was as follows:

| Geographic Region: | Year Ended December 31 | | | |
|---------------------------|------------------------|---------|--------------|---------|
| | 1997 | | 1996 | |
| | Loans | % | Loans | % |
| South | \$ 5,061,414 | 35.57% | \$ 4,615,596 | 36.05% |
| West | 3,361,556 | 23.62 | 3,277,717 | 25.60 |
| Northeast | 2,835,256 | 19.92 | 2,465,237 | 19.25 |
| Midwest | 2,533,469 | 17.80 | 2,386,918 | 18.64 |
| Other | 439,320 | 3.09 | 58,501 | .46 |
| | 14,231,015 | 100.00% | 12,803,969 | 100.00% |
| Less securitized balances | (9,369,328) | | (8,460,067) | |
| Total loans | \$ 4,861,687 | | \$ 4,343,902 | |

Note O: Disclosures About Fair Value of Financial Instruments

The following discloses the fair value of financial instruments as of December 31, 1997 and 1996, whether or not recognized in the balance sheets, for which it is practical to estimate fair value. 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 nonfinancial 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 as of December 31, 1997 and 1996, for its financial instruments:

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.

Borrowings

The carrying amounts of interest-bearing deposits, other borrowings and deposit notes approximated fair value. The fair value of senior notes was \$3,351,000 and \$3,722,000 as of December 31, 1997 and 1996, respectively, determined based on quoted market prices.

Interest Payable

The carrying amount approximated fair value.

Swaps

The fair value was the estimated amount that the Company would have received to terminate the swaps at the respective dates, taking into account the forward yield curve. As of December 31, 1997 and 1996, the estimated fair value was \$5,800 and \$32,700, respectively.

Note P: Capital One Financial Corporation (Parent Company Only) Condensed
Financial Information

| Balance Sheets | December 31 | |
|--|-------------|------------|
| | 1997 | 1996 |
| ----- | | |
| Assets: | | |
| Cash and cash equivalents | \$ 203 | \$ 16,073 |
| Investment in subsidiaries | 818,518 | 748,365 |
| Loans to subsidiaries | 207,507(1) | 105,000 |
| Other | 5,001 | 2,333 |
| | ----- | |
| Total assets | \$1,031,229 | \$ 871,771 |
| ----- | | |
| Liabilities: | | |
| Senior notes | \$ 125,000 | \$ 125,000 |
| Other | 12,970 | 6,380 |
| | ----- | |
| Total liabilities | 137,970 | 131,380 |
| ----- | | |
| Stockholders' Equity: | | |
| | 893,259 | 740,391 |
| Total liabilities and stockholders' equity | \$1,031,229 | \$ 871,771 |
| ----- | | |

(1) As of December 31, 1997, includes \$143,500 of cash invested at the Bank instead of the open market.

| Statements of Income | Year Ended December 31 | | |
|---|------------------------|------------|------------|
| | 1997 | 1996 | 1995 |
| ----- | | | |
| Interest from temporary investments | \$ 11,352 | \$ 2,296 | \$ 560 |
| Interest expense | 11,067 | 3,013 | |
| Dividends, principally from bank subsidiaries | 228,000 | 117,400 | 11,000 |
| Non-interest income | 56 | | |
| Non-interest expense | 409 | 571 | 456 |
| | ----- | | |
| Income before income taxes and equity in undistributed earnings of subsidiaries | 227,932 | 116,112 | 11,104 |
| Income taxes | (25) | (490) | 37 |
| | ----- | | |
| | 227,957 | 116,602 | 11,067 |
| Equity in undistributed earnings of subsidiaries | (38,576) | 38,665 | 115,444 |
| | ----- | | |
| Net income | \$ 189,381 | \$ 155,267 | \$ 126,511 |
| ----- | | | |

Year Ended December 31

| Statements of Cash Flows | 1997 | 1996 | 1995 |
|---|------------|------------|------------|
| <hr/> | | | |
| Operating Activities: | | | |
| Net income | \$ 189,381 | \$ 155,267 | \$ 126,511 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in undistributed earnings of subsidiaries | 38,576 | (38,665) | (115,444) |
| Amortization of deferred compensation | | 62 | 4,020 |
| (Increase) decrease in other assets | (2,183) | 2,017 | (3,161) |
| Increase (decrease) in other liabilities | 6,590 | 6,380 | (1,054) |
| <hr/> | | | |
| Net cash provided by operating activities | 232,364 | 125,061 | 10,872 |
| Investing Activities: | | | |
| Increase in investment in subsidiaries | (83,366) | (119,502) | (2,470) |
| Increase in loans to subsidiaries | (102,507) | (105,000) | |
| <hr/> | | | |
| Net cash used for investing activities | (185,873) | (224,502) | (2,470) |
| Financing Activities: | | | |
| Proceeds from issuances of common stock | 4,957 | 3,109 | 1,257 |
| Proceeds from exercise of stock options | 4,082 | 186 | 132 |
| Issuance of senior notes | | 125,000 | |
| Purchases of treasury stock | (50,762) | | |
| Dividends paid | (20,638) | (20,573) | (15,883) |
| <hr/> | | | |
| Net cash (used for) provided by financing activities | (62,361) | 107,722 | (14,494) |
| (Decrease) increase in cash and cash equivalents | (15,870) | 8,281 | (6,092) |
| Cash and cash equivalents at beginning of year | 16,073 | 7,792 | 13,884 |
| <hr/> | | | |
| Cash and cash equivalents at end of year | \$ 203 | \$ 16,073 | \$ 7,792 |
| <hr/> | | | |

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 15, 1998, included in the 1997 Annual Report to Stockholders of Capital One Financial Corporation.

We also consent to the incorporation by reference in the following Registration Statements of our report dated January 15, 1998, 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, 1997:

| 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 |

ERNST & YOUNG LLP

Washington, D.C.
March 17, 1998