CAPITAL ONE FINANCIAL CORP
Form 10-Q
November 10, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended September 30, 2008.

¨ 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	**54-1719854**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
1680 Capital One Drive McLean, Virginia	**22102**
(Address of Principal Executive Offices)	**(Zip Code)**

(703) 720-1000

Registrant s telephone number, including area code:

(Not applicable)

(Former name, former address and former fiscal year, if changed since last report)

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 ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b of the Exchange Act. (Check One):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.) Yes ¨ No x

As of October 31, 2008 there were 391,658,174 shares of the registrant s Common Stock, par value $.01 per share, outstanding.

Table of Contents

CAPITAL ONE FINANCIAL CORPORATION

FORM 10-Q

INDEX

September 30, 2008

		Page
PART 1. FINANCIAL INFORMATION		3
Item 1	Financial Statements (unaudited):	3
	Consolidated Balance Sheets	3
	Consolidated Statements of Income	4
	Consolidated Statements of Changes in Stockholders Equity	5
	Consolidated Statements of Cash Flows	8
	Notes to Consolidated Financial Statements	9
Item 2	Management s Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3	Quantitative and Qualitative Disclosure of Market Risk	56
Item 4	Controls and Procedures	56
PART 2. OTHER INFORMATION		56
Item 1	Legal Proceedings	56
Item 1 A	Risk Factors	56
Item 2	Unregistered Sales of Equity Securities and Use of Proceeds	59
Item 6	Exhibits	59
	Signatures	62

Table of Contents

Part 1. Financial Information

Item 1. ***Financial Statements***

CAPITAL ONE FINANCIAL CORPORATION

Consolidated Balance Sheets

(Dollars in thousands, except share and per share data) (unaudited)

	September 30, 2008	December 31, 2007
Assets:		
Cash and due from banks	**$ 3,511,558**	$ 2,377,287
Federal funds sold and resale agreements	**1,435,521**	1,766,762
Interest-bearing deposits at other banks	**673,662**	677,360
Cash and cash equivalents	**5,620,741**	4,821,409
Securities available for sale	**26,969,471**	19,781,587
Mortgage loans held for sale	**98,900**	315,863
Loans held for investment	**97,965,351**	101,805,027
Less: Allowance for loan and lease losses	**(3,519,610)**	(2,963,000)
Net loans held for investment	**94,445,741**	98,842,027
Accounts receivable from securitizations	**4,980,823**	4,717,879
Premises and equipment, net	**2,305,286**	2,299,603
Interest receivable	**750,717**	839,317
Goodwill	**12,815,642**	12,830,740
Other	**6,815,792**	6,141,944
Total assets	**$ 154,803,113**	$ 150,590,369
Liabilities:		
Non-interest-bearing deposits	**$ 10,665,286**	$ 11,046,549
Interest-bearing deposits	**88,247,688**	71,714,627
Total deposits	**98,912,974**	82,761,176
Senior and subordinated notes	**8,278,856**	10,712,706
Other borrowings	**15,962,072**	26,812,969
Interest payable	**508,091**	631,609
Other	**5,529,580**	5,377,797
Total liabilities	**129,191,573**	126,296,257
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 1,000,000,000 shares, 438,305,214 and 419,224,900 issued as of September 30, 2008 and December 31, 2007, respectively	**4,383**	4,192
Paid-in capital, net	**16,752,078**	15,860,490
Retained earnings	**12,222,170**	11,267,568
Cumulative other comprehensive income (loss)	**(201,680)**	315,248

Less: Treasury stock, at cost; 46,621,721 shares and 46,370,635 shares as of September 30, 2008 and December 31, 2007, respectively	**(3,165,411)**	(3,153,386)
Total stockholders equity	**25,611,540**	24,294,112
Total liabilities and stockholders equity	**$ 154,803,113**	$ 150,590,369

See Notes to Consolidated Financial Statements.

Table of Contents

CAPITAL ONE FINANCIAL CORPORATION

Consolidated Statements of Income

(Dollars in thousands, except per share data) (unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
Interest Income:				
Loans held for investment, including past-due fees	**$ 2,347,480**	$ 2,381,096	**$ 7,153,582**	$ 6,963,349
Securities available for sale	**317,274**	252,550	**856,110**	694,608
Other	**107,042**	133,321	**333,486**	460,005
Total interest income	**2,771,796**	2,766,967	**8,343,178**	8,117,962
Interest Expense:				
Deposits	**624,319**	740,091	**1,827,284**	2,220,177
Senior and subordinated notes	**96,568**	144,643	**352,335**	417,250
Other borrowings	**244,264**	257,759	**817,241**	712,937
Total interest expense	**965,151**	1,142,493	**2,996,860**	3,350,364
Net interest income	**1,806,645**	1,624,474	**5,346,318**	4,767,598
Provision for loan and lease losses	**1,093,917**	595,534	**3,002,119**	1,342,292
Net interest income after provision for loan and lease losses	**712,728**	1,028,940	**2,344,199**	3,425,306
Non-Interest Income:				
Servicing and securitizations	**875,718**	1,354,303	**2,793,520**	3,569,281
Service charges and other customer-related fees	**576,762**	522,374	**1,675,032**	1,484,820
Mortgage servicing and other	**39,183**	52,661	**90,990**	172,476
Interchange	**148,076**	103,799	**432,708**	347,889
Other	**57,152**	116,525	**383,435**	321,417
Total non-interest income	**1,696,891**	2,149,662	**5,375,685**	5,895,883
Non-Interest Expense:				
Salaries and associate benefits	**571,686**	627,358	**1,761,538**	1,970,433
Marketing	**267,372**	332,693	**853,265**	989,654
Communications and data processing	**176,720**	194,551	**559,065**	569,405
Supplies and equipment	**126,781**	134,639	**389,649**	384,971
Occupancy	**96,483**	77,597	**264,700**	230,835
Restructuring expense	**15,306**	19,354	**81,625**	110,428
Other	**555,858**	548,029	**1,542,242**	1,687,077
Total non-interest expense	**1,810,206**	1,934,221	**5,452,084**	5,942,803
Income from continuing operations before income taxes	**599,413**	1,244,381	**2,267,800**	3,378,386
Income taxes	**213,624**	428,010	**786,958**	1,108,279
Income from continuing operations, net of tax	**385,789**	816,371	**1,480,842**	2,270,107
Loss from discontinued operations, net of tax	**(11,650)**	(898,029)	**(105,294)**	(926,343)
Net income (loss)	**$ 374,139**	$ (81,658)	**$ 1,375,548**	$ 1,343,764

Basic earnings per share:						
Income from continuing operations	**$ 1.03**	$ 2.11	**$ 3.98**	$ 5.74		
Loss from discontinued operations	**(0.03)**	(2.32)	**(0.28)**	(2.34)		
Net income (loss)	**$ 1.00**	$ (0.21)	**$ 3.70**	$ 3.40		
Diluted earnings per share:						
Income from continuing operations	**$ 1.03**	$ 2.09	**$ 3.96**	$ 5.66		
Loss from discontinued operations	**(0.03)**	(2.30)	**(0.28)**	(2.31)		
Net income (loss)	**$ 1.00**	$ (0.21)	**$ 3.68**	$ 3.35		
Dividends paid per share	**$ 0.375**	$ 0.03	**$ 1.125**	$ 0.08		

See Notes to Consolidated Financial Statements.

Table of Contents

CAPITAL ONE FINANCIAL CORPORATION

Consolidated Statements of Changes in Stockholders Equity

(Dollars in thousands, except per share data) (unaudited)

	Common Stock						
(In Thousands, Except Per Share Data)	**Shares**	**Amount**	**Paid-In Capital, Net**	**Retained Earnings**	**Cumulative Other Comprehensive Income (Loss)**	**Treasury Stock**	**Total Stockholders Equity**
Balance, December 31, 2006	412,219,973	$ 4,122	$ 15,333,137	$ 9,760,184	$ 266,180	$ (128,417)	$ 25,235,206
Cumulative effect from adoption of FIN 48				(31,830)			(31,830)
Cumulative effect from adoption of FAS 156, net of income taxes of $6,378				8,809			8,809
Comprehensive income:							
Net income				1,343,764			1,343,764
Other comprehensive income, net of income tax:							
Unrealized loss on securities, net of income taxes benefit of $5,436					(1,560)		(1,560)
Defined benefit pension plans					(2,028)		(2,028)
Foreign currency translation adjustments					127,754		127,754
Unrealized losses on cash flow hedging instruments, net of income tax of $22,833					(44,162)		(44,162)
Other comprehensive income					80,004		80,004
Comprehensive income							1,423,768
Cash dividends-$.08 per share				(31,885)			(31,885)
Purchase of treasury stock						(2,252,665)	(2,252,665)
Issuances of common stock and restricted stock, net of forfeitures	1,234,190	13	28,023				28,036

Table of Contents

(In Thousands, Except Per Share Data)	Common Stock Shares	Common Stock Amount	Paid-In Capital, Net	Retained Earnings	Cumulative Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders Equity
Exercise of stock options and related tax benefits of exercises and restricted stock vesting	5,030,089	49	273,708				273,757
Compensation expense for restricted stock awards and stock options			139,379				139,379
Adjustment to issuance of common stock for acquisition	(137,258)	(1)	(10,463)				(10,464)
Allocation of ESOP shares			4,741				4,741
Balance, September 30, 2007	418,346,994	$ 4,183	$ 15,768,525	$ 11,049,042	$ 346,184	$ (2,381,082)	$ 24,786,852
Balance, December 31, 2007	**419,224,900**	**$ 4,192**	**$ 15,860,490**	**$ 11,267,568**	**$ 315,248**	**$ (3,153,386)**	**$ 24,294,112**
Adjustment to initially apply the measurement date provisions of FAS 158, net of income tax benefit of $317				**572**	**(1,161)**		**(589)**
Comprehensive income:							
Net income				**1,375,548**			**1,375,548**
Other comprehensive income, net of income tax:							
Unrealized losses on securities, net of income tax benefit of $61,993					**(269,022)**		**(269,022)**
Defined benefit pension plans, net of income tax benefit of $701					**(4,032)**		**(4,032)**
Foreign currency translation adjustments					**(253,790)**		**(253,790)**
Unrealized gains in cash flow hedging instruments, net of income tax of $6,774					**11,077**		**11,077**
Other comprehensive income (loss)					**(515,767)**		**(515,767)**
Comprehensive income							**859,781**
Cash dividends - $0.375 per share				**(421,518)**			**(421,518)**
Purchase of treasury stock						**(12,025)**	**(12,025)**

Table of Contents

(In Thousands, Except Per Share Data)	Common Stock Shares	Common Stock Amount	Paid-In Capital, Net	Retained Earnings	Cumulative Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders Equity
Issuances of common stock and restricted stock, net of forfeitures	**17,170,062**	**172**	**758,602**				**758,774**
Exercise of stock options and tax benefits of exercises and restricted stock vesting	**1,910,252**	**19**	**60,699**				**60,718**
Compensation expense for restricted stock awards and stock options			**67,576**				**67,576**
Allocation of ESOP shares			**4,711**				**4,711**
Balance, September 30, 2008	**438,305,214**	**$ 4,383**	**$ 16,752,078**	**$ 12,222,170**	**$ (201,680)**	**$ (3,165,411)**	**$ 25,611,540**

See Notes to Consolidated Financial Statements.

Table of Contents

CAPITAL ONE FINANCIAL CORPORATION

Consolidated Statements of Cash Flows

(Dollars in thousands) (unaudited)

	Nine Months Ended September 30,	
	2008	**2007**
Operating Activities:		
Income from continuing operations, net of tax	**$ 1,480,842**	$ 2,270,107
Loss from discontinued operations, net of tax	**(105,294)**	(926,343)
Net Income	**1,375,548**	1,343,764
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan and lease losses	**3,002,119**	1,342,292
Depreciation and amortization, net	**536,436**	482,595
Gains on sales of securities available for sale	**(13,713)**	(68,306)
Gains on sales of auto loans	**(2,428)**	(10,927)
Gains on extinguishment of debt		(17,444)
Gains on repurchase of senior notes	**(53,860)**	
Mortgage loans held for sale:		
Transfers and originations	**(1,639,636)**	729,458
(Gain) loss on sales	**(26,062)**	7,712
Proceeds from sales	**1,864,311**	4,905,876
Stock plan compensation expense	**74,381**	309,969
Changes in assets and liabilities:		
Decrease in interest receivable	**88,600**	32,234
Increase in accounts receivable from securitizations	**(262,944)**	(2,318,418)
Increase in other assets	**(960,113)**	(1,378,508)
Decrease in interest payable	**(123,518)**	(22,429)
Increase in other liabilities	**85,499**	838,475
Net cash provided by operating activities attributable to discontinued operations	**129,659**	2,196,050
Net cash provided by operating activities	**4,074,279**	8,372,393
Investing Activities:		
Purchases of securities available for sale	**(15,266,177)**	(10,880,031)
Proceeds from maturities of securities available for sale	**5,189,006**	5,258,692
Proceeds from sales of securities available for sale	**2,504,289**	965,185
Proceeds from securitizations of loans	**8,446,956**	9,875,362
Net increase in loans held for investment	**(7,649,922)**	(8,921,503)
Principal recoveries of loans previously charged off	**501,970**	469,392
Additions of premises and equipment, net	**(270,064)**	(314,063)
Net payments for companies acquired		(10,464)
Net cash provided by investing activities attributable to discontinued operations	**11,659**	
Net cash used in investing activities	**(6,532,283)**	(3,557,430)
Financing Activities:		
Net increase (decrease) in deposits	**16,151,798**	(2,428,078)
Net increase (decrease) in other borrowings	**(10,834,872)**	515,093
Issuance of senior notes		1,495,740
Maturities of senior notes	**(1,318,694)**	(462,500)

Repurchases of senior notes	**(1,120,724)**	
Purchases of treasury stock	**(12,025)**	(2,252,665)
Dividends paid	**(421,518)**	(31,885)
Net proceeds from issuances of common stock	**763,485**	32,777
Proceeds from share based payment activities	**67,576**	133,499
Net cash used in financing activities attributable to discontinued operations	**(17,690)**	(2,031,779)
Net cash provided by (used in) financing activities	**3,257,336**	(5,029,798)
Net increase (decrease) in cash and cash equivalents	**799,332**	(214,835)
Cash and cash equivalents at beginning of year	**4,821,409**	4,660,496
Cash and cash equivalents at end of period	**$ 5,620,741**	$ 4,445,661

See Notes to Consolidated Financial Statements.

Table of Contents

CAPITAL ONE FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

(in thousands, except per share data) (unaudited)

Note 1

Significant Accounting Policies

Business

Capital One Financial Corporation (the Corporation) is a diversified financial services company whose banking and non-banking subsidiaries market a variety of financial products and services. The Corporation s principal subsidiaries are:

- Capital One Bank (USA), National Association (COBNA) which currently offers credit and debit card products, other lending products and deposit products.

- Capital One, National Association (CONA) which offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients.

During the first half of 2008, the Corporation completed several reorganizations and consolidations to streamline operations and regulatory relationships. On January 1, Capital One Auto Finance Inc. (COAF) moved from a direct subsidiary of the Corporation to become a direct operating subsidiary of CONA. In connection with the COAF move, one of COAF s direct operating subsidiaries, Onyx Acceptance Corporation (Onyx), became a direct subsidiary of the Corporation. On March 1, the Corporation converted Capital One Bank from a Virginia-state chartered bank to a national association called Capital One Bank (USA), National Association. On March 8, Superior Savings of New England, N.A. (Superior) merged with and into CONA. Both COBNA and CONA are primarily regulated by the Office of the Comptroller of the Currency (the OCC). In May 2008, we consolidated the business and operations of two registered broker-dealers, Capital One Securities, LLC (dba Capital One Investments, LLC) and Capital One Investment Services Corporation (formerly NFB Investment Services Corporation), into Capital One Investments Services Corporation. In addition, in May 2008, we consolidated the business and operations of three insurance agencies, Capital One Agency Corp., GreenPoint Agency, Inc. and Hibernia Insurance Agency, LLC into Green Point Agency, Inc., which is now known as Capital One Agency LLC.

In the third quarter of 2007, the Corporation shut down the mortgage origination operations of its wholesale mortgage banking unit, GreenPoint Mortgage (GreenPoint), an operating subsidiary of CONA. Additional information can be found in Note 2 Discontinued Operations.

The Corporation and its subsidiaries are hereafter collectively referred to as the Company .

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with GAAP requires 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.

The Consolidated Financial Statements include the accounts of Capital One Financial Corporation and its majority owned subsidiaries. Investments in unconsolidated entities where the Company has the ability to exercise significant influence over the operations of the investee are accounted for using the equity method of accounting. This includes interests in variable interest entities (VIEs) where the Company is not the primary beneficiary. Investments not meeting the criteria for equity method accounting are accounted for using the cost method of accounting. Investments in unconsolidated entities are included in other assets, and the Company s share of income or loss is recorded in other non-interest income. All significant intercompany balances and transactions have been eliminated. Certain prior years amounts have been reclassified to

conform to the 2008 presentation. All amounts in the following notes, excluding per share data, are presented in thousands.

The notes to the audited consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2007 should be read in conjunction with these consolidated financial statements.

Special Purpose Entities and Variable Interest Entities

Special purpose entities are broadly defined as legal entities structured for a particular purpose. The Company uses special purpose entities primarily to conduct off-balance sheet securitization activities. Special purpose entities that meet the criteria for Qualifying Special Purpose Entities (QSPE) as defined in Statement of Financial Accounting Standard No. 140, *Accounting for Transfers and*

Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140), are not required to be consolidated. Special purpose entities that are not QSPEs are considered for consolidation in accordance with Financial Accounting Standards Board Interpretation No. 46 (Revised 2003), *Consolidation of Variable Interest Entities (FIN 46R).*

Table of Contents

In April 2008, The Financial Accounting Standards Board (FASB) voted to eliminate Qualifying Special Purpose Entities (QSPEs) from the guidance. On September 15, 2008, the FASB issued exposure drafts to amend SFAS 140 and FIN46R. The two proposed Statements would significantly change accounting for transfers of financials assets, due to elimination of the concept of a QSPE, and would change the criteria for determining whether to consolidate a VIE. The proposals are currently in a public comment period and are subject to change. As the proposals stand, however, the change would have a significant impact on the Company's consolidated financial statements as a result of the loss of sales treatment for assets previously sold to a QSPE, as well as for future sales. As of September 30, 2008, the total assets of QSPEs to which the Company has transferred and received sales treatment were $49.4 billion.

In general, a VIE is a special purpose entity formed as a corporation, partnership, limited liability corporation, or any other legal structure used to conduct activities or hold assets. A VIE often holds financial assets, including loans or receivables, real estate or other property.

The Company consolidates a VIE if the Company is considered to be its primary beneficiary. The primary beneficiary is subject to absorbing the majority of the expected losses from the VIE s activities, is entitled to receive a majority of the entity s residual returns, or both.

Derivative Instruments and Hedging Activities

The Company recognizes all of its derivative instruments as either assets or liabilities in the balance sheet at fair value. These instruments are recorded in other assets or other liabilities on the Consolidated Balance Sheet and in the operating section of the Statement of Cash Flows as increases (decreases) of other assets and other liabilities. The Company s policy is not to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments recognized at fair value executed with the same counterparty under master netting arrangements. As of September 30, 2008 the Company had recorded $331.9 million for the right to reclaim cash collateral and $90.7 million for the obligation to return cash collateral under master netting arrangements.

Recent Accounting Pronouncements

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157) for all financial assets and liabilities and for nonfinancial assets and liabilities measured at fair value on a recurring basis. Under FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), the Company elected to defer the adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities measured on a nonrecurring basis. SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The initial adoption of SFAS 157 did not have a material impact on the consolidated earnings and financial position of the Company. There are no material assets or liabilities recognized or disclosed at fair value for which the Company has not applied the provisions of SFAS 157. See Note 7 for additional detail.

Effective January 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value with changes in fair value included in current earnings. The election is made on specified election dates, can be made on an instrument by instrument basis, and is irrevocable. The initial adoption of SFAS 159 did not have a material impact on the consolidated earnings and financial position of the Company. See Note 7 for additional detail.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133*, (SFAS 161). This Statement changes the disclosure requirements for derivative and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. The adoption of SFAS 161will not have an impact on the consolidated earnings or financial position of the Company because it only amends the disclosure requirements for derivatives and hedged items.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No.* 51, (SFAS 160). This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS 160 is not expected to have a material impact on the consolidated earnings or financial position of the Company.

Table of Contents

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)), which applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This Statement replaces SFAS 141, *Business Combinations.* It retains the fundamental requirements in SFAS 141; however, the scope is broader than that of SFAS 141 by applying to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, at their fair values as of that date, with limited exceptions, thereby replacing SFAS 141 s cost-allocation process. This Statement also changes the requirements for recognizing acquisition related costs, restructuring costs, and assets acquired and liabilities assumed arising from contingencies. It also changes the accounting for step acquisitions. The Company will apply the provisions of SFAS 141(R) when applicable.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No 87, 88, 106, and 132(R)*, (SFAS 158). SFAS 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, defined benefit plans) to recognize the funded status of their defined benefit plans in the consolidated balance sheet, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end consolidated balance sheet, and provide additional disclosures. On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS 158. On January 1, 2008 the Company adopted SFAS 158 s provisions regarding the change in the measurement date of defined benefit plans. The adoption of SFAS 158 did not have a material impact on the consolidated earnings or financial position of the Company.

Note 2

Discontinued Operations

Shutdown of Mortgage Origination Operations of Wholesale Mortgage Banking Unit

In the third quarter of 2007, the Company shut down the mortgage origination operations of its wholesale mortgage banking unit, GreenPoint. GreenPoint was acquired by the Company in December 2006 as part of the North Fork acquisition. The results of the mortgage origination operations of GreenPoint have been accounted for as a discontinued operation and have been removed from the Company s results from continuing operations for the three and nine months ended September 30, 2008 and 2007.

The results of GreenPoint s mortgage servicing business continue to be reported as part of the Company s continuing operations. The mortgage servicing function was moved into the Local Banking segment in conjunction with the shutdown of the mortgage origination operation and the results of the Local Banking segment include the mortgage servicing results for the three and nine months ended September 30, 2008 and 2007. The commercial and consumer mortgage loans held for investment portfolios were reported in the Local Banking segment and the Other category, respectively, for the three and nine months ended September 30, 2008 and 2007.

The Company retained $1.6 billion of certain GreenPoint loans and reclassified them from mortgage loans held for sale to held for investment during 2007. Continuing cash flows from the held for investment loan portfolios are included in the Company s results of continuing operations for the three and nine months ended September 30, 2008 and 2007, and classified as operating cash flows in the statement of cash flows. The Company will have no significant continuing involvement in the operations of the originate and sell business of GreenPoint.

The loss from discontinued operations for the nine months ended September 30, 2008 includes an expense of $83.0 million, recorded in non-interest expense, for representations and warranties provided by the Company on loans previously sold to third parties by GreenPoint s mortgage origination operation.

The following is summarized financial information for discontinued operations related to the closure of the Company s wholesale mortgage banking unit:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
Net interest income[1] [2]	**$ 1,612**	$ (53,208)	**$ 5,332**	$ (17,714)
Non-interest income	**2,287**	16,810	**5,517**	139,868
Non-interest expense	**22,125**	1,013,020	**175,577**	1,215,281
Income tax benefit	**(6,576)**	(151,389)	**(59,434)**	(166,784)

Loss from discontinued operations, net of taxes	**$ (11,650)**	$ (898,029)	**$ (105,294)**	$ (926,343)

Table of Contents

(1) Net interest income includes funding (credits)/charges of $(7.2) million and $10.9 million for the three months ended September 30, 2008 and 2007, and $(22.1) million and $48.8 million for the nine months ended September 30, 2008 and 2007, respectively, based on funds transfer pricing methodology.

(2) Net interest income also includes provision for loan and lease losses of $75.8 million and $80.2 million for the three and nine months ended September 30, 2007. There is no provision for loan and lease losses for 2008 because loans were reclassified to loans held for sale and recorded at the lower of cost or market.

The Company s wholesale mortgage banking unit had assets of approximately $20.2 million as of September 30, 2008 consisting of $17.4 million of mortgage loans held for sale and other related assets. The related liabilities consisted of obligations to fund these assets, and obligations for representations and warranties provided by the Company on loans previously sold to third parties.

Note 3

Segments

The segments reflect the manner in which financial information is currently evaluated. The Company strategically manages and reports the results of its business through two operating segment levels: Local Banking and National Lending. The Local Banking segment includes the Company s branch, treasury services and national deposit gathering activities; its commercial, branch based small business lending and certain branch originated consumer lending; and its mortgage servicing and home loans origination activities.

During the first quarter of 2008, the Company reorganized its National Lending sub-segments. Segment and sub-segment results have been restated for all periods presented. The National Lending segment consists of the following sub-segments:

U.S. Card sub-segment which consists of the Company s domestic credit card business, including small business credit cards, and the installment loan businesses.

Other National Lending sub-segment which includes the Company s auto finance business and international lending businesses.

The results of the GreenPoint mortgage origination operations are being reported as discontinued operations for 2008 and 2007, and are not included in the segment results of the Company. The results of GreenPoint s mortgage servicing business and small ticket commercial real estate loans held for investment portfolio are reported as part of the Company s continuing operations and included in the Local Banking segment. The results of GreenPoint s consumer mortgage held for investment portfolio are reported as part of the Company s continuing operations and included in the Other category.

The Local Banking and National Lending segments are considered reportable segments based on quantitative thresholds applied to the managed loan portfolio for reportable segments provided by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and are disclosed separately. The Other category includes the Company s liquidity portfolio, emerging businesses not included in the reportable segments, and various non-lending activities. The Other category also includes the results of GreenPoint s consumer mortgage held for investment portfolio, the net impact of transfer pricing, certain unallocated expenses, gains/losses related to the securitization of assets, and restructuring charges related to the Company s cost initiative announced in the second quarter of 2007.

The Company maintains its books and records on a legal entity basis for the preparation of financial statements in conformity with GAAP. The following tables present information prepared from the Company s internal management information system, which is maintained on a line of business level through allocations from the consolidated financial results.

See Note 1, Significant Accounting Policies in the Annual Report on Form 10-K for the accounting policies of the reportable segments.

The following tables present certain information regarding the Company s continuing operations by segment:

	Three Months Ended September 30, 2008					
Total Company	**National Lending**	**Local Banking**	**Other**	**Total Managed**	**Securitization Adjustments (1)**	**Total Reported**
Net interest income	**$ 2,231,535**	**$ 623,736**	**$ 34,059**	**$ 2,889,330**	**$ (1,082,685)**	**$ 1,806,645**
Non-interest income	**1,195,622**	**215,701**	**(85,764)**	**1,325,559**	**371,332**	**1,696,891**
Provision for loan and lease losses	**1,678,513**	**81,052**	**45,705**	**1,805,270**	**(711,353)**	**1,093,917**
Restructuring expenses			**15,306**	**15,306**		**15,306**
Other non-interest expenses	**1,176,396**	**622,697**	**(4,193)**	**1,794,900**		**1,794,900**
Income tax provision (benefit)	**200,626**	**47,491**	**(34,493)**	**213,624**		**213,624**
Net income (loss)	**$ 371,622**	**$ 88,197**	**$ (74,030)**	**$ 385,789**	**$**	**$ 385,789**

Table of Contents

	Three Months Ended September 30, 2008					
Total Company	**National Lending**	**Local Banking**	**Other**	**Total Managed**	**Securitization Adjustments (1)**	**Total Reported**
Loans held for investment	**$ 101,922,850**	**$ 44,662,818**	**$ 760,078**	**$ 147,345,746**	**$ (49,380,395)**	**$ 97,965,351**
Total deposits	**$ 1,650,507**	**$ 75,045,812**	**$ 22,216,655**	**$ 98,912,974**	**$**	**$ 98,912,974**

	Three Months Ended September 30, 2007					
Total Company	**National Lending**	**Local Banking**	**Other**	**Total Managed**	**Securitization Adjustments (2)**	**Total Reported**
Net interest income	$ 2,275,739	$ 586,304	$ (58,605)	$ 2,803,438	$ (1,178,964)	$ 1,624,474
Non-interest income	1,274,688	232,662	10,639	1,517,989	631,673	2,149,662
Provision for loan and lease losses	1,195,995	(58,192)	5,022	1,142,825	(547,291)	595,534
Restructuring expenses			19,354	19,354		19,354
Other non-interest expenses	1,333,688	577,309	3,870	1,914,867		1,914,867
Income tax provision (benefit)	350,277	104,353	(26,620)	428,010		428,010
Net income (loss)	$ 670,467	$ 195,496	$ (49,592)	$ 816,371	$	$ 816,371
Loans held for investment	$ 102,556,271	$ 42,233,665	$ (21,375)	$ 144,768,561	$ (50,980,054)	$ 93,788,507
Total deposits	$ 2,295,131	$ 72,795,566	$ 8,034,332	$ 83,125,029	$	$ 83,125,029

	Three Months Ended September 30, 2008 Other National Lending components				
National Lending	**U.S. Card**	**Other National Lending**	**Auto Finance**	**International**	**Total National Lending**
Net interest income	**$ 1,616,038**	**$ 615,497**	**$ 369,501**	**$ 245,996**	**$ 2,231,535**
Non-interest income	**1,027,918**	**167,704**	**14,607**	**153,097**	**1,195,622**
Provision for loan and lease losses	**1,240,580**	**437,933**	**244,078**	**193,855**	**1,678,513**
Non-interest expenses	**872,588**	**303,808**	**117,677**	**186,131**	**1,176,396**
Income tax provision	**185,775**	**14,851**	**7,824**	**7,027**	**200,626**
Net income	**$ 345,013**	**$ 26,609**	**$ 14,529**	**$ 12,080**	**$ 371,622**
Loans held for investment	**$ 69,361,743**	**$ 32,561,107**	**$ 22,306,394**	**$ 10,254,713**	**$ 101,922,850**

	Three Months Ended September 30, 2007 Other National Lending components				
National Lending	**U.S. Card**	**Other National Lending**	**Auto Finance**	**International**	**Total National Lending**
Net interest income	$ 1,620,397	$ 655,342	$ 377,522	$ 277,820	$ 2,275,739
Non-interest income	1,107,801	166,887	13,514	153,373	1,274,688
Provision for loan and lease losses	807,318	388,677	244,537	144,140	1,195,995
Non-interest expenses	965,351	368,337	152,275	216,062	1,333,688
Income tax provision (benefit)	328,702	21,575	(1,987)	23,562	350,277
Net income (loss)	$ 626,827	$ 43,640	$ (3,789)	$ 47,429	$ 670,467
Loans held for investment	$ 66,687,232	$ 35,869,039	$ 24,335,242	$ 11,533,797	$ 102,556,271

(1) Income statement adjustments for the three months ended September 30, 2008 reclassify the net of finance charges of $1,369.0 million, past due fees of $240.8 million, other interest income of $(35.3) million and interest expense of $491.8 million; and net charge-offs of $711.4 million to non-interest income from net interest income and provision for loan and lease losses, respectively.

(2) Income statement adjustments for the three months ended September 30, 2007 reclassify the net of finance charges of $1,659.5 million, past due fees of $262.7 million, other interest income of $(42.7) million and interest expense of $700.5 million; and net charge-offs of $547.3 million to non-interest income from net interest income and provision for loan and lease losses, respectively.

Table of Contents

	Nine Months Ended September 30, 2008					
Total Company	**National Lending**	**Local Banking**	**Other**	**Total Managed**	**Securitization Adjustments (1)**	**Total Reported**
Net interest income	**$ 6,807,647**	**$ 1,780,395**	**$ 66,133**	**$ 8,654,175**	**$ (3,307,857)**	**$ 5,346,318**
Non-interest income	**3,586,546**	**623,928**	**23,744**	**4,234,218**	**1,141,467**	**5,375,685**
Provision for loan and lease losses	**4,826,375**	**233,489**	**108,645**	**5,168,509**	**(2,166,390)**	**3,002,119**
Restructuring expenses			**81,625**	**81,625**		**81,625**
Other non-interest expenses	**3,692,134**	**1,815,259**	**(136,934)**	**5,370,459**		**5,370,459**
Income tax provision	**654,325**	**124,451**	**8,182**	**786,958**		**786,958**
Net income	**$ 1,221,359**	**$ 231,124**	**$ 28,359**	**$ 1,480,842**	**$**	**$ 1,480,842**
Loans held for investment	**$ 101,922,850**	**$ 44,662,818**	**$ 760,078**	**$ 147,345,746**	**$ (49,380,395)**	**$ 97,965,351**
Total deposits	**$ 1,650,507**	**$ 75,045,812**	**$ 22,216,655**	**$ 98,912,974**	**$**	**$ 98,912,974**

	Nine Months Ended September 30, 2007					
Total Company	**National Lending**	**Local Banking**	**Other**	**Total Managed**	**Securitization Adjustments (2)**	**Total Reported**
Net interest income	$ 6,402,810	$ 1,751,516	$ (135,089)	$ 8,019,237	$ (3,251,639)	$ 4,767,598
Non-interest income	3,500,072	733,636	(34,172)	4,199,536	1,696,347	5,895,883
Provision for loan and lease losses	2,914,360	(10,487)	(6,289)	2,897,584	(1,555,292)	1,342,292
Restructuring expenses			110,428	110,428		110,428
Other non-interest expenses	4,058,495	1,744,012	29,868	5,832,375		5,832,375
Income tax provision (benefit)	1,008,079	262,136	(161,936)	1,108,279		1,108,279
Net income (loss)	$ 1,921,948	$ 489,491	$ (141,332)	$ 2,270,107	$	$ 2,270,107
Loans held for investment	$ 102,556,271	$ 42,233,665	$ (21,375)	$ 144,768,561	$ (50,980,054)	$ 93,788,507
Total deposits	$ 2,295,131	$ 72,795,566	$ 8,034,332	$ 83,125,029	$	$ 83,125,029

	Nine Months Ended September 30, 2008 Other National Lending components				
National Lending	**U.S. Card**	**Other National Lending**	**Auto Finance**	**International**	**Total National Lending**
Net interest income	**$ 4,883,381**	**$ 1,924,266**	**$ 1,160,651**	**$ 763,615**	**$ 6,807,647**
Non-interest income	**3,108,926**	**477,620**	**46,389**	**431,231**	**3,586,546**
Provision for loan and lease losses	**3,460,058**	**1,366,317**	**882,943**	**483,374**	**4,826,375**
Non-interest expenses	**2,722,067**	**970,067**	**376,867**	**593,200**	**3,692,134**
Income tax provision (benefit)	**633,563**	**20,762**	**(18,469)**	**39,231**	**654,325**
Net income (loss)	**$ 1,176,619**	**$ 44,740**	**$ (34,301)**	**$ 79,041**	**$ 1,221,359**
Loans held for investment	**$ 69,361,743**	**$ 32,561,107**	**$ 22,306,394**	**$ 10,254,713**	**$ 101,922,850**

	Nine Months Ended September 30, 2007 Other National Lending components				
National Lending	**U.S. Card**	**Other National Lending**	**Auto Finance**	**International**	**Total National Lending**
Net interest income	$ 4,503,975	$ 1,898,835	$ 1,123,613	$ 775,222	$ 6,402,810
Non-interest income	2,972,363	527,709	97,373	430,336	3,500,072

Provision for loan and lease losses	1,837,748	1,076,612	626,873	449,739	2,914,360
Non-interest expenses	2,958,456	1,100,039	474,267	625,772	4,058,495
Income tax provision	921,966	86,113	41,227	44,886	1,008,079
Net income	$ 1,758,168	$ 163,780	$ 78,619	$ 85,161	$ 1,921,948
Loans held for investment	$ 66,687,232	$ 35,869,039	$ 24,335,242	$ 11,533,797	$ 102,556,271

Table of Contents

(1) Income statement adjustments for the nine months ended September 30, 2008 reclassify the net of finance charges of $4,278.3 million, past due fees of $733.5 million, other interest income of $(208.1) million and interest expense of $1,594.1 million; and net charge-offs of $2,166.4 million to non-interest income from net interest income and provision for loan and lease losses, respectively.

(2) Income statement adjustments for the nine months ended September 30, 2007 reclassify the net of finance charges of $4,686.1 million, past due fees of $703.0 million, other interest income of $(120.6) million and interest expense of $2,016.9 million; and net charge-offs of $1,555.3 million to non-interest income from net interest income and provision for loan and lease losses, respectively.

Significant Segment Transactions

During the second quarter of 2008, the Company recognized a gain of $44.9 million in non-interest income from the conversion and sale of 154,991 shares of MasterCard class B common stock, which was recorded in the Other segment.

During the first quarter of 2008, the Company recognized a gain of $109.0 million in non-interest income from the redemption of 2.5 million shares related to the Visa IPO. In addition, the Company reversed $90.9 million in legal reserves in connection with the IPO and recorded the release in other non-interest expense. Both items were recorded in the Other segment.

During the first quarter of 2008, the Company repurchased approximately $1.0 billion of certain senior unsecured debt, recognizing a gain of $52.0 million in non-interest income and reported in the Other segment. The Company initiated the repurchases to take advantage of the current market environment and replaced the repurchased debt with lower-rate unsecured funding.

During the second quarter of 2007, the Company recognized a $17.4 million gain as a component of interest expense from the early extinguishment of Trust Preferred Securities, which was recorded in the Other segment.

During the second quarter of 2007, the Company incurred a charge of $39.8 million as a result of the accelerated vesting of equity awards made in connection with the transition of the management team for Local Banking business following the acquisition of North Fork, which was recorded in the Local Banking segment.

During the first quarter of 2007, the Company sold its remaining interest in DealerTrack, a leading provider of on-demand software and data solutions for the automotive retail industry. The sale resulted in a $46.2 million gain, which was recorded in non-interest income and reported in the Auto Finance component.

Note 4

Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended September 30		Nine Months Ended September 30	
	2008	**2007**	**2008**	**2007**
Numerator:				
Income from continuing operations, net of tax	**$ 385,789**	$ 816,371	**$ 1,480,842**	$ 2,270,107
Loss from discontinued operations, net of tax	**(11,650)**	(898,029)	**(105,294)**	(926,343)
Net income (loss)	**$ 374,139**	$ (81,658)	**$ 1,375,548**	$ 1,343,764
Denominator:				
Denominator for basic earnings per share Weighted-average shares	**372,928**	386,133	**372,010**	395,199
Effect of dilutive securities:				
Stock options	**328**	3,772	**491**	5,088
Contingently issuable shares				255
Restricted stock and stock units	**1,037**	939	**909**	710

Dilutive potential common shares	**1,365**	4,711	**1,400**	6,053
Denominator for diluted earnings per share Adjusted weighted-average shares	**374,293**	390,844	**373,410**	401,252
Basic earnings per share				
Income from continuing operations	**$ 1.03**	$ 2.11	**$ 3.98**	$ 5.74
Loss from discontinued operations	**(0.03)**	(2.32)	**(0.28)**	(2.34)
Net income (loss)	**$ 1.00**	$ (0.21)	**$ 3.70**	$ 3.40
Diluted earnings per share				
Income from continuing operations	**$ 1.03**	$ 2.09	**$ 3.96**	$ 5.66
Loss from discontinued operations	**(0.03)**	(2.30)	**(0.28)**	(2.31)
Net income (loss)	**$ 1.00**	$ (0.21)	**$ 3.68**	$ 3.35

Table of Contents

Note 5

Comprehensive Income

Comprehensive income for the three months ended September 30, 2008 and 2007, respectively was as follows:

	Three Months Ended September 30	
	2008	2007
Comprehensive Income:		
Net income (loss)	**$ 374,139**	**$ (81,658)**
Other comprehensive income (loss), net of tax	**(328,283)**	**100,753**
Total comprehensive income	**$ 45,856**	**$ 19,095**

Note 6

Goodwill and Other Intangible Assets

The following table provides a summary of goodwill.

Total Company	National Lending	Local Banking	Other	Total
Balance at December 31, 2007	$ 6,235,700	$ 6,595,040	$	$ 12,830,740
Impact of reporting structure reorganization	(87,848)	87,848		
Adjustments		(1,100)		(1,100)
Foreign currency translation	(13,998)			(13,998)
Balance at September 30, 2008	$ 6,133,854	$ 6,681,788	$	$ 12,815,642

			Other National Lending components			
National Lending Detail	U.S. Card	Global Financial Services	Other National Lending	Auto Finance	International	National Lending Total
Balance at December 31, 2007	$ 3,005,180	$ 1,800,132	$ 1,430,388	$ 1,430,388	$	$ 6,235,700
Impact of reporting structure reorganization	756,138	(1,800,132)	956,146		956,146	(87,848)
Foreign currency translation			(13,998)		(13,998)	(13,998)
Balance at September 30, 2008	$ 3,761,318	$	$ 2,372,536	$ 1,430,388	$ 942,148	$ 6,133,854

In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, the Company tests goodwill for impairment at least annually at the reporting unit level, which is an operating segment or one level below. For the three and nine months ended September 30, 2008, no impairment of goodwill was recognized. As a result of the Company s reorganization of its National Lending sub-segments in the first quarter of 2008, goodwill was reassigned to affected reporting units using a relative fair value allocation approach. See Note 3 for additional detail regarding the reorganization.

In connection with the acquisitions of Hibernia and North Fork, the Company recorded intangible assets that consisted of core deposit intangibles, trust intangibles, lease intangibles, and other intangibles, which are subject to amortization. The core deposit and trust intangibles reflect the estimated value of deposit and trust relationships. The lease intangibles reflect the difference between the contractual obligation under

current lease contracts and the fair market value of the lease contracts at the acquisition date. The other intangible items relate to customer lists and brokerage relationships. The following table summarizes the Company s purchase accounting intangible assets subject to amortization.

Table of Contents

	September 30, 2008			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Amortization Period
Core deposit intangibles	$ 1,320,000	$ (451,210)	$ 868,790	9.3 years
Lease intangibles	14,247	(7,503)	6,744	22.2 years
Trust intangibles	10,500	(3,083)	7,417	15.2 years
Other intangibles	7,948	(3,606)	4,342	10.4 years
Total	$ 1,352,695	$ (465,402)	$ 887,293	

Intangibles are amortized on an accelerated basis over their respective estimated useful lives. Intangible assets are recorded in other assets on the balance sheet. Amortization expense related to purchase accounting intangibles totaled $48.5 million and $149.5 million for the three and nine months ended September 30, 2008, respectively. Amortization expense for intangibles is recorded to non-interest expense. The weighted average amortization period for all purchase accounting intangibles is 9.5 years.

Note 7

Fair Values of Assets and Liabilities

Effective January 1, 2008, the Company adopted SFAS 157, which provides a framework for measuring fair value under GAAP. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of the three levels. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 assets and liabilities include debt and equity securities traded in an active exchange market, as well as certain U.S. Treasury and other U.S government agency mortgage-backed debt securities that are traded by dealers or brokers in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Valuation is determined using model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company s own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

The Company also adopted SFAS 159 on January 1, 2008. SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. SFAS 159 requires that the difference between the carrying value before election of the fair value option and the fair value of these instruments be recorded as an adjustment to beginning retained earnings in the period of adoption. The initial adoption of SFAS 159 did not have a material effect on the consolidated earnings and financial position of the Company.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	September 30, 2008			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value

Assets				
Securities available for sale	$ 277,618	$ 24,163,764	$ 2,528,089	$ 26,969,471
Other assets				
Mortgage servicing rights			227,101	227,101
Derivative receivables[(1)]	750	552,524	30,293	583,567
Retained interests in securitizations			1,679,618	1,679,618
Total Assets	$ 278,368	$ 24,716,288	$ 4,465,101	$ 29,459,757
Liabilities				
Other liabilities				
Derivative payables[(1)]	$ 1,758	$ 540,080	$ 30,768	$ 572,606

Table of Contents

	September 30, 2008 Fair Value Measurements Using			Assets/Liabilities at Fair Value
	Level 1	Level 2	Level 3	
Total Liabilities	$ 1,758	$ 540,080	$ 30,768	$ 572,606

(1) The Company does not offset the fair value of derivative contracts in a loss position against the fair value of contracts in a gain position. The Company also does not offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2008. All Level 3 instruments presented in the table were carried at fair value prior to the adoption of SFAS 159.

Level 3 Instruments Only

	Three Months Ended September 30, 2008				
	Securities Available for Sale	Mortgage Servicing Rights[1]	Derivative Receivables[2]	Retained Interests in Securitizations[3]	Derivative Payables[2]
Balance, June 30, 2008	$ 2,695,143	$ 232,423	$ 9,884	$ 1,293,544	$ 9,683
Total realized and unrealized gains (losses):					
Included in earnings	18	(726)	2,537	(72,356)	2,543
Included in other comprehensive income	(226,412)			970	
Purchases, issuances and settlements	6,866	(4,596)	17,872	457,460	18,542
Transfers into Level 3[4]	52,474				
Balance, September 30, 2008	$ 2,528,089	$ 227,101	$ 30,293	$ 1,679,618	$ 30,768
Change in unrealized gains (losses) included in earnings related to financial instruments held at September 30, 2008	$	$ (726)	$ 2,537	$ 42,324	$ 2,543

	Nine Months ended September 30, 2008				
	Securities Available for Sale	Mortgage Servicing Rights[1]	Derivative Receivables[2]	Retained Interests in Securitizations[3]	Derivative Payables[2]
Balance, January 1, 2008	$ 217,428	$ 247,589	$ 8,962	$ 1,295,498	$ 8,631
Total realized and unrealized gains (losses):					
Included in earnings	18	(1,704)	2,911	5,957	2,931
Included in other comprehensive income	(241,843)			(10,612)	
Purchases, issuances and settlements	183,249	(18,784)	18,420	388,775	19,206
Transfers into Level 3[4]	2,369,237				
Balance, September 30, 2008	$ 2,528,089	$ 227,101	$ 30,293	$ 1,679,618	$ 30,768
Change in unrealized gains (losses) included in earnings related to financial instruments held at September 30, 2008	$	$ (1,704)	$ 2,911	$ 32,611	$ 2,931

(1) Gains (losses) related to Level 3 mortgage servicing rights are reported in mortgage servicing and other income, which is a component of non-interest income.

(2) An end of quarter convention is used to measure derivative activity, resulting in end of quarter values being reflected as purchases, issuances and settlements for derivatives having a zero fair value at inception. Gains (losses) related to Level 3 derivative receivables and derivative payables are reported in other non-interest income, which is a component of non-interest income.

(3) An end of quarter convention is used to reflect activity in retained interests in securitizations, resulting in all transactions and assumption changes being reflected as if they occurred on the last day of the quarter. Gains (losses) related to Level 3 retained interests in securitizations are reported in servicing and securitizations income, which is a component of non-interest income.

Table of Contents

(4) Level 3 assets increased $52.5 million and $2.4 billion for the three and nine months ended September 30, 2008, respectively, due primarily to the reclassification of AAA rated non-agency mortgage backed securities backed by prime jumbo collateral. The ongoing capital markets dislocation has decreased new issuance and secondary trading volumes for many fixed income markets. This lower level of activity makes it increasingly difficult to find consistent pricing of many fixed income securities. The pricing of our prime jumbo non-agency mortgage-backed securities continued to exhibit a variation that was outside of our Level 2 assets policy tolerances. Consequently, we reassigned additional securities to Level 3.

The amount of Level 3 securities will likely continue to be a function of market conditions. An increase in dislocation and corresponding decrease in new issuance and trading volumes could result in the reclassification of additional securities to Level 3. If market conditions improve and pricing transparency and consistency increase, assets currently classified as Level 3 could be reclassified to Level 2.

Level 3 Valuation Techniques

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. A brief description of the valuation techniques used for Level 3 assets and liabilities is provided below.

Securities available for sale

Certain securities available for sale are classified as Level 3, the majority of which are non-agency mortgage-backed securities backed by prime collateral. Classification of Level 3 indicates that significant valuation assumptions are not consistently observable in the market. When significant assumptions are not consistently observable, fair values are derived using the best available data. Such data may include quotes provided by a dealer, the use of external pricing services, independent pricing models, or other model-based valuation techniques such as calculation of the present values of future cash flows incorporating assumptions such as benchmark yields, spreads, prepayment speeds, credit ratings, and losses.

Mortgage servicing rights

Mortgage servicing rights (MSRs) do not trade in an active market with readily observable prices. Accordingly, the Company determines the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment spreads, discount rate, cost to service, contractual servicing fee income, ancillary income and late fees. Since the adoption of SFAS 156 in 2007, the Company records MSRs at fair value on a recurring basis. Fair value measurements of MSRs use significant unobservable inputs and, accordingly, are classified as Level 3. The valuation technique for these securities is discussed in more detail in Note 8 Mortgage Servicing Rights.

Derivatives

Most of the Company s derivatives are not exchange traded but instead traded in over the counter markets where quoted market prices are not readily available. The fair value of those derivatives is derived using models that use primarily market observable inputs, such as interest rate yield curves, credit curves, option volatility and currency rates. Any derivative fair value measurements using significant assumptions that are unobservable are classified as Level 3, which include interest rate swaps whose remaining terms extend beyond market observable interest rate yield curves. The impact of Capital One s non performance risk is considered when measuring the fair value of derivative liabilities.

Retained interests in securitizations

Retained interests in securitizations include the interest-only strip, retained notes, cash reserve accounts and cash spread accounts. The Company uses a valuation model that calculates the present value of estimated future cash flows. The model incorporates the Company s own estimates of assumptions market participants use in determining fair value, including estimates of payment rates, defaults, discount rates, and contractual interest and fees.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company is also required to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. The following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related assets for assets measured at fair value on a nonrecurring basis during 2008 that were still held on the balance sheet at September 30, 2008.

19

Table of Contents

	September 30, 2008				
	Fair Value Measurements Using			Assets at	Total
	Level 1	Level 2	Level 3	Fair Value	Losses
Assets					
Mortgage loans held for sale	$	$ 17,432	$ 13,131	$ 30,563	$ 17,561
Loans held for investment		50,298	138,684	188,982	35,819
Total	$	$ 67,730	$ 151,815	$ 219,545	$ 53,380

Mortgage loans held for sale

Mortgage loans held for sale are carried at the lower of aggregate cost, net of deferred fees, deferred origination costs and effects of hedge accounting, or fair value. The fair value of mortgage loans held for sale is determined using current secondary market prices for portfolios with similar characteristics. As such, the Company classifies these loans subject to nonrecurring fair value adjustments as Level 2.

Loans held for investment

Commercial and small business loans are considered impaired in accordance with the provisions of Statement of Financial Accounting Standard No. 114, *Accounting by Creditors for Impairment of a Loan,* (SFAS 114) when it is probable that all amounts due in accordance with the contractual terms will not be collected. From time to time, the Company records nonrecurring fair value adjustments to reflect the fair value of the loan s collateral.

Note 8

Mortgage Servicing Rights

Mortgage servicing rights (MSRs), are recognized when mortgage loans are sold in the secondary market and the right to service these loans is retained for a fee. MSRs are carried at fair value with changes in fair value recognized in mortgage servicing and other, a component of non-interest income. The Company enters into interest rate swaps to economically hedge changes in fair value of MSRs. The Company continues to operate the mortgage servicing business and reports the changes in the fair value of MSRs and the related interest rate swaps in continuing operations. To evaluate and measure fair value of MSRs, the underlying loans are stratified based on certain risk characteristics, including loan type, note rate and investor servicing requirements. The following table sets forth the changes in the fair value of mortgage servicing rights during the three and nine months ended September 30, 2008 and 2007:

	Three Months Ended September 30		Nine Months Ended September 30	
Mortgage Servicing Rights:	**2008**	**2007**	**2008**	**2007**
Balance, beginning of period	$ 232,423	$ 316,031	$ 247,589	$ 252,295
Cumulative effect adjustment for the adoption of FAS 156				15,187
Originations		18,342		64,503
Sales		(961)	(273)	(2,676)
Change in fair value	(5,322)	(34,133)	(20,215)	(30,030)
Balance, end of period	$ 227,101	$ 299,279	$ 227,101	$ 299,279
Ratio of mortgage servicing rights to related loans serviced for others	0.90%	1.00%	0.90%	1.00%
Weighted average service fee	0.28	0.28	0.28	0.28

Fair value adjustments to the MSRs for the three and nine months ended September 30, 2008, included a $4.6 million decrease and a $18.5 million decrease due to run-off, respectively, and a $0.7 million decrease and a $1.7 million decrease due to changes in the valuation inputs and assumptions, respectively.

The significant assumptions used in estimating the fair value of the servicing assets at September 30, 2008 were as follows:

	September 30, 2008	September 30, 2007
Weighted average prepayment rate (includes default rate)	22.61%	23.91%
Weighted average life (in years)	4.5	4.0
Discount rate	11.07%	10.47%

At September 30, 2008, the sensitivities to immediate 10% and 20% increases in the weighted average prepayment rates would decrease the fair value of mortgage servicing rights by $10.0 million and $19.0 million, respectively.

As of September 30, 2008, the Company s mortgage loan servicing portfolio consisted of mortgage loans with an aggregate unpaid principal balance of $36.4 billion, of which $25.4 billion was serviced for investors other than the Company.

Table of Contents

The Company recognizes changes in the fair value of the interest rate swaps in other non-interest income. For the three and nine months ended September 30, 2008, the Company recognized income of $9.9 million and $20.7 million, respectively.

Note 9

Borrowings

Borrowings as of September 30, 2008 and December 31, 2007 were as follows:

	September 30, 2008		December 31, 2007	
	Outstanding	Weighted Average Rate	Outstanding	Weighted Average Rate
Interest-bearing deposits	**$ 88,247,688**	**3.08%**	$ 71,714,627	3.67%
Senior and subordinated notes				
Bank notes fixed rate	**$ 2,351,795**	**5.69%**	$ 3,525,699	5.49%
Corporation	**5,927,061**	**4.89%**	7,187,007	5.75%
Total	**$ 8,278,856**		$ 10,712,706	
Other borrowings				
Secured borrowings	**$ 8,648,589**	**5.25%**	$ 13,067,562	4.60%
Junior subordinated debentures	**1,647,320**	**7.78%**	1,645,656	7.39%
FHLB advances	**4,884,523**	**3.69%**	6,841,789	4.63%
Federal funds purchased and resale agreements	**781,345**	**2.16%**	683,186	3.19%
Other short-term borrowings	**295**	**7.41%**	4,574,776	5.88%
Total	**$ 15,962,072**		$ 26,812,969	

Interest-Bearing Deposits

As of September 30, 2008, the Company had $88.2 billion in interest-bearing deposits of which $10.3 billion represents large denomination certificates of $100 thousand or more. As of December 31, 2007, the Company had $71.7 billion in interest-bearing deposits of which $10.0 billion represents large denomination certificates of $100 thousand or more. The increase of $16.5 billion is driven by increases in NOW and money market deposit accounts and other time deposits, which include brokered deposits.

Other Borrowings

Secured Borrowings

COAF maintained eighteen agreements to transfer pools of consumer loans accounted for as secured borrowings at September 30, 2008. The agreements were entered into between 2004 and 2007, relating to the transfers of pools of consumer loans totaling $27.5 billion. Principal payments on the borrowings are based on principal collections, net of losses, on the transferred consumer loans. The secured borrowings accrue interest predominantly at fixed rates and mature between October 2008 and September 2011, or earlier depending upon the repayment of the underlying consumer loans. At September 30, 2008 and December 31, 2007, $8.6 billion and $13.1 billion, respectively, of the secured borrowings were outstanding. The decrease of $4.5 billion is primarily due to normal amortization of the secured borrowings.

FHLB Advances

Total advances with FHLB agencies as of September 30, 2008 were $4.9 billion. The FHLB advances are secured by the Company s securities, residential mortgage loan portfolio, multifamily loans, commercial real estate loans and home equity lines of credit. In addition, the Company s

FHLB membership is secured by the Company s investment in FHLB stock, which totaled $267.3 million at September 30, 2008 and is included in other assets.

Other Short-Term Borrowings

Collateralized Revolving Credit Facilities

In March 2002, the Company entered into a revolving warehouse credit facility collateralized by a security interest in certain auto loan assets (the Capital One Auto Loan Facility I). As of September 30, 2008, the Capital One Auto Loan Facility I had the capacity to issue up to $1.3 billion in secured notes. The Capital One Auto Loan Facility I has multiple participants each with separate renewal dates. The facility does not have a final maturity date. Instead, each participant may elect to renew the commitment for another set period of time. Interest on the facility is based on commercial paper rates. The Capital One Auto Loan Facility I was paid down in January 2008.

Table of Contents

In March 2005, the Company entered into a second revolving warehouse credit facility collateralized by a security interest in certain auto loan assets (the Capital One Auto Loan Facility II). As of September 30, 2008, the Capital One Auto Loan Facility II had the capacity to issue up to $0.5 billion in secured notes. The facility does not have a final maturity date. Instead, the participant may elect to renew the commitment for another set period of time. Interest on the facility is based on commercial paper rates. The Capital One Auto Loan Facility II was paid down in January 2008.

Note 10

Commitments, Contingencies and Guarantees

Letters of Credit and Financial Guarantees

The Company issues letters of credit (financial standby, performance standby and commercial) to meet the financing needs of its customers. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party in a borrowing arrangement. Commercial letters of credit are short-term commitments issued primarily to facilitate trade finance activities for customers and are generally collateralized by the goods being shipped to the client. Collateral requirements are similar to those for funded transactions and are established based on management s credit assessment of the customer. Management conducts regular reviews of all outstanding letters of credit and customer acceptances, and the results of these reviews are considered in assessing the adequacy of the Company s allowance for loan and lease losses.

The Company had contractual amounts of standby letters of credit and commercial letters of credit of $1.3 billion and $1.2 billion at September 30, 2008 and 2007, respectively. As of September 30, 2008, financial guarantees had expiration dates ranging from 2008 to 2015. The fair value of the liability related to the standby letters of credit outstanding at September 30, 2008 that have been issued since January 1, 2003 was $3.6 million and included in other liabilities.

The Company s discontinued wholesale mortgage banking unit, GreenPoint, previously sold home equity lines of credit in whole loan sales and subsequently acquired a residual interest in certain third party securitizations involving some of those loans. As residual interest holder, GreenPoint is required to fund advances on the home equity lines of credit when certain performance triggers are met due to deterioration in asset performance. GreenPoint s ability to recover the full amount advanced to customers is dependent on monthly collections on the loans. In certain limited circumstances, such future advances could be reduced if GreenPoint suspends the right of mortgagors to receive draws or reduces the credit limit on home equity lines of credit.

There are eight securitization transactions where GreenPoint is a residual interest holder with the longest draw period currently extending through 2023. GreenPoint has funded $15.2 million of advances through September 30, 2008 related to these transactions. The Company believes it is probable that a loss has been incurred on several of these transactions due to the deterioration in asset performance through September 30, 2008. However, the Company cannot estimate the possible loss or range of loss at this time. The maximum potential amount of future advances related to all third-party securitizations where GreenPoint is the residual interest holder is $239.2 million, an amount which represents the total loan amount on the home equity lines of credit within those eight securitizations. The total unutilized amount as of September 30, 2008 is $80.6 million.

Securitization Guarantees

In connection with certain installment loan securitization transactions, the transferee (off-balance sheet special purpose entity receiving the installment loans) entered into interest rate hedge agreements (the swaps) with a counterparty to reduce interest rate risk associated with the transactions. In connection with the swaps, the Company entered into letter agreements guaranteeing the performance of the transferee under the swaps. If at anytime the Class A invested amount equals zero and the notional amount of the swap is greater than zero resulting in an Early Termination Date (as defined in the securitization transaction s master agreement), then (a) to the extent that, in connection with the occurrence of such Early Termination Date, the transferee is obligated to make any payments to the counterparty pursuant to the master agreement, the Company shall reimburse the transferee for the full amount of such payment and (b) to the extent that, in connection with the occurrence of an Early Termination Date, the transferee is entitled to receive any payment from the counterparty pursuant to the master agreement, the transferee will pay to the Company the amount of such payment. At September 30, 2008, the maximum exposure to the Company under the letter agreements was approximately $7.1 million.

Industry Litigation

In accordance with the provisions of SFAS No. 5, Accounting for Contingencies, (SFAS 5), the Company accrues for a litigation related liability when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. In addition, the Company is a Class B shareholder of Visa, Inc. (Visa) as a result of Visa s initial public offering (IPO) completed earlier in 2008. The Company has indemnification obligations to Visa with respect to final judgments and settlements of certain

Table of Contents

litigation against Visa pending at the time of the IPO (the Visa Covered Litigation). Visa established a litigation escrow (the Visa Litigation Escrow) with proceeds from the IPO to fund Covered Litigation. The Company accounts for its indemnification obligations to Visa in accordance with the provisions of FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, (FIN 45). The Company has no on-going litigation indemnification obligation to MasterCard International (MasterCard) following the MasterCard initial public offering in 2006.

Over the past several years, MasterCard and Visa as well as several of their member banks have been involved in several different lawsuits challenging various practices of MasterCard and Visa.

In 2004, Discover Financial Services (Discover) filed an antitrust lawsuit (the Discover Lawsuit) against MasterCard and Visa alleging, among other things, that exclusionary agreements in the MasterCard and Visa association rules prevented their member banks from issuing Discover cards. The Company and its subsidiaries are not defendants in the Discover Lawsuit, but the lawsuit qualifies as Visa Covered Litigation. On October 27, 2008, Visa announced that a settlement agreement had been reached. The settlement did not have a material impact on the Company s operations or financial condition.

In 2005, a number of entities, each purporting to represent a class of retail merchants, filed antitrust lawsuits (the Interchange lawsuits) against MasterCard and Visa, representing the last of the remaining significant Visa Covered Litigation. The antitrust lawsuits were also filed against several member banks, including the Company and its subsidiaries (the Class Lawsuits). Separately, a number of large merchants have asserted similar claims against Visa and MasterCard only (the Merchant Lawsuits). These lawsuits allege, among other things, that the defendants conspired to fix the level of interchange fees. The complaints seek injunctive relief and civil monetary damages, which could be trebled. In October 2005, the Class Lawsuits and the Merchant Lawsuits were consolidated before the United States District Court for the Eastern District of New York for certain purposes, including discovery. Discovery is proceeding in these cases. The Company believes it has meritorious defenses and intends to defend these cases vigorously. Given the complexity of the issues raised by these lawsuits and the uncertainty regarding: (i) the outcome of these suits, (ii) the likelihood and amount of any possible judgments, (iii) the likelihood, amount and validity of any claim against the member banks, including the Company and its subsidiary banks, (iv) changes in industry structure that may result from the suits and (v) the effects of these suits, in turn, on competition in the industry, member banks, and interchange fees, the Company cannot determine at this time the long-term effects of these lawsuits.

In 2007, a number of individual plaintiffs, each purporting to represent a class of cardholders, filed antitrust lawsuits in the United States District Court for the Northern District of California against several issuing banks, including the Company (the In Re Late Fees Litigation). These lawsuits allege, among other things, that the defendants conspired to fix the level of late fees and over-limit fees charged to cardholders, and that these fees are excessive. In May 2007, the cases were consolidated for all purposes and a consolidated amended complaint was filed alleging violations of federal statutes and state law. The amended complaint requests civil monetary damages, which could be trebled. In November 2007, the court dismissed the amended complaint. Plaintiffs have appealed that order.

Other Pending and Threatened Litigation

In addition, the Company is commonly subject to various pending and threatened legal actions relating to the conduct of its normal business activities. In the opinion of management, the ultimate aggregate liability, if any, arising out of any such pending or threatened legal actions will not be material to its consolidated financial position or its results of operations.

Tax issues for years 1995-1999 are pending in the U.S. Tax Court. The ultimate resolution of these issues is not expected to have a material effect upon the Company s operations or financial condition.

Note 11

Restructuring

Restructuring initiatives leverage the capabilities of recently completed infrastructure projects in several of the Company s businesses. The scope and timing of the expected cost reductions are the result of an ongoing, comprehensive review of operations within and across the Company s businesses, which began in the second quarter of 2007.

The Company anticipates recording charges of approximately $300.0 million pre-tax over the course of the cost reduction initiative through 2008. Approximately $150.0 million of these charges are related to severance benefits, while the remaining charges are associated with items such as contract and lease terminations and consolidation of facilities and infrastructure. These costs are recognized in Other Segments.

23

Table of Contents

Restructuring expenses associated with continuing operations were comprised of the following:

	Three months ended September 30, 2008	Nine months ended September 30, 2008
Restructuring expenses:		
Employee termination benefits	$ 5,812	$ 58,284
Communication and data processing	772	828
Supplies and equipment	445	1,397
Occupancy		3,280
Other	8,277	17,836
Total restructuring expenses	$ 15,306	$ 81,625

Employee termination benefits include charges for executives of the Company for the three and nine months ended September 30, 2008 of $3.2 million and $15.6 million, respectively, and charges for associates of the Company for the three and nine months ended September 30, 2008 of $2.6 million and $42.7 million, respectively.

The Company made $27.0 million and $71.5 million in cash payments for restructuring charges during the three and nine months ended September 30, 2008 that related to employee termination benefits. Restructuring accrual activity associated with the Company s cost initiative for the three and nine months ended September 30, 2008 was as follows:

	Three months ended September 30, 2008	Nine months ended September 30, 2008
Restructuring accrual activity:		
Balance, beginning of period	$ 84,983	$ 67,961
Restructuring charges	15,306	81,625
Cash payments	(27,031)	(71,521)
Noncash write-downs and other adjustments	(3,016)	(7,823)
Balance, end of period	$ 70,242	$ 70,242

Note 12

Subsequent Events

On October 27, 2008, the Company announced its intention to take part in the U.S. Treasury s Capital Purchase Program (CPP). Under the CPP the U.S. Treasury will purchase $3.55 billion of Capital One preferred stock, which pay dividends of 5% per year for the first five years and 9% thereafter. The Company can buy back these shares at any time, under certain circumstances. The CPP s terms, which are consistent across the program, include, among other things, a requirement to receive the U.S. Treasury s consent to increase dividends on common stock and the U.S. Treasury s consent to repurchase common stock or junior preferred shares. The U.S. Treasury s term sheet describing the CPP is available on its website at www.ustreas.gov. In addition, the U.S. Treasury will receive a ten year right to purchase approximately $532.5 million in Capital One common stock, based on the market price of our common stock, calculated on a 20-trading day trailing average, on the date the transaction closes.

24

Table of Contents

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***
(Dollars in thousands) (yields and rates presented on an annualized basis)

I. Introduction

Capital One Financial Corporation (the Corporation) is a diversified financial services company whose banking and non-banking subsidiaries market a variety of financial products and services. The Corporation s principal subsidiaries are:

- Capital One Bank (USA), National Association (COBNA) which currently offers credit and debit card products, other lending products and deposit products.

- Capital One, National Association (CONA) which offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients.

During the first half of 2008, the Corporation completed several reorganizations and consolidations to streamline operations and regulatory relationships. On January 1, Capital One Auto Finance Inc. (COAF) moved from a direct subsidiary of the Corporation to become a direct operating subsidiary of CONA. In connection with the COAF move, one of COAF s direct operating subsidiaries, Onyx Acceptance Corporation (Onyx), became a direct subsidiary of the Corporation. On March 1, the Corporation converted Capital One Bank from a Virginia-state chartered bank to a national association called Capital One Bank (USA), National Association. On March 8, Superior Savings of New England, N.A. (Superior) merged with and into CONA. Both COBNA and CONA are primarily regulated by the Office of the Comptroller of the Currency (the OCC). In May 2008, we consolidated the business and operations of two registered broker-dealers, Capital One Securities, LLC (dba Capital One Investments, LLC) and Capital One Investment Services Corporation (formerly NFB Investment Services Corporation), into Capital One Investments Services Corporation. In addition, in May 2008, we consolidated the business and operations of three insurance agencies, Capital One Agency Corp., GreenPoint Agency, Inc. and Hibernia Insurance Agency, LLC into Green Point Agency, Inc., which is now known as Capital One Agency LLC.

The Corporation and its subsidiaries are hereafter collectively referred to as the Company .

The Company s earnings are primarily driven by lending to consumers and commercial customers and by deposit-taking activities which generate net interest income, and by activities that generate non-interest income, including the sale and servicing of loans and providing fee-based services to customers. Customer usage and payment patterns, credit quality, levels of marketing expense and operating efficiency all affect the Company s profitability.

The Company s primary expenses are the costs of funding assets, provision for loan losses, operating expenses (including associate salaries and benefits, infrastructure maintenance and enhancements, and branch operations and expansion costs), marketing expenses, and income taxes.

During the first quarter of 2008, the Company reorganized its National Lending sub-segments. Segment and sub-segment results have been restated for all periods presented. The National Lending segment consists of the following sub-segments:

- U.S. Card sub-segment which consists of the Company s domestic credit card business, including small business credit cards, and the installment loan businesses.

- Other National Lending sub-segment which includes the Company s auto finance business and international lending businesses.

II. Critical Accounting Estimates

See our Annual Report on Form 10-K for the year ended December 31, 2007, Part I, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations for a summary of our critical accounting estimates.

Fair Value Measurements

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS 157) for all financial assets and liabilities and for nonfinancial assets and liabilities measured at fair value on a recurring basis. Under FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), the Company elected to defer the adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities measured on a nonrecurring basis. SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The initial adoption of SFAS 157 did not have a material impact on the consolidated earnings and financial position of the Company. There are no material assets or liabilities recognized or disclosed at fair value for which the Company has not applied the provisions of SFAS 157.

Table of Contents

Effective January 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value with changes in fair value included in current earnings. The election is made on specified election dates, can be made on an instrument by instrument basis, and is irrevocable. The initial adoption of SFAS 159 did not have a material impact on the consolidated earnings and financial position of the Company.

Additional information is included in this Quarterly Report under the heading Notes to Consolidated Financial Statements Note 1 Summary of Significant Accounting Policies and Note 7 Fair Value of Assets and Liabilities.

III. Off-Balance Sheet Arrangements

See our Annual Report on Form 10-K for the year ended December 31, 2007, Part III, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations for a summary of the Company s off-balance sheet arrangements.

Of the Company s total managed loans, 34% and 35% were included in off-balance sheet securitizations for the periods ended September 30, 2008 and September 30, 2007, respectively.

In April 2008, The Financial Accounting Standards Board (FASB) voted to eliminate Qualifying Special Purpose Entities (QSPEs) from the guidance in SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. On September 15, 2008, the FASB issued exposure drafts to amend SFAS 140 and FIN46R. The two proposed Statements would significantly change accounting for transfers of financials assets, due to elimination of the concept of a QSPE, and would change the criteria for determining whether to consolidate a VIE. The proposals are currently in a public comment period and are subject to change. As the proposals stand, however, the change would have a significant impact on the Company's consolidated financial statements as a result of the loss of sales treatment for assets previously sold to a QSPE, as well as for future sales. As of September 30, 2008, the total assets of QSPEs to which the Company has transferred and received sales treatment were $49.4 billion.

IV. Reconciliation to GAAP Financial Measures

The Company s consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) are referred to as its reported financial statements. Loans included in securitization transactions which qualify as sales under GAAP have been removed from the Company s reported balance sheet. However, servicing fees, finance charges, and other fees, net of charge-offs, and interest paid to investors of securitizations are recognized as servicing and securitizations income on the reported income statement.

The Company s managed consolidated financial statements reflect adjustments made related to effects of securitization transactions qualifying as sales under GAAP. The Company generates earnings from its managed loan portfolio which includes both the on-balance sheet loans and off-balance sheet loans. The Company s managed income statement takes the components of the servicing and securitizations income generated from the securitized portfolio and distributes the revenue and expense to appropriate income statement line items from which it originated. For this reason, the Company believes the managed consolidated financial statements and related managed metrics to be useful to stakeholders.

As of and for the three months ended September 30, 2008

(Dollars in thousands)	Total Reported	Securitization Adjustments[1]	Total Managed[2]
Income Statement Measures[3]			
Net interest income	$ 1,806,645	$ 1,082,685	$ 2,889,330
Non-interest income	1,696,891	(371,332)	1,325,559
Total revenue	3,503,536	711,353	4,214,889
Provision for loan and lease losses	1,093,917	711,353	1,805,270
Net charge-offs	$ 872,077	$ 711,353	$ 1,583,430
Balance Sheet Measures			
Loans held for investment	$ 97,965,351	$ 49,380,395	$ 147,345,746
Total assets	154,803,113	48,668,878	203,471,991

Average loans held for investment	98,778,393	48,469,005	147,247,398
Average earning assets	133,314,755	46,475,814	179,790,569
Average total assets	156,997,954	47,735,935	204,733,889
Delinquencies	$ 3,768,339	$ 2,106,140	$ 5,874,479

(1) Income statement adjustments for the three months ended September 30, 2008 reclassify the net of finance charges of $1,369.0 million, past due fees of $240.8 million, other interest income of $(35.3) million and interest expense of $491.8 million; and net charge-offs of $711.4 million to non-interest income from net interest income and provision for loan and lease losses, respectively.

Table of Contents

(2) The managed loan portfolio does not include mortgage loans or auto loans which have been sold in whole loan sale transactions where the Company has retained servicing rights.
(3) Based on continuing operations.

V. Management Summary

Discontinued Operations

In the third quarter of 2007, the Company shut down the mortgage origination operations of its wholesale mortgage banking unit, GreenPoint. GreenPoint was acquired by the Company in December 2006 as part of the North Fork Bancorporation acquisition. The results of the mortgage origination operations of GreenPoint have been accounted for as discontinued operations and, accordingly, separately disclosed from the Company s results of continuing operations for 2008 and 2007. Additional information is included in this Quarterly Report under the heading Notes to the Consolidated Financial Statements Note 2 Discontinued Operations.

Continuing Operations

The following discussion provides a summary of the third quarter of 2008 results compared to the same period in the prior year. All comparisons are based on continuing operations unless otherwise noted.

Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

Net income was $374.1 million, or $1.00 per share (diluted) for the three months ended September 30, 2008, compared to the net loss of $81.7 million, or $0.21 per share (diluted) for the three months ended September 30, 2007. Net income in the third quarter 2008 included an after-tax loss from discontinued operations of $11.7 million, or $0.03 per share (diluted), compared to an after-tax loss from discontinued operations of $898.0 million, or $2.32 per share (diluted) in the third quarter of 2007.

Income from continuing operations for the third quarter 2008 was $385.8 million, a decrease of $430.6 million, or 53% from $816.4 million in the third quarter 2007. Diluted earnings per share from continuing operations for the third quarter of 2008 were $1.03, a decrease of 51% from $2.09 in the third quarter 2007.

Results from continuing operations for the three months ended September 30, 2008 include:

An increase of $264.8 million in the provision for loan and lease losses from June 30, 2008 due to an increase in the expected losses as a result of the continued weakness in the global economy and associated deterioration in credit, resulting in an increase in our coverage ratio of allowance to loans held for investment.

A $66.7 million write down in the Company s interest-only strip recorded in non-interest income.

Q3 2008 Significant Events

Weakening Global Economy and Credit Deterioration

The continuing weakness in the global economy and associated credit deterioration has impacted the Company in multiple ways during the quarter, including:

Increased managed charge-off rate and managed delinquency rate to 4.30% and 3.99% from 4.15% and 3.64% in the second quarter 2008, respectively,

Increased the allowance for loan and leases losses by $208.6 million to $3.5 billion,

Continued to tighten underwriting resulting in modest growth in our managed loans held for investment of $147.3 billion, an increase of $99.0 million from the second quarter 2008.

Our revenue margin, risk-adjusted margin and net interest margin recovered modestly to 9.38%, 5.86% and 6.43%, from 9.12%, 5.70% and 6.22% in the second quarter 2008, respectively. The changes in our margins from the second quarter 2008 were due to the following factors:

- an increase in early stage delinquencies compared to the second quarter 2008, which increases past due fees recorded in interest income,
- seasonal impacts resulting in growth in our U.S. Card portfolio, which drove higher interest income,
- a decrease in our average cost of funds during the third quarter 2008 from 3.42% to 3.35%, and
- the $66.7 million write-down in the interest-only strip during the third quarter, which suppressed our margins.

Table of Contents

Secondary Equity Offering

On September 30, 2008, the Company raised approximately $750 million through the issuance of 15,527,000 shares of common stock at $49 per share.

Subsequent Event

U.S. Treasury Department s Capital Purchase Program Participation

On October 27, 2008, the Company announced its intention to take part in the U.S. Treasury s Capital Purchase Program (CPP). Under the CPP the U.S. Treasury will purchase $3.55 billion of Capital One preferred stock, which pay dividends of 5% per year for the first five years and 9% thereafter. The Company can buy back these shares at any time, under certain circumstances. The CPP s terms, which are consistent across the program, include, among other things, a requirement to receive the U.S. Treasury s consent to increase dividends on common stock and the U.S. Treasury s consent to repurchase common stock or junior preferred shares. The U.S. Treasury s term sheet describing the CPP is available on its website at www.ustreas.gov. In addition, the U.S. Treasury will receive a ten year right to purchase approximately $532.5 million in Capital One common stock, based on the market price of our common stock, calculated on a 20-trading day trailing average, on the date the transaction closes.

The Company is considered well-capitalized under the applicable capital adequacy guidelines and did not need to participate in the CPP. However, the Company concluded, following careful analysis and consultation with our regulators, that the CPP was an important step in supporting the financial and economic stability of the U.S. and that the U.S. Treasury s investment provided an attractive alternative source of capital which we can use for the benefit or our customers and investors.

Business Outlook

The statements contained in this section are based on our current expectations regarding the Corporation s 2008 financial results and business strategies. Certain statements are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those in our forward looking statements. Factors that could materially influence results are set forth throughout this section and in Item 1A Risk Factors of this Form 10-Q and the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007.

2008 Expectations

Like many banks, Capital One expects to face continuing challenges due to the state of the global economy. Expectations for 2008 financial and business results include:

- Low single-digit percentage reduction in year-end volume of managed loan balances;
- Double digit percentage growth in year-end deposit balances;
- Low single digit percentage revenue growth, consistent with low single-digit growth in average loans;
- The efficiency ratio for the 4th quarter of 2008 is expected to increase as a result of seasonal increases in operating expenses. However, the Corporation continues to expect that full-year efficiency ratio will finish in the mid-40% range or lower.
- Operating expenses for 2008 will be around $6.2 billion, a reduction of approximately $400 million from 2007 operating expenses

Increased delinquency and charge-off rates;

A tangible common equity (TCE) ratio above 6 percent; and

Quarterly dividends of $0.375 per share throughout 2008.

Operating Segments

In the Local Banking segment, the Corporation expects flat loan growth for the remainder of 2008, as an expected decrease in residential mortgages and small ticket commercial real estate loans continues to offset expected growth in commercial loans. The Corporation expects double-digit percentage deposit growth across the Corporation, with continued single-digit deposit growth in the Local Banking segment due to increased product and marketing efforts in its branch and direct banking channels.

In the National Lending businesses, the Corporation expects several factors, including weakening consumer credit and uncertainty regarding the broader economy, to negatively impact financial results through 2008 and into 2009.

In the U.S. Card sub-segment, the Corporation expects the competitive environment to remain challenging, despite the continued degradation seen in the broader economy.

The Corporation expects the U.S. Card managed charge-off rate for fourth quarter 2008 to be around 7%, and to increase to the mid-7% range in the first quarter of 2009 due to typical seasonal patterns, continued weakening economic indicators as experienced in the first three quarters of 2008, the abatement of stimulus checks, and the initial impacts of adopting OCC minimum payment rules as noted below.

Table of Contents

The Corporation expects to maintain a cautious approach to its underwriting and marketing practices. In 2008, the Corporation expects slightly higher year-end loan balances in U.S. Card, driven by expected seasonal balance growth, continuing payment rate trends, and fewer balance transfers away from the Corporation. The Corporation also expects to continue to implement process and efficiency improvements.

In the Auto Finance sub-segment, the Corporation expects to continue to face challenges from the seasoning of loans originated in 2006 and 2007 and from broader cyclical economic challenges. The Corporation expects that the combination of these factors will continue to impact the performance of the Auto Finance business through 2009.

The Corporation has reduced its automobile finance originations across the credit spectrum, particularly by originating loans to less risky customers within the subprime market in lieu of those the Corporation believes to be most risky, and by largely ceasing its originations of automobile loans to near prime consumers. The Auto Finance business is also focusing on a smaller network of dealers who have historically produced loans with better credit and profit performance.

Overall, the Corporation expects automobile financing loan originations to be at least 45% lower during 2008 than during 2007. As a result, the Company expects charge-offs and delinquencies arising from its automobile finance loans originated in 2008 to be lower than from those originated in 2007. The Corporation also expects its automobile finance charge-off and delinquency rates, as well as its operating expenses as a percentage of loans, to increase as outstanding automobile loan assets decrease. The Corporation will continue to monitor the performance of its Auto Finance business, especially the performance of new originations, and is prepared to take further actions based on future results and industry conditions over the next few quarters.

In the International businesses, the Corporation remains cautious about its U.K. credit card business due to degrading economic trends in the U.K. The Corporation expects continued stable performance in its Canadian credit card business.

OCC Minimum Payment Rules

In March 2008, COBNA converted from a Virginia state-charted bank to a national association, which is regulated by the OCC. The OCC has minimum payment policies for the credit card industry designed to force modest positive amortization for all card accounts.

Under the new policy, the monthly minimum payment will be set at 1% of principal balance, plus all interest assessed in the prior cycle, plus any past due fees and certain other fees assessed in the prior cycle. This compares to the Company s previous policy, which for most accounts is a flat 3% of principal balance. This will have the effect of increasing the minimum payment for delinquent customers, while lowering it for many customers who are current.

The Company has been conducting a phased conversion of the U.S. Card portfolio to the OCC minimum payment policies with the full portfolio being converted by year end 2008. The Company has been analyzing the expected impacts on delinquencies and charge offs and believes that the implementation of this policy will cause delinquencies and roll rates to increase starting in early 2009. The Company expects the conversion to increase the U.S. Card charge-off rate by approximately 10 basis points in the first quarter of 2009, and by approximately 50 basis points in subsequent quarters of 2009. The Company s analysis also indicates that the charge-off impacts will begin to cure somewhat in 2010 as customers adjust to the new minimum payment policies. These estimated impacts are included in the company s expected U.S. Card charge-off rates discussed above, and in the Company s outlook for total company managed charge-off dollars for the next twelve months associated with the allowance for loan losses, discussed in section VI, Summary of the Reported Income Statement, allowance for loan and lease losses.

VI. Financial Summary

Table 1 provides a summary view of the consolidated income statement and selected metrics for the Company as of and for the three and nine month periods ended September 30, 2008 and 2007.

Table 1: Financial Summary

	As of and for the Three Months Ended September 30			As of and for the Nine Months Ended September 30		
(Dollars in thousands)	**2008**	**2007[3]**	**Change**	**2008**	**2007[3]**	**Change**
Earnings (Reported):						

Net interest income	**$ 1,806,645**	$ 1,624,474	$ 182,171	**$ 5,346,318**	4,767,598	578,720
Non-interest income:						
Servicing and securitizations	**875,718**	1,354,303	(478,585)	**2,793,520**	3,569,281	(775,761)
Service charges and other customer-related fees	**576,762**	522,374	54,388	**1,675,032**	1,484,820	190,212

Table of Contents

(Dollars in thousands)	As of and for the Three Months Ended September 30 2008	2007[3]	Change	As of and for the Nine Months Ended September 30 2008	2007[3]	Change
Mortgage servicing and other	**39,183**	52,661	(13,478)	**90,990**	172,476	(81,486)
Interchange	**148,076**	103,799	44,277	**432,708**	347,889	84,819
Other	**57,152**	116,525	(59,373)	**383,435**	321,417	62,018
Total non-interest income	**1,696,891**	2,149,662	(452,771)	**5,375,685**	5,895,883	(520,198)
Total Revenue[1]	**3,503,536**	3,774,136	(270,600)	**10,722,003**	10,663,481	58,522
Provision for loan and lease losses	**1,093,917**	595,534	498,383	**3,002,119**	1,342,292	1,659,827
Marketing	**267,372**	332,693	(65,321)	**853,265**	989,654	(136,389)
Restructuring expenses	**15,306**	19,354	(4,048)	**81,625**	110,428	(28,803)
Operating expenses	**1,527,528**	1,582,174	(54,646)	**4,517,194**	4,842,721	(325,527)
Income from continuing operations before taxes	**599,413**	1,244,381	(644,968)	**2,267,800**	3,378,386	(1,110,586)
Income taxes	**213,624**	428,010	(214,386)	**786,958**	1,108,279	(321,321)
Income from continuing operations, net of tax	**385,789**	816,371	(430,582)	**1,480,842**	2,270,107	(789,265)
Loss from discontinued operations, net of tax	**(11,650)**	(898,029)	886,379	**(105,294)**	(926,343)	821,049
Net income (loss)	**374,139**	(81,658)	455,797	**1,375,548**	1,343,764	31,784
Common Share Statistics:						
Basic EPS:						
Income from continuing operations, net of tax	**$ 1.03**	$ 2.11	$ (1.08)	**$ 3.98**	$ 5.74	$ (1.76)
Loss from discontinued operations, net of tax	**(0.03)**	(2.32)	2.29	**(0.28)**	(2.34)	2.06
Net income (loss)	**$ 1.00**	$ (0.21)	$ (1.21)	**$ 3.70**	$ 3.40	$ 0.30
Diluted EPS:						
Income from continuing operations, net of tax	**$ 1.03**	$ 2.09	$ (1.06)	**$ 3.96**	$ 5.66	$ (1.70)
Loss from discontinued operations, net of tax	**(0.03)**	(2.30)	2.27	**(0.28)**	(2.31)	2.03
Net income (loss)	**$ 1.00**	$ (0.21)	$ 1.21	**$ 3.68**	$ 3.35	$ 0.33
Selected Balance Sheet Data: [2]						
Reported loans held for investment (period end)	**$ 97,965,351**	$ 93,788,507	$ 4,176,844	**$ 97,965,351**	$ 93,788,507	$ 4,176,844
Managed loans held for investment (period end)	**147,345,746**	144,768,561	2,577,185	**147,345,746**	144,768,561	2,577,185
Reported loans held for investment (average)	**98,778,393**	91,744,846	7,033,547	**98,848,686**	92,111,953	6,736,733
Managed loans held for investment (average)	**147,247,398**	143,781,268	3,466,130	**148,223,952**	143,501,913	4,722,039
Allowance for loan and lease losses	**(3,519,610)**	(2,320,000)	(1,199,610)	**(3,519,610)**	(2,320,000)	(1,199,610)
Interest bearing deposits (period end)	**88,247,688**	72,284,840	15,962,848	**88,247,688**	72,284,840	15,962,848
Total deposits (period end)	**98,912,974**	83,125,029	15,787,945	**98,912,974**	83,125,029	15,787,945
Interest bearing deposits (average)	**84,654,608**	73,337,939	11,316,669	**79,241,009**	74,333,994	4,907,015

Total deposits (average)	**95,328,030**	84,667,245	10,660,785	**89,957,584**	85,666,297	4,291,287
Selected Company Metrics (Reported): [2]						
Return on average assets (ROA)	**0.98%**	2.28%	(1.30)%	**1.28%**	2.12%	(0.84)%
Return on average equity (ROE)	**6.16%**	12.89%	(6.73)%	**7.96%**	11.94%	(3.98)%
Net charge-off rate	**3.53%**	2.09%	1.44%	**3.28%**	1.90%	1.38%
Delinquency rate (30+ days)	**3.85%**	3.22%	0.63%	**3.85%**	3.22%	0.63%
Net interest margin	**5.42%**	5.49%	(0.07)%	**5.45%**	5.32%	0.13%
Revenue margin	**10.51%**	12.83%	(2.32)%	**10.92%**	11.92%	(1.00)%
Risk adjusted margin [4]	**7.90%**	11.13%	(3.23)%	**8.44%**	10.44%	(2.00)%
Selected Company Metrics (Managed): [2]						
Return on average assets (ROA)	**0.75%**	1.68%	(0.93)%	**0.97%**	1.56%	(0.59)%

Table of Contents

(Dollars in thousands)	As of and for the Three Months Ended September 30 2008	2007[3]	Change	As of and for the Nine Months Ended September 30 2008	2007[3]	Change
Net charge-off rate	**4.30%**	2.86%	1.44%	**4.14%**	2.66%	1.48%
Delinquency rate (30+ days)	**3.99%**	3.48%	0.51%	**3.99%**	3.48%	0.51%
Efficiency ratio [5]	**42.58%**	44.31%	(1.73)%	**41.67%**	47.73%	(6.06)%
Net interest margin	**6.43%**	6.67%	(0.24)%	**6.47%**	6.34%	0.13%
Revenue margin	**9.38%**	10.27%	(0.89)%	**9.64%**	9.67%	(0.03)%
Risk adjusted margin [4]	**5.86%**	7.83%	(1.97)%	**6.20%**	7.92%	(1.72)%

(1) In accordance with our finance charge and fee revenue recognition policy, the amounts billed to customers but not recognized as revenue were $445.7 million and $310.5 million for the three months ended September 30, 2008 and 2007, respectively, and $1,329.3 and $760.5 million for the nine months ended September 30, 2008 and 2007, respectively.
(2) Based on continuing operations.
(3) Certain prior period amounts have been reclassified to conform to current period presentation.
(4) Risk adjusted margin equals total revenue less net charge-offs as a percentage of average earning assets.
(5) Efficiency ratio equals non-interest expense less restructuring expense divided by total revenue.

Summary of the Reported Income Statement

The following is a detailed description of the financial results reflected in Table 1 Financial Summary. Additional information is provided in section XII, Tabular Summary as detailed in sections below.

All quarterly comparisons are made between the three month period ended September 30, 2008 and the three month period ended September 30, 2007 on a continuing operations basis, unless otherwise noted. All year to date comparisons are made between the nine month period ended September 30, 2008 and the nine month period ended September 30, 2007, on a continuing operations basis, unless otherwise noted. Each component is discussed in further detail in subsequent sections of this analysis.

Net interest income

Net interest income is comprised of interest income and past-due fees earned and deemed collectible from loans and income earned on securities, less interest expense on interest-bearing deposits, senior and subordinated notes and other borrowings.

For the three months ended September 30, 2008, reported net interest income increased 11.2%, or $182.2 million. Net interest margin decreased 7 basis points to 5.42% for the three months ended September 30, 2008 from 5.49% for the three months ended September 30, 2007.

For the nine months ended September 30, 2008, reported net interest income increased 12.1%, or $578.7 million. Net interest margin increased 13 basis points to 5.45% for the nine months ended September 30, 2008 from 5.32% for the nine months ended September 30, 2007.

The increases in net interest income were primarily driven by modest loan growth and increased margins in the U.S. Card sub-segment due to selective pricing changes implemented after the completion of the card holder system conversion in 2007.

For additional information, see section XII, Tabular Summary, Table A (Statements of Average Balances, Income and Expense, Yields and Rates) and Table B (Interest Variance Analysis).

Non-interest income

Non-interest income is comprised of servicing and securitizations income, service charges and other customer-related fees, mortgage servicing and other, interchange income and other non-interest income.

For the three months ended September 30, 2008, reported non-interest income decreased 21.1% compared to the three months ended September 30, 2007. The decrease was due to decreases in servicing and securitizations and a reduction in mortgage servicing and other.

For the nine months ended September 30, 2008, reported non-interest income decreased 8.8% compared to the nine months ended September 30, 2007. The decrease was due to decreases in servicing and securitizations and a reduction in mortgage servicing and other.

See detailed discussion of the components of non-interest income below.

Table of Contents

Servicing and Securitizations Income

Servicing and securitizations income represents servicing fees, excess spread and other fees derived from the off-balance sheet loan portfolio, adjustments to the fair value of retained interests derived through securitization transactions, as well as gains and losses resulting from securitization and other sales transactions.

For the three months ended September 30, 2008, servicing and securitizations income decreased 35.3% to $875.7 million from $1.4 billion for the three months ended September 30, 2007.

For the nine months ended September 30, 2008, servicing and securitizations income decreased 21.7% to $2.8 billion from $3.6 billion for the nine months ended September 30, 2007.

The decrease was due to the reduction in the interest-only strip caused by higher expected charge-offs in the securitized portfolio as a result of the worsening credit environment.

Service Charges and Other Customer-Related Fees

For the three months ended September 30, 2008, service charges and other customer-related fees grew 10.4% to $576.8 million from $522.4 million in the third quarter of 2007.

For the nine months ended September 30, 2008, service charges and other customer-related fees grew 12.8% to $1.7 billion from $1.5 billion for the nine months ended September 30, 2007.

The increase was due to the U.S. Card sub-segment selective pricing and fee changes implemented late in the second and third quarters of 2007.

Mortgage Servicing and Other

Mortgage servicing and other is comprised of non-interest income related to our continuing mortgage servicing business and other mortgage related income. For the three months ended September 30, 2008, mortgage servicing and other income decreased 25.6% to $39.2 million from $52.7 million in the same period of 2007.

For the nine months ended September 30, 2008, mortgage servicing and other income decreased 47.2% to $91.0 million from $172.5 million in the same period of 2007.

The decrease was due to the changes in fair value of the mortgage servicing rights attributable to the run-off of the portfolio and the discontinuance of originations subsequent to the shutdown of GreenPoint s mortgage origination business in 2007.

Interchange

Interchange income increased $44.3 million to $148.1 million for the three months ended September 30, 2008 and increased $84.8 million to $432.7 million for the nine months ended September 30, 2008, due to an increase in purchase volume of 23.0% for the three months ended and 18.1% for the nine months ended, partially offset by higher costs associated with the rewards program.

Other Non-Interest Income

Other non-interest income includes, among other items, gains and losses on sales of securities, gains and losses associated with derivative transactions and revenue generated by our healthcare finance business.

Other non-interest income for the three months ended September 30, 2008 decreased 51.0% or $59.4 million to $57.2 million and for the nine months ended September 30, 2008 increased 19.3% or $62.0 million to $383.4 million. The increase for the nine months ended September 30, 2008 is primarily the result of recognizing a gain of $44.9 million from the conversion and sale of shares of MasterCard class B common stock in the second quarter of 2008, and the gains of $109.0 million from the redemption of 2.5 million shares related to the Visa IPO and $52.0 million from the repurchase of senior unsecured debt in the first quarter of 2008.

Provision for loan and lease losses

Provision for loan and lease losses increased $498.4 million to $1.1 billion for the three months ended September 30, 2008, compared to the same period in the prior year.

Provision for loan and lease losses increased $1.7 billion to $3.0 billion for the nine months ended September 30, 2008, compared to the same period in the prior year.

The increase in provision is a result of continued economic weakening and charge-off and delinquency trends.

Table of Contents

Non-interest expense

Non-interest expense consists of marketing, restructuring and operating expenses.

Non-interest expense decreased 6.4% to $1.8 billion for the three months ended September 30, 2008. The decrease is due to decreased salary and associate benefit expenses of $55.7 million and decreased marketing expenses of $65.3 million.

Non-interest expense decreased 8.3% to $5.5 billion for the nine months ended September 30, 2008. The decrease is due to decreased salary and associate benefit expenses of $208.8 million and decreased marketing expenses of $136.4 million.

Marketing expenses decreased as a result of changes in the mix of marketing channels and selected pullbacks across all segments. Operating expenses were also lower as a result of continued focus on efficiency gains.

Income taxes

The Company s effective income tax rate was 35.6% and 34.7% for the three month and nine month periods ended September 30, 2008, respectively, compared to 34.4% and 32.8% for the same periods in the prior year. The effective rate includes federal, state, and international tax components. The increase in the rate for the three and nine month periods ended September 30, 2008 was primarily due to decreases in certain tax credits and a $69.0 million one-time tax benefit recognized in the second quarter of 2007 related to the Company s international tax position.

During the nine months ended September 30, 2008, the Company settled a number of federal and state tax examinations of acquired subsidiaries related to pre-acquisition tax periods. Those settlements resulted in a reduction in the amount of gross unrecognized tax benefits of approximately $50.0 million.

Loan Portfolio Summary

The Company analyzes its financial performance on a managed loan portfolio basis. The managed loan portfolio is comprised of on-balance sheet and off-balance sheet loans. The Company has retained servicing rights for its securitized loans and receives servicing fees in addition to the excess spread generated from the off-balance sheet loan portfolio.

Average managed loans held for investment grew 2.4%, or $3.5 billion compared to the three months ended September 30, 2007. The increase was seen in both our National Lending segment and our Local Banking segment which had increases of $337.2 million and $2.3 billion, respectively.

Average managed loans held for investment grew 3.3%, or $4.7 billion compared to the nine months ended September 30, 2007. The increase primarily consisted of an increase of $1.7 billion in the National Lending segment and an increase of $2.2 billion in the Local Banking segment.

For additional information, see the discussion of segment results in section VII, Reportable Segment Summary and see section XII, Tabular Summary, Table C (Managed Consumer Loan Portfolio) and Table D (Composition of Reported Loan Portfolio).

Delinquencies

The Company believes delinquencies to be an indicator of loan portfolio credit quality at a point in time.

The 30-plus day delinquency rate for the reported and managed consumer loan portfolio for the third quarter of 2008 increased 63 and 51 basis points to 3.85% and 3.99%, respectively, compared to the same period in the prior year. The increases are attributed to the impact of selective pricing and fee policy changes late in the second quarter of 2007 and continued economic weakening.

For additional information, see section XII, Tabular Summary, Table E (Delinquencies).

Net Charge-Offs

Net charge-offs include the principal amount of losses (excluding accrued and unpaid finance charges and fees and fraud losses) less current period principal recoveries. We charge off credit card loans at 180 days past the statement cycle date and generally charge off other consumer

loans at 120 days past the due date or upon repossession of collateral. Bankruptcies charge-off within 30 days of notification and deceased customers accounts charge-off within 60 days of notification. Commercial loans are charged-off when the amounts are deemed uncollectible. Costs to recover previously charged-off accounts are recorded as collections expense in other non-interest expense.

The reported and managed net charge-off rates each increased 144 basis points, with net charge-off dollars increasing 82% and 54% on a reported and managed basis, respectively, for the three months ended September 30, 2008 compared to the same period in the prior year.

Table of Contents

The reported and managed net charge-off rates increased 138 and 148 basis points, respectively, with net charge-off dollars increasing 86% and 60% on a reported and managed basis, respectively, for the nine months ended September 30, 2008 compared to the same period in the prior year.

The increase in net charge-off rates is attributed to the impact of selective pricing and fee policy changes, which increased the underlying customer balances, and the continued economic weakening in the U.S.

For additional information, see section XII, Tabular Summary, Table F (Net Charge-offs).

Nonperforming Loans

Nonperforming loans include commercial loans, consumer real estate and auto loans that are placed in nonaccrual status at 90 days past due or sooner if, in management s opinion, there is doubt concerning full collectibility of both principal and interest. All other consumer loans and small business credit card loans are not placed in nonaccrual status prior to charge-off.

At the time a loan is placed on nonaccrual status, interest and fees accrued but not collected through the end of the previous quarter are systematically reversed and charged against income. Interest payments received on nonaccrual loans are applied to principal if there is doubt as to the collectibility of the principal; otherwise, these receipts are recorded as interest income. A loan remains in nonaccrual status until it is current as to principal and interest and the borrower demonstrates the ability to fulfill the contractual obligation.

Nonperforming loans as a percentage of total loans held for investment were 0.67% and 0.31% at September 30, 2008 and 2007, respectively.

For additional information, see section XII, Tabular Summary, Table G (Nonperforming Assets).

Allowance for loan and lease losses

The allowance for loan and lease losses related to loans held for investment increased $1.2 billion, or 52% to $3.5 billion at September 30, 2008 from $2.3 billion at September 30, 2007. The increase is driven primarily by continued economic weakening and charge-off and delinquency trends in our National Lending businesses. The allowance for loan and lease losses of $3.5 billion is consistent with an outlook of $7.2 billion in managed charge-offs through the end of the third quarter of 2009.

For additional information, see section XII, Tabular Summary, Table H (Summary of Allowance for Loan and Lease Losses).

VII. Reportable Segment Summary

We manage our business as two distinct operating segments: Local Banking and National Lending. The Local Banking and National Lending segments are considered reportable segments based on quantitative thresholds applied to the managed loan portfolio for reportable segments provided by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information.*

As management makes decisions on a managed basis within each segment, information about reportable segments is provided on a managed basis.

We maintain our books and records on a legal entity basis for the preparation of financial statements in conformity with GAAP. The following table presents information prepared from our internal management information system, which is maintained on a line of business level through allocations from legal entities.

Local Banking Segment

Table 2: Local Banking

	Three Months Ended September 30,	Nine Months Ended September 30,

(Dollars in thousands)	2008	2007	2008	2007
Earnings (Managed Basis)				
Interest income	**$ 1,519,217**	$ 1,751,898	**$ 4,584,154**	$ 5,229,944
Interest expense	**895,481**	1,165,594	**2,803,759**	3,478,428
Net interest income	**623,736**	586,304	**1,780,395**	1,751,516
Non-interest income	**215,701**	232,662	**623,928**	733,636
Total revenue	**839,437**	818,966	**2,404,323**	2,485,152
Provision for loan and lease losses	**81,052**	(58,192)	**233,489**	(10,487)
Non-interest expense	**622,697**	577,309	**1,815,259**	1,744,012
Income before taxes	**135,688**	299,849	**355,575**	751,627

Table of Contents

(Dollars in thousands)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Income taxes	**47,491**	104,353	**124,451**	262,136
Net income	**$ 88,197**	$ 195,496	**$ 231,124**	$ 489,491
Selected Metrics (Managed Basis)				
Commercial lending				
Commercial and multi-family real estate[4]	**$ 13,043,369**	$ 11,961,400	**$ 13,043,369**	$ 11,961,400
Middle market[5]	**9,768,420**	7,544,926	**9,768,420**	7,544,926
Small ticket commercial real estate[6]	**2,695,570**	2,335,012	**2,695,570**	2,335,012
Specialty lending[7]	**3,634,212**	3,019,100	**3,634,212**	3,019,100
Total commercial lending	**29,141,571**	24,860,438	**29,141,571**	24,860,438
Small business lending[8]	**4,580,299**	4,612,400	**4,580,299**	4,612,400
Consumer lending				
Mortgages[9]	**7,402,290**	8,902,468	**7,402,290**	8,902,468
Branch based home equity & other consumer[10]	**3,782,342**	4,075,828	**3,782,342**	4,075,828
Total consumer lending	**11,184,632**	12,978,296	**11,184,632**	12,978,296
Other[11]	**(243,684)**	(217,469)	**(243,684)**	(217,469)
Period end loans held for investment	**$ 44,662,818**	$ 42,233,665	**$ 44,662,818**	$ 42,233,665
Average loans held for investment	**$ 44,319,475**	$ 41,992,618	**$ 44,153,047**	$ 41,983,812
Core deposits[1]	**$ 64,386,336**	$ 62,494,588	**$ 64,386,336**	$ 62,494,588
Total deposits	**$ 75,045,812**	$ 72,795,566	**$ 75,045,812**	$ 72,795,566
Loans held for investment yield	**6.25%**	7.13%	**6.45%**	7.05%
Net interest margin loans[2]	**1.98%**	1.79%	**1.97%**	1.86%
Net interest margin deposits[3]	**2.18%**	2.09%	**2.05%**	2.03%
Efficiency ratio	**74.18%**	70.49%	**75.50%**	70.18%
Charge-off rates				
Commercial lending				
Commercial and multi-family real estate	**0.14%**	0.00%	**0.09%**	0.02%
Middle market	**0.15%**	(0.04)%	**0.12%**	0.02%
Small ticket commercial real estate	**0.10%**	0.35%	**0.13%**	0.17%
Specialty lending	**0.26%**	0.14%	**0.16%**	0.09%
Total commercial lending	**0.16%**	0.04%	**0.11%**	0.04%
Small business lending	**1.17%**	0.47%	**1.02%**	0.41%
Consumer lending				
Mortgages	**0.50%**	0.08%	**0.31%**	0.09%
Branch based home equity & other consumer	**1.01%**	0.79%	**1.08%**	0.66%
Total consumer lending	**0.67%**	0.31%	**0.57%**	0.26%
Net charge-off rate	**0.46%**	0.20%	**0.37%**	0.18%
Non performing loans	**$ 430,211**	$ 112,794	**$ 430,211**	$ 112,794
Foreclosed assets	**41,290**	14,083	**41,290**	14,083
Non performing assets[12]	**$ 471,501**	$ 126,877	**$ 471,501**	$ 126,877
Non performing loans as a % of loans held of investment	**0.96%**	0.27%	**0.96%**	0.27%
Non performing asset rates[12]				
Commercial lending				
Commercial and multi-family real estate	**1.06%**	0.08%	**1.06%**	0.08%
Middle market	**0.26%**	0.29%	**0.26%**	0.29%

Small ticket commercial real estate	**4.49%**	0.27%	**4.49%**	0.27%
Specialty lending	**0.38%**	0.19%	**0.38%**	0.19%
Total commercial lending	**1.03%**	0.17%	**1.03%**	0.17%
Small business lending	**1.14%**	0.93%	**1.14%**	0.93%
Consumer lending				
Mortgages	**1.41%**	0.35%	**1.41%**	0.35%
Branch based home equity & other consumer	**0.40%**	0.25%	**0.40%**	0.25%

Table of Contents

(Dollars in thousands)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Total consumer lending	**1.07%**	0.32%	**1.07%**	0.32%
Total non performing asset rate	**1.05%**	0.30%	**1.05%**	0.30%
Non-interest expense as a % of average loans held for investment	**5.62%**	5.50%	**5.48%**	5.54%
Number of active ATMs	**1,310**	1,282	**1,310**	1,282
Number of locations	**739**	732	**739**	732

(1) Includes domestic non-interest bearing deposits, NOW accounts, money market deposit accounts, savings accounts, certificates of deposit of less than $100,000 and other consumer time deposits.
(2) Net interest margin-loans equals net interest income-loans divided by average managed loans.
(3) Net interest margin-deposits equals net interest income-deposits divided by average retail deposits.
(4) Commercial and multi-family real estate targets private developers and commercial property investors and owners with credit requirements up to $100 million.
(5) Middle market focuses on businesses with annual revenues between $10 million and $250 million located within the segment s local footprint.
(6) Small ticket commercial real estate is comprised of small business products, mainly mixed-use and multifamily real-estate in the Local Banking segment.
(7) Specialty lending provides equipment leasing and other specialized lending in the national marketplace.
(8) Small business lending is focused on businesses with $10 million or less in revenues and $3 million or less in household size.
(9) Mortgage lending includes held for investment first lien residential mortgage assets.
(10) Branch based home equity and other consumer lending primarily includes home equity loans and lines of credit in the local consumer banking segment, and some consumer unsecured loans and lines of credit.
(11) Other loans held for investment includes unamortized premiums and discounts recognized on loans acquired in the North Fork and Hibernia acquisitions, certain items in process, and other loans originated by the Local Banking segment.
(12) Non performing assets is comprised of non performing loans and foreclosed assets. The non performing asset rate equals non performing assets divided by the sum of loans held for investment plus foreclosed assets.

The Local Banking segment includes the Company s branch, treasury services and national deposit gathering activities; its commercial, branch based small business lending and certain branch originated consumer lending; and its mortgage servicing and home loans origination activities.

The Banking segment contributed $88.2 million and $231.1 million of income for the three and nine months ended September 30, 2008, respectively, compared to $195.5 million and $489.5 million in the comparable periods of the prior year. At September 30, 2008, loans held for investment in the Local Banking segment totaled $44.7 billion while deposits outstanding totaled $75.0 billion. Profits are primarily generated from net interest income, which represents the spread between loan yields and the internal cost of funds charged to the business for those loans, plus the spread between deposit interest costs and the funds transfer price credited to the business for those deposits. Net interest income increased 6.4% for the quarter ended September 30, 2008 compared to the prior year quarter and 1.7% compared to the nine months ended September 30, 2007 largely due to improved loan spreads and a slight increase in deposit margins, along with increases in average loans and deposits over the prior year periods.

Non-interest income declined for the three and nine months ended September 30, 2008 compared to the same periods of the prior year as mortgage originations decreased significantly over 2007 levels due to the continued industry-wide challenges in the mortgage market. The decline in mortgage originations resulted in lower gain on sale revenue for the nine months ended September 30, 2008 of $49.3 million. In addition, the nine months ended September 30, 2008 included an increase in the representations and warranty reserves of $14.0 million which is recorded as an offset to non-interest income. The nine months ended September 30, 2007 also included a one time gain of $13.3 million from the sale of Hibernia Insurance Agency.

Provision for loan and lease losses increased for the three and nine months ended September 30, 2008 $139.2 million and $244.0 million, respectively, as additional loan loss provisions were recorded to reflect the increase in non-performing loans during the quarter. Credit quality of the segment s loan portfolio has been negatively impacted by the general economic weakening. However, losses remain at relatively low levels, with a net charge-off rate of 0.46% and 0.37% for the three and nine months ended September 30, 2008, respectively. In addition, the three months ended September 30, 2007 included a reduction in the allowance for loan losses of $80.4 million to conform the allowance methodologies of the banking business.

Non-interest expenses for the three and nine months ended September 30, 2008 were $622.7 million and $1.8 billion, respectively, compared to $577.3 million and $1.7 billion in the comparable periods of the prior year. Non-interest expenses include the direct costs of operating the branch network and commercial, small business and consumer loan businesses, marketing expenses, and certain

Table of Contents

Company-wide expenses allocated to the segment. In addition, non-interest expense includes the amortization of core deposit intangibles as well as the costs of integrating banking segment activities. During the nine months ended September 30, 2008 the Company completed the integration of its deposit systems and the conversion of its branch network in New York and New Jersey to the Capital One Bank brand. Non-interest expense increased due to integration related expenses and increases related to the full year operation of branches opened during 2007.

Table of Contents

National Lending Segment

Table 3: National Lending

(Dollars in thousands)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Earnings (Managed Basis)				
Interest income	**$ 3,251,446**	$ 3,504,019	**$ 9,963,236**	$ 10,005,282
Interest expense	**1,019,911**	1,228,280	**3,155,589**	3,602,472
Net interest income	**2,231,535**	2,275,739	**6,807,647**	6,402,810
Non-interest income	**1,195,622**	1,274,688	**3,586,546**	3,500,072
Total revenue	**3,427,157**	3,550,427	**10,394,193**	9,902,882
Provision for loan and lease losses	**1,678,513**	1,195,995	**4,826,375**	2,914,360
Other non-interest expense	**1,176,396**	1,333,688	**3,692,134**	4,058,495
Income before taxes	**572,248**	1,020,744	**1,875,684**	2,930,027
Income taxes	**200,626**	350,277	**654,325**	1,008,079
Net income	**$ 371,622**	$ 670,467	**$ 1,221,359**	$ 1,921,948
Selected Metrics (Managed Basis)				
Period end loans held for investment	**$ 101,922,850**	$ 102,556,271	**$ 101,922,850**	$ 102,556,271
Average loans held for investment	**$ 102,142,752**	$ 101,805,584	**$ 103,243,404**	$ 101,532,376
Core deposits[(1)]	**$ 2,171**	$ 470	**$ 2,171**	$ 470
Total deposits	**$ 1,650,507**	$ 2,295,131	**$ 1,650,507**	$ 2,295,131
Loans held for investment yield	**12.73%**	13.77%	**12.87%**	13.14%
Net interest margin	**8.74%**	8.94%	**8.79%**	8.41%
Revenue margin	**13.42%**	13.95%	**13.42%**	13.00%
Risk-adjusted margin	**7.57%**	9.99%	**7.80%**	9.31%
Non-interest expense as a % of average loans held for investment	**4.61%**	5.24%	**4.77%**	5.33%
Efficiency ratio	**34.33%**	37.56%	**35.52%**	40.98%
Net charge-off rate	**5.85%**	3.96%	**5.62%**	3.69%
30+ day delinquency rate	**5.43%**	4.70%	**5.43%**	4.70%
Number of accounts (000s)	**45,314**	48,473	**45,314**	48,473

(1) Includes domestic non-interest bearing deposits, NOW accounts, money market deposit accounts, savings accounts, certificates of deposit of less than $100,000 and other consumer time deposits.

The National Lending segment consists of two sub-segments: U.S. Card and Other National Lending. Other National Lending consists of Auto Finance and International.

The National Lending segment contributed $371.6 million of net income for the quarter ended September 30, 2008, compared to $670.5 million in the prior year quarter. At September 30, 2008, loans outstanding in the National Lending segment totaled $101.9 billion while deposits outstanding totaled $1.7 billion. Profits are primarily generated from net interest income, including past-due fees earned and deemed collectible from our loans, and non-interest income including the sale and servicing of loans and other fees charged to customers. Total revenue decreased 3.5% from the prior year quarter, primarily due to the selective pricing changes in the U.S. Card sub-segment which increased revenues during the second half of 2007. Provision for loan and lease losses increased $482.5 million, or 40.3% compared to the same quarter last year, driven by increased credit losses in the U.S. Card, International and Auto Finance businesses, and continued economic weakening.

38

Table of Contents

U.S. Card Sub-Segment

Table 4: U.S. Card

(Dollars in thousands)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Earnings (Managed Basis)				
Interest income	**$ 2,240,896**	$ 2,418,890	**$ 6,806,845**	$ 6,858,426
Interest expense	**624,858**	798,493	**1,923,464**	2,354,451
Net interest income	**1,616,038**	1,620,397	**4,883,381**	4,503,975
Non-interest income	**1,027,918**	1,107,801	**3,108,926**	2,972,363
Total revenue	**2,643,956**	2,728,198	**7,992,307**	7,476,338
Provision for loan and lease losses	**1,240,580**	807,318	**3,460,058**	1,837,748
Non-interest expense	**872,588**	965,351	**2,722,067**	2,958,456
Income before taxes	**530,788**	955,529	**1,810,182**	2,680,134
Income taxes	**185,775**	328,702	**633,563**	921,966
Net income	**$ 345,013**	$ 626,827	**$ 1,176,619**	$ 1,758,168
Selected Metrics (Managed Basis)				
Period end loans held for investment	**$ 69,361,743**	$ 66,687,232	**$ 69,361,743**	$ 66,687,232
Average loans held for investment	**$ 68,581,983**	$ 65,472,124	**$ 68,296,124**	$ 66,453,852
Loans held for investment yield	**13.07%**	14.56%	**13.29%**	13.76%
Net interest margin	**9.43%**	9.75%	**9.53%**	9.04%
Revenue margin	**15.42%**	16.42%	**15.60%**	15.00%
Risk adjusted margin	**9.29%**	12.56%	**9.52%**	11.29%
Non-interest expense as a % of average loans held for investment	**5.09%**	5.81%	**5.31%**	5.94%
Efficiency ratio	**33.00%**	35.38%	**34.06%**	39.57%
Net charge-off rate	**6.13%**	3.85%	**6.08%**	3.71%
30+ day delinquency rate	**4.20%**	3.80%	**4.20%**	3.80%
Purchase volume[(1)]	**$ 26,536,070**	$ 26,628,978	**$ 77,817,365**	$ 77,644,747
Number of total accounts (000s)	**37,916**	41,081	**37,916**	41,081

(1) Includes purchase transactions net of returns and excludes cash advance transactions.

The U.S. Card sub-segment consists of domestic consumer credit card lending, national small business lending, installment loans and other unsecured consumer financial service activities.

Managed loans increased by 4.0% year over year. The growth was driven primarily by recent growth in domestic consumer card, but small business card and health care loans saw moderate increases as well. Year-to-date purchase volume increased 0.2% year over year, as purchases per average active account increased for both domestic consumer and small business card portfolios, largely offset by a decline in active accounts.

For the quarter ended September 30, 2008, net income was $345.0 million, a decline of $281.8 million, or 45.0%, compared to the prior year quarter. For the nine months ended September 30, 2008, net income was $1.2 billion, a decline of $581.5 million, or 33.1% compared to the nine months ended September 30, 2007. Both declines were driven primarily by an increase in provision, partially offset by non-interest expense savings and, for the nine month period, increased revenue.

The provision for loan and lease losses increased $433.3 million, or 53.7%, compared to the third quarter of 2007. For the nine months ended September 30, 2008, provision for loan and lease losses increased $1.6 billion, or 88.3%, compared to the year ago period. The net charge-off rate for the quarter ended September 30, 2008 was 6.13%, an increase of 228 basis points compared to the same quarter last year. The net charge-off rate for the nine months ended September 30, 2008 was 6.08%, up 237 basis points compared to the nine months ended September 30, 2007. Both increases were driven mostly by the worsening credit environment.

Revenue decreased $84.2 million, or 3.1%, to $2.6 billion compared to the prior year quarter. For the nine months ended September 30, 2008, revenue increased $516.0 million, or 6.9%, to $8.0 billion compared to the year ago period. The year-to-date increase was driven primarily by margin expansion through 2008, resulting from internal strategy shifts in pricing in the latter half of 2007.

Table of Contents

Non-interest expense for the quarter ended September 30, 2008 declined by 9.6% from the third quarter of 2007, on the strength of reductions in both marketing and operating expense. Marketing expense was lower as a result of improved marketing efficiency and selected pullbacks across all segments. Operating expense was lower as a result of continued focus on efficiency gains.

Other National Lending Sub-Segment

Table 5: Other National Lending

(Dollars in thousands)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Earnings (Managed Basis)				
Interest income	**$ 1,010,550**	$ 1,085,129	**$ 3,156,391**	$ 3,146,856
Interest expense	**395,053**	429,787	**1,232,125**	1,248,021
Net interest income	**615,497**	655,342	**1,924,266**	1,898,835
Non-interest income	**167,704**	166,887	**477,620**	527,709
Total revenue	**783,201**	822,229	**2,401,886**	2,426,544
Provision for loan and lease losses	**437,933**	388,677	**1,366,317**	1,076,612
Non-interest expense	**303,808**	368,337	**970,067**	1,100,039
Income before taxes	**41,460**	65,215	**65,502**	249,893
Income taxes	**14,851**	21,575	**20,762**	86,113
Net income	**$ 26,609**	$ 43,640	**$ 44,740**	$ 163,780
Selected Metrics (Managed Basis)				
Period end loans held for investment	**$ 32,561,107**	$ 35,869,039	**$ 32,561,107**	$ 35,869,039
Average loans held for investment	**$ 33,560,769**	$ 35,333,460	**$ 34,947,280**	$ 35,078,524
Loans held for investment yield	**12.04%**	12.28%	**12.04%**	11.96%
Net interest margin	**7.34%**	7.42%	**7.34%**	7.22%
Revenue margin	**9.33%**	9.31%	**9.16%**	9.22%
Risk-adjusted margin	**4.05%**	5. 15%	**4.44%**	5.56%
Non-interest expense as a % of average loans held for investment	**3.62%**	4.17%	**3.70%**	4.18%
Efficiency ratio	**38.79%**	44.80%	**40.39%**	45.33%
Net charge-off rate	**5.29%**	4.16%	**4.73%**	3.66%
30+ day delinquency rate	**8.03%**	6.36%	**8.03%**	6.36%
Number of total accounts (000s)	**7,398**	7,392	**7,398**	7,392

The Other National Lending sub-segment consists of the Auto Finance and International components.

Auto Finance (a component of Other National Lending)

Table 6: Auto Finance

(Dollars in thousands)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Earnings (Managed Basis)				
Interest income	**$ 635,305**	$ 661,471	**$ 1,992,723**	$ 1,950,901

Interest expense	**265,804**	283,949	**832,072**	827,288
Net interest income	**369,501**	377,522	**1,160,651**	1,123,613
Non-interest income	**14,607**	13,514	**46,389**	97,373
Total revenue	**384,108**	391,036	**1,207,040**	1,220,986
Provision for loan and lease losses	**244,078**	244,537	**882,943**	626,873
Non-interest expense	**117,677**	152,275	**376,867**	474,267
Income before taxes	**22,353**	(5,776)	**(52,770)**	119,846
Income taxes	**7,824**	(1,987)	**(18,469)**	41,227

Table of Contents

Net income (loss)	**$ 14,529**	$ (3,789)	**$ (34,301)**	$ 78,619
Selected Metrics (Managed Basis)				
Period end loans held for investment	**$ 22,306,394**	$ 24,335,242	**$ 22,306,394**	$ 24,335,242
Average loans held for investment	**$ 22,857,540**	$ 24,170,047	**$ 23,997,133**	$ 23,890,694
Loans held for investment yield	**11.12%**	10.95%	**11.07%**	10.89%
Net interest margin	**6.47%**	6.25%	**6.45%**	6.27%
Revenue margin	**6.72%**	6.47%	**6.71%**	6.81%
Risk-adjusted margin	**1.73%**	2.91%	**2.45%**	4.07%
Non-interest expense as a % of average loans held for investment	**2.06%**	2.52%	**2.09%**	2.65%
Efficiency ratio	**30.64%**	38.94%	**31.22%**	38.84%
Net charge-off rate	**5.00%**	3.56%	**4.26%**	2.74%
30+ day delinquency rate	**9.32%**	7.15%	**9.32%**	7.15%
Auto loan originations	**1,444,291**	3,248,747	**5,398,204**	9,553,042
Number of total accounts (000s)	**1,665**	1,731	**1,665**	1,731

The Auto Finance component consists of automobile and other motor vehicle financing activities.

For the three months ended September 30, 2008, the Auto Finance component earned $14.5 million, compared to a loss of $3.8 million for the third quarter of 2007. For the nine months ended September 30, 2008, the Auto Finance component recognized a loss of $34.3 million, as compared to earnings of $78.6 million through the same period of 2007. 2008 earnings have been pressured by credit worsening, which more than offsets improvements in operating efficiency.

The ending loan portfolio decreased $2.0 billion from the prior year quarter as origination volumes remain at a diminished level. This run rate decline in origination volume is part of a business strategy to improve the resilience of our auto loan portfolio by focusing on key segments within both prime and subprime markets during this time of credit uncertainty. Net interest income decreased by $8.0 million compared to the prior year quarter, driven by a decrease in average receivables but partially offset by higher margins. Net interest income increased $37.0 million over the prior year nine months driven by higher margins as competitive supply has declined in the market. Non-interest income for the nine months ended September 30, 2008 decreased primarily due to one-time gain of $46.2 million in first quarter of 2007 related to the sale of 1.8 million shares of DealerTrack Holding Inc. stock.

For the three and nine month periods ended September 30, 2008, Auto Finance s net charge-off rate was up 144 basis points and 152 basis points, respectively, compared with the same periods in the prior year. The 30+ day delinquency rate for the quarter ended September 30, 2008 increased by 217 basis points over the prior year quarter. The adverse credit performance is being driven by the impact of a weakening U.S. economy and reduced recoveries, resulting primarily from falling auction market prices for used automobiles. The Auto Finance component released allowance of $41.5 million for the quarter due to the significant decline in the overall size of the business.

Non-interest expense declined $34.6 million compared to the prior year quarter and $97.4 million compared to the prior year nine months. Total non-interest expenses have decreased as a result of overall origination pullbacks, benefits of the integration of the dealer programs of legacy Capital One, Onyx, Hibernia, & North Fork auto lending businesses which took place in 2007, and cost restructuring initiatives of 2008.

Table of Contents

International (a component of Other National Lending)

Table 7: International

(Dollars in thousands)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Earnings (Managed Basis)				
Interest income	**$ 375,245**	$ 423,658	**$ 1,163,668**	$ 1,195,955
Interest expense	**129,249**	145,838	**400,053**	420,733
Net interest income	**245,996**	277,820	**763,615**	775,222
Non-interest income	**153,097**	153,373	**431,231**	430,336
Total revenue	**399,093**	431,193	**1,194,846**	1,205,558
Provision for loan and lease losses	**193,855**	144,140	**483,374**	449,739
Non-interest expense	**186,131**	216,062	**593,200**	625,772
Income before taxes	**19,107**	70,991	**118,272**	130,047
Income taxes	**7,027**	23,562	**39,231**	44,886
Net income	**$ 12,080**	$ 47,429	**$ 79,041**	$ 85,161
Selected Metrics (Managed Basis)				
Period end loans held for investment	**$ 10,254,713**	$ 11,533,797	**$ 10,254,713**	$ 11,533,797
Average loans held for investment	**$ 10,703,229**	$ 11,163,413	**$ 10,950,146**	$ 11,187,830
Loans held for investment yield	**14.02%**	15.18%	**14.17%**	14.25%
Net interest margin	**9.19%**	9.95%	**9.30%**	9.24%
Revenue margin	**14.91%**	15.45%	**14.55%**	14.37%
Risk-adjusted margin	**9.01%**	10.00%	**8.80%**	8.74%
Non-interest expense as a % of average loans held for investment	**6.96%**	7.74%	**7.22%**	7.46%
Efficiency ratio	**46.64%**	50.11%	**49.65%**	51.91%
Net charge-off rate	**5.90%**	5.45%	**5.75%**	5.63%
30+ day delinquency rate	**5.24%**	4.69%	**5.24%**	4.69%
Purchase volume	**$ 2,857,975**	$ 2,369,696	**$ 8,453,258**	$ 6,338,957
Number of total accounts (000s)	**5,733**	5,661	**5,733**	5,661

The International component consists of U.K. and Canada lending activities.

For the quarter ended September 30, 2008, International net income decreased $35.3 million as compared to the prior year quarter. The decline in net income was driven primarily by lower interest income due to a shrinking U.K. portfolio, and an allowance build driven by deterioration in the U.K. credit environment. Compared to the prior year nine months, net income decreased $6.1 million.

As compared to September 30, 2007, ending loans decreased $1.3 billion as a result of significant weakening in the pounds sterling to U.S. dollar exchange rate, which accounted for $1.1 billion of the decrease, coupled with continued tightening of U.K. underwriting. Canada ending loans increased slightly from the year ago period in U.S. dollars, with robust native currency growth being partially offset by a decline in the Canadian dollar to U.S. dollar exchange rate.

Total revenue decreased $32.1 million from the prior year quarter, and $10.7 million from the prior year nine months. The decline in revenue was driven by lower U.K. volumes and foreign exchange impacts from the relatively stronger U.S dollar. Revenue in our Canada business line increased $11.0 million from the prior year period, driven by higher outstandings.

For the quarter ended September 30, 2008, provision expenses increased $49.7 million compared to prior year quarter, and $33.6 million compared to prior year nine months. The increase in provision expense compared to the prior year quarter is driven by a $30.6 million allowance build in the U.K. related to worsening economic environment and consumer credit performance.

Non-interest expense decreased $29.9 million compared to prior year quarter, and $32.6 million as compared to prior year nine months. U.K. improvements from the year ago period reflect implementation of a more efficient inbound marketing model and ongoing run rate cost savings as outsourcing benefits are recognized. Canada operating expenses increased slightly from the year ago quarter driven by higher recoveries expenses.

Table of Contents

VIII. Funding

Funding Availability

We have established access to a variety of funding sources.

Table 8 illustrates our non deposit funding sources.

Table 8: Funding Availability

(Dollars or dollar equivalents in millions)	Effective/ Issue Date	Availability [1]	Outstanding [3]	Final Maturity [4]
Senior and Subordinated Global Bank Note Program [2]	6/05	$ 1,800	$ 2,191	
FHLB Advances	*	$ 6,615	$ 4,885	*
Capital One Auto Loan Facility I	3/02	$ 1,300	$	
Capital One Auto Loan Facility II	3/05	$ 500	$	
Committed Securitization Conduits	**	$ 6,293	$ 7,103	**

(Dollars or dollar equivalents in millions)	Effective/ Issue Date	Availability [1]	Outstanding [3]	Final Maturity [4]
Corporation Automatic Shelf Registration Statement	5/06	*****	N/A	****

(1) All funding sources are non-revolving except for the Capital One Auto Loan Facilities. Funding availability under the credit facilities is subject to compliance with certain representations, warranties and covenants. Funding availability under all other sources is subject to market conditions.
(2) The notes issued under the Senior and Subordinated Global Bank Note Program may have original terms of thirty days to thirty years from their date of issuance. This program was updated in June 2005.
(3) Amounts outstanding are as of September 30, 2008.
(4) Maturity date refers to the date the facility terminates, where applicable.
* FHLB capacity was established at various dates by the Company and its acquired subsidiaries and will mature between 10/08 and 11/35.
** Securitization committed capacity was established at various dates and is scheduled to terminate between 10/08 and 07/11.
*** The Corporation and certain of its subsidiaries have registered an indeterminate amount of securities that are available for future issuance, pursuant to the Automatic Shelf Registration Statement.
**** Under SEC rules, the Automatic Shelf Registration Statement expires three years after filing. Accordingly, the Corporation must file a new Automatic Shelf Registration Statement at least once every three years.

Senior and Subordinated Notes

The Senior and Subordinated Global Bank Note Program gives COBNA the ability to issue securities to both U.S. and non-U.S. lenders and to raise funds in U.S. and foreign currencies, subject to conditions customary for transactions of this nature.

Prior to the establishment of the Senior and Subordinated Global Bank Note Program, COBNA issued senior unsecured debt through an $8.0 billion Senior Domestic Bank Note Program. COBNA did not renew the Senior Domestic Bank Note Program for future issuances following the establishment of the Senior and Subordinated Global Bank Note Program.

Federal Home Loan Bank (FHLB) Advances

Total advances with FHLB agencies as of September 30, 2008 were $4.9 billion. During the three months ended September 30, 2008, the Company had $2.1 billion in new advances and had $3.1 billion in advances mature, thus decreasing our overall advances by $1.0 billion. The FHLB advances are secured by the Company s securities, residential mortgage loan portfolio, multifamily loans, commercial real estate loans and

home equity lines of credit. In addition, the Company s FHLB membership is secured by the Company s investment in FHLB stock, which totaled $267.3 million at September 30, 2008 and is included in other assets.

Collateralized Revolving Credit Facilities

In March 2002, the Company entered into a revolving warehouse credit facility collateralized by a security interest in certain auto loan assets (the Capital One Auto Loan Facility I). As of September 30, 2008, the Capital One Auto Loan Facility I had the capacity to issue up to $1.3 billion in secured notes. The Capital One Auto Loan Facility I has multiple participants each with separate renewal dates. The facility does not have a final maturity date. Instead, each participant may elect to renew the commitment for another set period of time. Interest on the facility is based on commercial paper rates. The Capital One Auto Loan Facility I was paid down in January 2008.

Table of Contents

In March 2005, the Company entered into a second revolving warehouse credit facility collateralized by a security interest in certain auto loan assets (the Capital One Auto Loan Facility II). As of September 30, 2008, the Capital One Auto Loan Facility II had the capacity to issue up to $0.5 billion in secured notes. The facility does not have a final maturity date. Instead, the participant may elect to renew the commitment for another set period of time. Interest on the facility is based on commercial paper rates. The Capital One Auto Loan Facility II was paid down in January 2008.

Corporation Shelf Registration Statement

As of September 30, 2008, the Corporation had an effective shelf registration statement under which the Corporation from time to time may offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depositary shares representing preferred stock, common stock, trust preferred securities, junior subordinated debt securities, guarantees of trust preferred securities and certain back-up obligations, purchase contracts and units. There is no limit under this shelf registration statement to the amount or number of such securities that the Corporation may offer and sell.

Deposits

The Company continues to expand its deposit gathering efforts through its direct marketing channels, the existing branch network and through de novo branch expansion. These channels offer a broad set of deposit products that include demand deposits, money market deposits, NOW accounts, and certificates of deposit (CDs).

As of September 30, 2008, the Company had $98.9 billion in deposits of which $3.4 billion were held in foreign banking offices and $10.3 billion represented large domestic denomination certificates of $100 thousand or more.

Table 9 shows the maturities of domestic time certificates of deposit in denominations of $100 thousand or greater (large denomination CDs) as of September 30, 2008.

Table 9: Maturities of Large Denomination Certificates $100,000 or More

	September 30, 2008	
(Dollars in thousands)	**Balance**	**Percent**
Three months or less	$ 2,722,193	26.35%
Over 3 through 6 months	1,169,186	11.32%
Over 6 through 12 months	3,201,729	31.00%
Over 12 months through 10 years	3,236,399	31.33%
Total	$ 10,329,507	100.00%

Table 10 shows the composition of average deposits for the periods presented.

Table 10: Deposit Composition and Average Deposit Rates

	Three Months Ended September 30, 2008			Nine Months Ended September 30, 2008		
	Average Balance	**% of Deposits**	**Average Deposit Rate**	**Average Balance**	**% of Deposits**	**Average Deposit Rate**
Non-interest bearing domestic	$ 10,673,422	11.20%	N/A	$ 10,716,575	11.91%	N/A
NOW accounts	9,292,819	9.75%	1.30%	9,114,741	10.13%	1.34%
Money market deposit accounts	26,914,607	28.23%	2.79%	25,431,482	28.27%	2.86%
Savings accounts	7,759,024	8.14%	0.84%	8,004,110	8.90%	1.00%

Other time deposits[(1)]	26,733,531	28.04%	3.92%	22,628,316	25.15%	4.19%
Total core deposits	81,373,403	85.36%	2.44%	75,895,224	84.37%	2.47%
Public fund certificate of deposits of $100,000 or more	1,305,438	1.37%	2.52%	1,483,856	1.65%	3.08%
Certificates of deposit of $100,000 or more	9,084,740	9.53%	3.93%	8,989,118	9.99%	4.26%
Foreign time deposits	3,564,449	3.74%	3.43%	3,589,387	3.99%	3.62%
Total deposits	$ 95,328,030	100.00%	2.62%	$ 89,957,585	100.00%	2.71%

(1) Includes brokered deposits.

Table of Contents

IX. Capital

Capital Adequacy

The Company is subject to capital adequacy guidance adopted by the Federal Reserve Board (the Federal Reserve), and CONA and COBNA (collectively, the Banks) are subject to capital adequacy guidelines adopted by the Office of the Comptroller of the Currency (the OCC , and with the Federal Reserve, collectively, the regulators). The capital adequacy guidelines set minimum risk-based and leverage capital requirements that are based on quantitative and qualitative measures of their assets and off-balance sheet items. The Federal Reserve holds the Corporation to similar minimum capital requirements. Failure to meet minimum capital requirements can result in possible additional, discretionary actions by a federal banking agency that, if undertaken, could have a material adverse effect on the Corporation s consolidated financial statements.

As of September 30, 2008, the Banks each exceeded the minimum regulatory requirements to which it was subject. The Banks all were considered well-capitalized under applicable capital adequacy guidelines. Also as of September 30, 2008, the Corporation was considered well-capitalized under Federal Reserve capital standards for bank holding companies and, therefore, exceeded all minimum capital requirements. There have been no conditions or events since that we believe would have changed the capital category of the Corporation or either of the Banks.

COBNA treats a portion of its loans as subprime under the Guidelines issued by the four federal banking agencies that comprise the Federal Financial Institutions Examination Council (FFIEC), and has assessed its capital and allowance for loan and lease losses accordingly. Under the Guidelines, COBNA exceeds the minimum capital adequacy guidelines as of September 30, 2008.

For purposes of the Guidelines, the Corporation has treated as subprime all loans in COBNA s targeted subprime programs to customers either with a FICO score of 660 or below or with no FICO score. COBNA holds on average 200% of the total risk-based capital charge that would otherwise apply to such assets. This results in higher levels of regulatory capital at COBNA.

Additionally, regulatory restrictions exist that limit the ability of COBNA and CONA to transfer funds to the Corporation. As of September 30, 2008, retained earnings of COBNA and CONA of $427.0 million and zero million, respectively. The retained earnings of COBNA are available for payment as dividends to the Corporation without prior approval of the OCC while a dividend payment by CONA would require prior approval of the OCC.

Table 11 REGULATORY CAPITAL RATIOS

	Regulatory Filing Basis Ratios	Applying Subprime Guidance Ratios	Minimum for Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
September 30, 2008				
Capital One Financial Corp.[1]				
Tier 1 Capital	**11.96%**	**11.17%**	**4.00%**	**N/A**
Total Capital	**14.85**	**13.95**	**8.00**	**N/A**
Tier 1 Leverage	**9.86**	**9.86**	**4.00**	**N/A**
Capital One Bank (USA), N.A. [2]				
Tier 1 Capital	**14.00%**	**10.70%**	**4.00%**	**6.00%**
Total Capital	**16.84**	**13.11**	**8.00**	**10.00**
Tier 1 Leverage	**12.52**	**12.52**	**4.00**	**5.00**
Capital One, N.A.				
Tier 1 Capital	**10.58%**	**N/A**	**4.00%**	**6.00%**
Total Capital	**11.94**	**N/A**	**8.00**	**10.00**
Tier 1 Leverage	**8.20**	**N/A**	**4.00**	**5.00**
September 30, 2007				

	Regulatory Filing Basis Ratios	Applying Subprime Guidance Ratios	Minimum for Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
Capital One Financial Corp.[1]				
Tier 1 Capital	10.70%	10.10%	4.00%	N/A
Total Capital	13.79	13.08	8.00	N/A

Table of Contents

	Regulatory Filing Basis Ratios	Applying Subprime Guidance Ratios	Minimum for Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
Tier 1 Leverage	9.51	9.51	4.00	N/A
Capital One Bank [2]				
Tier 1 Capital	12.95%	10.26%	4.00%	6.00%
Total Capital	16.08	12.95	8.00	10.00
Tier 1 Leverage	12.16	12.16	4.00	5.00
Capital One, N.A.				
Tier 1 Capital	10.82%	N/A	4.00%	6.00%
Total Capital	12.05	N/A	8.00	10.00
Tier 1 Leverage	8.52	N/A	4.00	5.00
Superior Bank [3]				
Tier 1 Capital	15.06%	N/A	4.00%	6.00%
Total Capital	16.32	N/A	8.00	10.00
Tier 1 Leverage	5.99	N/A	4.00	5.00

(1) The regulatory framework for prompt corrective action is not applicable for bank holding companies.
(2) During March 2008, Capital One Bank was converted to a national association and renamed Capital One Bank (USA) N.A.
(3) During March 2008, Superior Savings of New England, N.A. merged with and into CONA.

Dividend Policy

The declaration and payment of dividends, as well as the amount thereof, are subject to the discretion of the Board of Directors of the Corporation and will depend upon our results of operations, financial condition, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. As a holding company, our ability to pay dividends is dependent upon the receipt of dividends or other payments from our subsidiaries. Applicable banking regulations and provisions that may be contained in our borrowing agreements or the borrowing agreements of our subsidiaries may limit our subsidiaries ability to pay dividends to us or our ability to pay dividends to our stockholders. There can be no assurance that the Corporation will declare and pay any dividends.

X. Supervision and Regulation

OCC Minimum Payment Rules

In March 2008, COBNA converted from a Virginia state-charted bank to a national association, which is regulated by the OCC. The OCC has minimum payment policies for the credit card industry designed to force modest positive amortization for all card accounts.

Under the new policy, the monthly minimum payment will be set at 1% of principal balance, plus all interest assessed in the prior cycle, plus any past due fees and certain other fees assessed in the prior cycle. This compares to the Company s previous policy, which for most accounts is a flat 3% of principal balance. This will have the effect of increasing the minimum payment for delinquent customers, while lowering it for many customers who are current. Please refer to section V, Management Summary, Business Outlook, OCC Minimum Payment Rules for a discussion of the impact on the Corporation of compliance with this policy.

FDIC Proposed Restoration Plan for the Deposit Insurance Fund

The Federal Deposit Insurance Corporation (FDIC) has proposed rules increasing the assessment rates banks pay for deposit insurance in order to restore the deposit insurance fund. The proposed rules would uniformly raise rates for the first quarter of 2009. Thereafter, the rates would be based on an institution s risk, with riskier institutions bearing a greater share of the proposed increase. The comment period for the proposed rules expires November 17, 2008. Capital One is currently evaluating the potential impact of this proposed rule.

FDIC Temporary Liquidity Guarantee Program

The FDIC also announced its Temporary Liquidity Guarantee Program that would guarantee certain newly issued unsecured debt and fully insure non-interest bearing deposit transaction accounts. Any FDIC-insured institution that does not opt out of the program by November 12, 2008 will be charged a fee to protect its new debt issues and a surcharge will be added to its current insurance assessment. At this time we believe we will not opt out of this program. The FDIC is accepting public comment on this program until December 5, 2008.

Table of Contents

Proposed Rules on Credit Card Practices

The Federal Reserve Board has proposed rules that would place limitations on certain credit card practices. Among other things, the proposed rules would: (i) impose restrictions on increases in the rate charged on pre-existing credit card balances; (ii) prohibit the use of payment allocation methods that maximize interest charges; (iii) limit the imposition of default annual percentage rates on existing credit card balances; (iv) prohibit the imposition of interest charges using the two-cycle billing method; and (v) require that consumers receive a certain amount of time to make their credit card payments. The Federal Reserve Board has indicated that it intends to publish final rules by the end of the year. For more information on these proposed rules, see our discussion under Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the period ended June 30, 2008.

Legislation

During the 110th Congress, several hearings have been held on credit card practices, and legislation restricting credit terms passed the U.S. House of Representatives in September 2008. The future of this legislation in 2008 is uncertain, although Senate Banking Committee Chairman Chris Dodd (D-CT) has suggested it could be considered as part of any economic stimulus package in 2008. In addition, legislation has been introduced that would enable merchants to negotiate interchange fees, the fees merchants pay to process debit and credit card transactions. Action on this proposed legislation is unlikely in 2008. Overall, the 111th Congress (2009-2010) is expected to focus on the economy, financial institutions, credit card practices, consumer protections and bankruptcy reform. Concurrently, the Federal Reserve Board has proposed rules (as described above) that would address many of the same issues raised by legislators. Congress also continues to focus on the housing market, looking at both retrospective and prospective solutions. Legislation to create additional federal backstops and strengthen regulation of the Government Sponsored Enterprises (GSEs), enacted in July 2008, included an overhaul of Federal Housing Administration (FHA) programs. In addition, the Emergency Economic Stabilization Act, which, among other things, authorized the U. S. Treasury Department to purchase or insure up to $700 billion in mortgage-related assets, was enacted in October 2008. Participation in the Treasury s programs announced thus far is optional, and Treasury has approved the Corporation s intention to participate. Treasury continues to refine its implementation of this legislation and it is unclear at this time what its final form will be. However, increased Congressional scrutiny is expected, including Congressional hearings and investigations and reports to the Treasury Department and the Government Accountability Office. For additional information regarding the Corporation s participation in the Treasury s programs please see Section V, Management Summary, Subsequent Event and Note 12 Subsequent Event. Congress or individual states may in the future consider other legislation that could materially and/or adversely affect the banking or consumer lending industries.

We are evaluating the impacts of these legislative and regulatory activities, which could be material.

For additional information on our Supervision and Regulation activities, see our Annual Report on Form 10-K for the year ended December 31, 2007, Part I, Item 1 Supervision and Regulation and our Quarterly Reports on Form 10-Q for the periods ended March 31, 2008 and June 30, 2008, Part 1, Item 2 Supervision and Regulation.

See also Item 1A. Risk Factors for a discussion of the risks to which the Corporation could be subject as a result of the legislative and regulatory environment.

XI. Enterprise Risk Management

Risk is an inherent part of our business activities. We have an Enterprise Risk Management (ERM) program designed to ensure appropriate and comprehensive oversight and management of risk. The ERM program has three governance components. First, the Board of Directors and senior management committees oversee risk and risk management practices. Second, the centralized department headed by the Chief Risk Officer establishes risk management methodologies, processes and standards. Third, the individual business areas throughout the Company are responsible for managing risk in their businesses and performing ongoing identification, assessment and response to risks. Our ERM framework includes eight categories of risk: credit, liquidity, market, operational, legal, strategic, reputation, and compliance.

For additional information on the Company s ERM program, see the Corporation s Annual Report on Form 10-K for the year ended December 31, 2007, Part I. Item 1, Enterprise Risk Management.

XII. Tabular Summary

TABLE A STATEMENTS OF AVERAGE BALANCES, INCOME AND EXPENSE, YIELDS AND RATES

Table A provides average balance sheet data and 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 the three months ended September 30, 2008 and 2007, as well as, the nine months ended September 30, 2008 and 2007.

Table of Contents

(Dollars in Thousands)	Three Months Ended September 30 2008 Average Balance	2008 Income/ Expense	2008 Yield/ Rate	2007[2] Average Balance	2007[2] Income/ Expense	2007[2] Yield/ Rate
Assets:						
Earning assets						
Consumer loans [1]						
Domestic	**$ 57,537,905**	**$ 1,635,612**	**11.37%**	$ 55,774,139	$ 1,657,942	11.89%
International	**3,463,537**	**114,590**	**13.23%**	3,559,446	119,258	13.40%
Total consumer loans	**61,001,442**	**1,750,202**	**11.48%**	59,333,585	1,777,200	11.98%
Commercial loans	**37,776,951**	**597,278**	**6.32%**	32,411,261	603,896	7.45%
Total loans held for investment [4]	**98,778,393**	**2,347,480**	**9.51%**	91,744,846	2,381,096	10.38%
Securities available for sale	**25,780,669**	**317,274**	**4.92%**	20,041,177	252,550	5.04%
Other						
Domestic	**7,795,778**	**104,943**	**5.38%**	5,594,899	121,693	8.70%
International	**922,143**	**2,099**	**0.91%**	973,459	11,628	4.78%
Total	**8,717,921**	**107,042**	**4.91%**	6,568,358	133,321	8.12%
Total earning assets [3]	**133,276,983**	**2,771,796**	**8.32%**	118,354,381	$ 2,766,967	9.35%
Cash and due from banks [3]	**1,978,645**			2,238,588		
Allowance for loan and lease losses [3]	**(3,309,519)**			(2,115,339)		
Premises and equipment, net [3]	**2,328,219**			2,240,728		
Other [3]	**22,683,288**			22,572,225		
Total assets from discontinued operations	**40,338**			4,593,995		
Total assets	**$ 156,997,954**			$ 147,884,578		
Liabilities and Equity:						
Interest-bearing liabilities						
Deposits						
Domestic	**$ 81,090,159**	**$ 601,287**	**2.97%**	$ 70,990,442	$ 707,479	3.99%
International	**3,564,449**	**23,032**	**2.58%**	2,347,497	32,612	5.56%
Total deposits	**84,654,608**	**624,319**	**2.95%**	73,337,939	740,091	4.04%
Senior and subordinated notes	**8,282,536**	**96,568**	**4.66%**	9,811,821	144,643	5.90%
Other borrowings						
Domestic	**21,559,521**	**241,111**	**4.47%**	18,093,991	254,202	5.62%
International	**809,455**	**3,153**	**1.56%**	1,016,120	3,557	1.40%
Total other borrowings	**22,368,976**	**244,264**	**4.37%**	19,110,111	257,759	5.40%
Total interest-bearing liabilities [3]	**115,306,120**	**$ 965,151**	**3.35%**	102,259,871	$ 1,142,493	4.47%
Non-interest bearing deposits [3]	**10,673,422**			11,329,306		
Other [3]	**5,817,577**			5,601,153		
Total liabilities from discontinued operations	**155,172**			3,350,381		
Total liabilities	**131,952,291**			122,540,711		
Equity	**25,045,663**			25,343,867		

Total liabilities and equity	**$ 156,997,954**	$ 147,884,578
Net interest spread	**4.97%**	4.88%
Interest income to average earning assets	**8.32%**	9.35%
Interest expense to average earning assets	**2.90%**	3.86%
Net interest margin	**5.42%**	5.49%

(1) Interest income includes past-due fees on loans of approximately $181.4 million and $178.4 million for the three months ended September, 2008 and 2007, respectively.
(2) Certain prior period amounts have been reclassified to conform to current period presentation.
(3) Based on continuing operations.
(4) Non-accrual loans are included in their respective loan categories.

Table of Contents

	Nine Months Ended September 30					
	2008			2007 [2]		
(Dollars in Thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets:						
Earning assets						
Consumer loans [1]						
Domestic	**$ 57,829,364**	**$ 4,918,045**	**11.34%**	$ 56,911,472	$ 4,878,235	11.43%
International	**3,497,949**	**344,905**	**13.15%**	3,421,010	314,593	12.26%
Total consumer loans	**61,327,313**	**5,262,950**	**11.44%**	60,332,482	5,192,828	11.48%
Commercial loans	**37,521,373**	**1,890,632**	**6.72%**	31,779,471	1,770,521	7.43%
Total loans held for investment [4]	**98,848,686**	**7,153,582**	**9.65%**	92,111,953	6,963,349	10.08%
Securities available for sale	**23,726,724**	**856,110**	**4.81%**	18,539,904	694,608	5.00%
Other						
Domestic	**7,293,482**	**313,965**	**5.74%**	7,717,423	416,236	7.19%
International	**1,044,722**	**19,521**	**2.49%**	1,099,520	43,769	5.31%
Total	**8,338,204**	**333,486**	**5.33%**	8,816,943	460,005	6.96%
Total earning assets [3]	**130,913,614**	**$ 8,343,178**	**8.50%**	119,468,800	$ 8,117,962	9.06%
Cash and due from banks [3]	**2,060,332**			2,154,724		
Allowance for loan and lease losses [3]	**(3,183,500)**			(2,133,435)		
Premises and equipment, net [3]	**2,315,550**			2,223,416		
Other [3]	**22,214,313**			21,299,625		
Total assets from discontinued operations	**$ 68,145**			5,033,762		
Total assets	**$ 154,388,454**			$ 148,046,892		
Liabilities and Equity:						
Interest-bearing liabilities						
Deposits						
Domestic	**$ 75,651,622**	**$ 1,756,965**	**3.10%**	$ 71,978,638	$ 2,126,238	3.94%
International	**3,589,387**	**70,319**	**2.61%**	2,355,356	93,939	5.32%
Total deposits	**79,241,009**	**1,827,284**	**3.07%**	74,333,994	2,220,177	3.98%
Senior and subordinated notes	**9,165,908**	**352,335**	**5.13%**	9,556,134	417,250	5.82%
Other borrowings						
Domestic	**23,305,590**	**807,326**	**4.62%**	17,000,271	702,434	5.51%
International	**853,893**	**9,915**	**1.55%**	1,101,162	10,503	1.27%
Total other borrowings	**24,159,483**	**817,241**	**4.51%**	18,101,433	712,937	5.25%
Total interest-bearing liabilities [3]	**112,566,400**	**$ 2,996,860**	**3.55%**	101,991,561	$ 3,350,364	4.38%
Non-interest bearing deposits [3]	**10,716,575**			11,332,303		
Other [3]	**6,135,659**			5,587,588		
Total liabilities from discontinued operations	**152,121**			3,774,815		
Total liabilities	**129,570,755**			122,686,267		
Equity	**24,817,699**			25,360,625		

Total liabilities and equity	**$ 154,388,454**	$ 148,046,892
Net interest spread	**4.95%**	4.68%
Interest income to average earning assets	**8.50%**	9.06%
Interest expense to average earning assets	**3.05%**	3.74%
Net interest margin	**5.45%**	5.32%

(1) Interest income includes past-due fees on loans of approximately $520.1 million and $498.2 million for the nine months ended September 30, 2008 and 2007, respectively.
(2) Certain prior period amounts have been reclassified to conform to current period presentation.
(3) Based on continuing operations.
(4) Non-accrual loans are included in their respective loan categories.

Table of Contents

TABLE B INTEREST VARIANCE ANALYSIS

(Dollars in thousands)	Three Months Ended September 30, 2008 vs. 2007 Increase (Decrease)	Change due to [1] Volume	Yield/Rate	Nine Months Ended September 30, 2008 vs. 2007 Increase (Decrease)	Change due to [1] Volume	Yield/Rate
Interest Income[3]:						
Consumer loans						
Domestic	$ (22,330)	$ 51,468	$ (73,798)	$ 39,810	$ 78,263	$ (38,453)
International	(4,668)	(3,186)	(1,482)	30,312	7,197	23,115
Total	(26,998)	49,115	(76,113)	70,122	85,412	(15,290)
Commercial loans	(6,618)	92,068	(98,686)	120,111	299,901	(179,790)
Total loans held for investment	(33,616)	175,215	(208,831)	190,233	495,545	(305,312)
Securities available for sale	64,724	70,762	(6,038)	161,502	187,988	(26,486)
Other						
Domestic[2]	(16,750)	38,604	(55,354)	(102,271)	(21,878)	(80,393)
International	(9,529)	(583)	(8,946)	(24,248)	(2,082)	(22,166)
Total[2]	(26,279)	35,821	(62,100)	(126,519)	(23,877)	(102,642)
Total interest income	4,829	328,334	(323,505)	225,216	748,379	(523,163)
Interest Expense:						
Deposits						
Domestic[2]	(106,192)	91,448	(197,640)	(369,273)	104,030	(473,303)
International	(9,580)	12,456	(22,036)	(23,620)	36,513	(60,133)
Total[2]	(115,772)	103,001	(218,773)	(392,893)	139,059	(531,952)
Senior notes	(48,075)	(20,531)	(27,544)	(64,915)	(16,520)	(48,395)
Other borrowings						
Domestic[2]	(13,091)	43,878	(56,969)	104,892	231,202	(126,310)
International	(404)	(776)	372	(588)	(2,619)	2,031
Total[2]	(13,495)	40,002	(53,497)	104,304	214,914	(110,610)
Total interest expense	(177,342)	133,433	(310,775)	(353,504)	324,096	(677,600)
Net interest income	$ 182,171	$ 202,510	$ (20,339)	$ 578,720	$ 465,298	$ 113,422

(1) The change in interest due to both volume and 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.
(2) Prior period amounts have been reclassified to conform to current period presentation.
(3) Based on continuing operations.

Table of Contents

TABLE C MANAGED HELD FOR INVESTMENT LOAN PORTFOLIO

(Dollars in thousands)	Three Months Ended September 30 2008	2007
Period-End Balances:		
Reported loans held for investment:		
Consumer loans		
Credit cards		
Domestic	**$ 12,380,856**	$ 11,903,009
International	**3,395,732**	3,237,877
Total credit card	**15,776,588**	15,140,886
Installment loans		
Domestic	**10,472,886**	9,299,707
International	**180,387**	426,634
Total installment loans	**10,653,273**	9,726,341
Auto loans	**22,341,137**	24,161,505
Mortgage loans [(1)]	**10,951,421**	12,801,240
Total consumer loans	**59,722,419**	61,829,972
Commercial loans	**38,242,932**	33,575,245
Total reported loans held for investment	**97,965,351**	95,405,217
Securitization adjustments:		
Consumer loans		
Credit cards		
Domestic	**39,109,892**	37,712,207
International	**6,678,593**	7,868,226
Total credit card	**45,788,485**	45,580,433
Installment loans		
Domestic	**1,122,807**	2,316,042
International		
Total installment loans	**1,122,807**	2,316,042
Auto loans		180,614
Mortgage loans		
Total consumer loans	**46,911,292**	48,077,089
Commercial loans	**2,469,103**	2,902,964
Total securitization adjustments	**49,380,395**	50,980,053
Managed loans held for investment:		
Consumer loans		
Credit cards		
Domestic	**51,490,748**	49,615,216
International	**10,074,325**	11,106,103

Total credit card	**61,565,073**	60,721,319
Installment loans		
Domestic	**11,595,693**	11,615,749
International	**180,387**	426,634
Total installment loans	**11,776,080**	12,042,383
Auto loans	**22,341,137**	24,342,119
Mortgage loans [(1)]	**10,951,421**	12,801,240
Total consumer loans	**106,633,711**	109,907,061
Commercial loans	**40,712,035**	36,478,209
Total managed loans held for investment	**$ 147,345,746**	$ 146,385,270

Table of Contents

(Dollars in thousands)	Three Months Ended September 30 2008	2007
Average Balances [2]:		
Reported loans held for investment:		
Consumer loans		
Credit cards		
Domestic	**$ 13,061,320**	$ 10,943,002
International	**3,247,240**	3,104,576
Total credit card	**16,308,560**	14,047,578
Installment loans		
Domestic	**10,467,396**	8,915,543
International	**216,297**	454,870
Total installment loans	**10,683,693**	9,370,413
Auto loans	**22,836,076**	23,950,128
Mortgage loans	**11,173,113**	11,965,466
Total consumer loans	**61,001,442**	59,333,585
Commercial loans	**37,776,951**	32,411,261
Total reported loans held for investment	**98,778,393**	91,744,846
Securitization adjustments:		
Consumer loans		
Credit cards		
Domestic	**37,548,178**	38,815,770
International	**7,234,884**	7,601,230
Total credit card	**44,783,062**	46,417,000
Installment loans		
Domestic	**1,236,008**	2,446,811
International		
Total installment loans	**1,236,008**	2,446,811
Auto loans		206,587
Mortgage loans		
Total consumer loans	**46,019,070**	49,070,398
Commercial loans	**2,449,935**	2,966,024
Total securitization adjustments	**48,469,005**	52,036,422
Managed loans held for investment:		
Consumer loans		
Credit cards		
Domestic	**50,609,498**	49,758,772
International	**10,482,124**	10,705,806
Total credit card	**61,091,622**	60,464,578
Installment loans		
Domestic	**11,703,404**	11,362,354
International	**216,297**	454,870
Total installment loans	**11,919,701**	11,817,224

Auto loans	**22,836,076**	24,156,715
Mortgage loans	**11,173,113**	11,965,466
Total consumer loans	**107,020,512**	108,403,983
Commercial loans and small business	**40,226,886**	35,377,285
Total managed loans held for investment	**$ 147,247,398**	$ 143,781,268

Table of Contents

(Dollars in thousands)	Nine Months Ended September 30 2008	2007
Average Balances [2]:		
Reported loans held for investment:		
Consumer loans		
Credit cards		
Domestic	**$ 12,041,404**	$ 12,746,090
International	**3,228,627**	2,897,494
Total credit card	**15,270,031**	15,643,584
Installment loans		
Domestic	**10,209,364**	8,250,316
International	**269,322**	523,516
Total installment loans	**10,478,686**	8,773,832
Auto loans	**23,938,111**	23,628,973
Mortgage loans	**11,640,486**	12,286,093
Total consumer loans	**61,327,314**	60,332,482
Commercial loans	**37,521,372**	31,779,471
Total reported loans held for investment	**98,848,686**	92,111,953
Securitization adjustments:		
Consumer loans		
Credit cards		
Domestic	**38,372,828**	37,588,142
International	**7,447,126**	7,763,885
Total credit card	**45,819,954**	45,352,027
Installment loans		
Domestic	**1,513,121**	2,678,007
International		
Total installment loans	**1,513,121**	2,678,007
Auto loans	**37,891**	299,048
Mortgage loans		
Total consumer loans	**47,370,966**	48,329,082
Commercial loans	**2,004,300**	3,060,878
Total securitization adjustments	**49,375,266**	51,389,960
Managed loans held for investment:		
Consumer loans		
Credit cards		
Domestic	**50,414,232**	50,334,232
International	**10,675,753**	10,661,379
Total credit card	**61,089,985**	60,995,611
Installment loans		
Domestic	**11,722,485**	10,928,323
International	**269,322**	523,516
Total installment loans	**11,991,807**	11,451,839

Auto loans	**23,976,002**	23,928,021
Mortgage loans	**11,640,486**	12,286,093
Total consumer loans	**108,698,280**	108,661,564
Commercial loans	**39,525,672**	34,840,349
Total managed loans held for investment	**$ 148,223,952**	$ 143,501,913

(1) Includes $1.6 billion of GreenPoint mortgage loans held for investment as of September 30, 2007.
(2) Based on continuing operations.

TABLE D COMPOSITION OF REPORTED HELD FOR INVESTMENT LOAN PORTFOLIO

	As of September 30			
	2008		2007	
(Dollars in thousands)	**Loans**	**% of Total Loans**	**Loans**	**% of Total Loans**
Reported:				
Consumer loans [1]	**$ 59,722,419**	**60.96%**	$ 61,829,972	64.81%
Commercial loans	**38,242,932**	**39.04%**	33,575,245	35.19%
Total	**$ 97,965,351**	**100.00%**	$ 95,405,217	100.00%

(1) Includes $1.6 billion of GreenPoint mortgage loans held for investment as of September 30, 2007.

Table of Contents

TABLE E DELINQUENCIES

Table E shows loan delinquency trends for the periods presented on a reported and managed basis.

	As of September 30			
	2008		2007	
(Dollars in thousands)	Loans	% of Total Loans	Loans	% of Total Loans
Reported[1] [3]:				
Loans held for investment	**$ 97,965,351**	**100.00%**	$ 95,405,217	100.00%
Loans delinquent:				
30-59 days	**2,045,312**	**2.09%**	1,754,328	1.84%
60-89 days	**934,817**	**0.95%**	741,439	0.78%
90-119 days	**461,439**	**0.47%**	347,031	0.36%
120-149 days	**184,685**	**0.19%**	127,630	0.13%
150 or more days	**142,086**	**0.15%**	106,783	0.11%
Total	**$ 3,768,339**	**3.85%**	$ 3,077,211	3.22%
Loans delinquent by geographic area:				
Domestic	**3,614,135**	**3.83%**	2,946,678	3.21%
International	**154,204**	**4.31%**	130,533	3.56%
Managed[2] [3]:				
Loans held for investment	**$ 147,345,746**	**100.00%**	$ 146,385,270	100.00%
Loans delinquent:				
30-59 days	**2,699,611**	**1.83%**	2,449,001	1.67%
60-89 days	**1,399,640**	**0.95%**	1,212,994	0.83%
90-119 days	**847,857**	**0.58%**	693,909	0.47%
120-149 days	**513,472**	**0.35%**	404,592	0.28%
150 or more days	**413,899**	**0.28%**	337,083	0.23%
Total	**$ 5,874,479**	**3.99%**	$ 5,097,579	3.48%

(1) Includes non-accrual consumer auto loans of $169.4 million and $142.8 million as of September 30, 2008 and 2007, respectively.
(2) Includes non-accrual consumer auto loans of $169.4 million and $144.1 million as of September 30, 2008 and 2007, respectively.
(3) Includes GreenPoint mortgage loans held for investment as of September 30, 2007.

TABLE F: NET CHARGE-OFFS

	Three Months Ended September 30		Nine Months Ended September 30	
(Dollars in thousands)	2008	2007	2008	2007
Reported [1]:				
Average loans held for investment	**$ 98,778,393**	$ 91,744,846	**$ 98,848,686**	$ 92,111,953
Net charge-offs	**872,077**	480,065	**2,432,259**	1,310,527
Net charge-offs as a percentage of average loans held for investment	**3.53%**	2.09%	**3.28%**	1.90%
Managed [1]:				
Average loans held for investment	**$ 147,247,398**	$ 143,781,268	**$ 148,223,952**	$ 143,501,913

Net charge-offs	**1,583,430**	1,027,356	**4,598,648**	2,865,819
Net charge-offs as a percentage of average loans held for investment	**4.30%**	2.86%	**4.14%**	2.66%

(1) Based on continuing operations.

Table of Contents

TABLE G NONPERFORMING ASSETS

Table G shows a summary of nonperforming assets for the period indicated.

(Dollars in thousands)	As of September 30 2008	2007[2]
Nonperforming loans held for investment [1]:		
Commercial lending		
Commercial and multi-family real estate	**$ 138,634**	$ 9,131
Middle market	**21,595**	16,646
Small ticket commercial real estate	**118,130**	6,352
Specialty lending	**13,991**	5,814
Total commercial lending	**292,350**	37,943
Small business lending	**42,338**	36,506
Total commercial & small business lending	**334,688**	74,449
Consumer auto	**169,384**	142,817
Consumer real estate	**142,406**	67,957
Consumer other	**8,818**	2,399
Total nonperforming loans held for investment	**655,296**	287,622
Foreclosed property	**76,238**	45,377
Repossessed assets	**51,265**	51,283
Total nonperforming assets	**$ 782,799**	$ 384,282

(1) Our policy is not to classify credit card loans as nonperforming loans.
(2) Certain prior period amounts have been reclassified to conform to current period presentation.

TABLE H SUMMARY OF ALLOWANCE FOR LOAN AND LEASE LOSSES

Table H sets forth activity in the allowance for loan and lease losses for the periods indicated.

(Dollars in thousands)	Three Months Ended September 30 2008	2007	Nine Months Ended September 30 2008	2007
Balance at beginning of period	**$ 3,311,003**	$ 2,120,000	**$ 2,963,000**	$ 2,180,000
Provision for loan and lease losses:				
Domestic	**1,009,078**	553,977	**2,848,211**	1,234,630
International	**84,839**	41,557	**153,908**	107,662
Total provision for loan and lease losses from continuing operations	**1,093,917**	595,534	**3,002,119**	1,342,292
Total provision for loan and lease losses from discontinued operations		75,829		80,151
Total provision for loan and lease losses	**1,093,917**	671,363	**3,002,119**	1,422,443
Other	**(13,233)**	8,611	**(13,250)**	27,992
Charge-offs:				
Consumer loans:				

Domestic	**(850,772)**	(507,399)	**(2,378,457)**	(1,435,384)
International	**(65,108)**	(64,900)	**(189,751)**	(191,964)
Total consumer loans	**(915,880)**	(572,299)	**(2,568,208)**	(1,627,348)
Commercial loans	**(124,995)**	(55,637)	**(369,144)**	(150,981)
Total charge-offs	**(1,040,875)**	(627,936)	**(2,937,352)**	(1,778,329)
Principal recoveries:				
Consumer loans:				
Domestic	**138,029**	119,383	**411,435**	382,913
International	**16,061**	19,043	**46,665**	58,162

Table of Contents

(Dollars in thousands)	Three Months Ended September 30 2008	2007	Nine Months Ended September 30 2008	2007
Total consumer loans	**154,090**	138,426	**458,100**	441,075
Commercial loans	**14,708**	9,536	**46,993**	26,819
Total principal recoveries	**168,798**	147,962	**505,093**	467,894
Net charge-offs	**(872,077)**	(479,974)	**(2,432,259)**	(1,310,435)
Balance at end of period	**$ 3,519,610**	$ 2,320,000	**$ 3,519,610**	$ 2,320,000
Allowance for loan and lease losses to loans held for investment at end of period	**3.59%**	2.43%	**3.59%**	2.43%
Allowance for loan and lease losses by geographic distribution:				
Domestic	**$ 3,319,801**	$ 2,102,451	**$ 3,319,801**	$ 2,102,451
International	**199,809**	217,549	**199,809**	217,549
Allowance for loan and lease losses by loan category:				
Consumer loans:				
Domestic	**$ 2,608,216**	$ 1,718,146	**$ 2,608,216**	$ 1,718,146
International	**199,809**	217,549	**199,809**	217,549
Total consumer loans	**2,808,025**	1,935,695	**2,808,025**	1,935,695
Commercial loans	**711,585**	384,305	**711,585**	384,305
Balance at end of period	**$ 3,519,610**	$ 2,320,000	**$ 3,519,610**	$ 2,320,000

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk.***

The information called for by this item is provided under our Annual Report on Form 10-K for the year ended December 31, 2007, Item 7A Quantitative and Qualitative Disclosures about Market Risk . No material changes have occurred during the three month period ended September 30, 2008.

Item 4. ***Controls and Procedures*.**

(a) *Disclosure Controls and Procedures*

As of the end of the period covered by this report and pursuant to Rule 13a-15 of the Securities Exchange Act of 1934 (the Exchange Act), the Corporation s management, including the Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness and design of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). These disclosure controls and procedures are the responsibility of the Corporation s management. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded, as of the end of the period covered by this report, that the Company s disclosure controls and procedures are effective in recording, processing, summarizing and reporting information required to be disclosed within the time periods specified in the Securities and Exchange Commission s rules and forms. The Corporation has established a Disclosure Committee consisting of members of senior management to assist in this evaluation.

(b) *Changes in Internal Control Over Financial Reporting*

During the period covered by this report, there have been no changes in the company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect the Company s internal control over financial reporting.

Part 2. Other Information

Item 1. ***Legal Proceedings.***

The information required by Item 1 is included in this Quarterly Report under the heading Notes to Consolidated Financial Statements Note 10 Commitments, Contingencies and Guarantees.

Item 1A. ***Risk Factors***

See our Annual Report on Form 10-K for the year ended December 31, 2007 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008, under Item 1A Risk Factors for a summary of our risk factors. Refer also to the discussion below which supplements our discussion of risk factors in our Form 10-K for the year ended December 31, 2007 and our Form 10-Q for the quarters ended March 31, 2008 and June 30, 2008.

Table of Contents

Current market developments may adversely affect our industry, business, results of operations and access to capital.

Dramatic declines in the housing market over the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities as well as major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, in turn have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have ceased to provide funding to even the most credit-worthy borrowers or to other financial institutions. The resulting lack of available credit and lack of confidence in the financial markets could materially and adversely affect our financial condition and results of operations and our access to capital. In particular, we may face the following risks in connection with these events:

- Market developments may affect consumer confidence levels and may cause declines in credit card usage and adverse changes in payment patterns, causing increases in delinquencies and default rates.

- The processes we use to estimate inherent losses may no longer be reliable because they rely on complex judgments, including forecasts of economic conditions, which may no longer be capable of accurate estimation.

- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future charge-offs.

- Our ability to borrow from other financial institutions or to engage in securitization funding transactions on favorable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.

- Increased prepayments or other events may cause our securitization transactions to amortize earlier than scheduled, which would accelerate our need for additional funding and have a significant effect on the ability of certain of our business entities to meet capital adequacy requirements.

- We may be required to pay significantly higher Federal Deposit Insurance Corp. (FDIC) premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

- We expect to face increased regulation of our industry. Compliance with such regulation may increase our costs, limit our ability to pursue business opportunities, and increase compliance challenges.

The Soundness of Other Financial Institutions Could Adversely Affect Us

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial services institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients, resulting in a significant credit concentration with respect to the financial services industry overall. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions.

Likewise, adverse developments affecting the overall strength and soundness of our competitors or the financial services industry as a whole could have a negative impact on perceptions about the strength and soundness of our business even if we are not subject to the same adverse developments. In addition, adverse developments with respect to third parties with whom we have important relationships also could negatively

impact perceptions about us. These negative perceptions about us could cause our business to suffer and exacerbate the other risks that we face.

A Complex and Changing Legislative and Regulatory Environment Could Restrict Our Lending and Other Practices

We operate in a heavily regulated industry and are therefore subject to a wide array of consumer lending, banking and deposit laws and regulations that apply to almost every element of our business. There has been increased legislation and regulation with respect to the financial services industry in recent months, and we expect that oversight of our business will continue to expand in scope and complexity. For example, our expected participation in the Capital Purchase Program (the CPP), subjects us to increased oversight by the Treasury Department, regulators and Congress under the Emergency Economic Stabilization Act (EESA). Hearings on implementation of the CPP and the use of funds have already begun. Congress may adopt further legislation to refine EESA in addition to other efforts to change lending practices that legislators believe led to the current economic situation. Such legislation could increase governmental oversight of the Company, restrict the Company s lending or governance practices, or both.

Table of Contents

Other laws and regulations could also limit credit card pricing and other terms. For example, the Federal Reserve Board, the Office of Thrift Supervision and the National Credit Union Association have proposed rules that would limit the ability of credit card issuers to increase credit card interest rates on existing balances. Final regulations could be released by the end of 2008. Likewise, several bills pending before Congress could impact credit card pricing and other terms. In addition, legislation has been introduced that would enable merchants to negotiate interchange fees, the fees merchants pay to process debit and credit card transactions. The future of these bills in 2008 is uncertain, but each, or additional legislation, could be introduced or reintroduced in 2009.

Laws and regulations, and any interpretations and applications with respect thereto, generally are intended to benefit consumers, borrowers and depositors, not shareholders. The legislative and regulatory environment is beyond our control, may change rapidly and unpredictably and may negatively influence our earnings and growth. In addition, some of these new laws and regulations may increase our costs. Our success depends on our ability to maintain compliance with both existing and new laws and regulations.

Table of Contents

Item 2. ***Unregistered Sales of Equity Securities and Uses of Proceeds.***

Period	(a) Total Number of Shares Purchased[1]	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans[2]	(d) Maximum Amount that May Yet Be Purchased Under the Plan or Program
July 1-31, 2008	4,632	$ 39.49		$ 2,000,000
August 1-31, 2008	953	$ 43.23		$ 2,000,000
September 1-30, 2008	3,209	$ 55.19		$ 2,000,000
Total	8,794			

(1) Shares purchased represent share swaps made in connection with stock option exercises and the withholding of shares to cover taxes on restricted stock lapses.

(2) On January 31, 2008, the Company announced that its Board of Directors authorized the repurchase of up to $2.0 billion of the Company s $.01 par value common stock. The Company does not expect to conduct any repurchases until the economic outlook improves. Any such repurchases may only be conducted in accordance with the conditions outlined by the U.S. Treasury for companies participating in the Capital Purchase Program (CPP). See section V. Management Summary, Subsequent Event for a discussion of the Company s participation in the CPP.

Part 2. Other Information

Item 6. ***Exhibits***

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated as of March 6, 2005, between Capital One Financial Corporation and Hibernia Corporation (incorporated by reference to Exhibit 2.1 of the Corporation s Report on Form 8-K, filed on March 9, 2005).
2.2	Amendment No. 1, dated as of September 6, 2005, to the Agreement and Plan of Merger, dated as of March 6, 2005, between Capital One Financial Corporation and Hibernia Corporation (incorporated by reference to Exhibit 2.1 of the Corporation s Report on Form 8-K, filed on September 8, 2005).
2.3	Agreement and Plan of Merger, dated as of March 12, 2006, between Capital One Financial Corporation and North Fork Bancorporation (incorporated by reference to the Corporation s Report on Form 8-K, filed on March 16, 2006).
3.1	Restated Certificate of Incorporation of Capital One Financial Corporation, (as amended May 15, 2007 (incorporated by reference to Exhibit 3.1 of the Corporation s Report on Form 8-K, filed on August 28, 2007).
3.2	Amended and Restated Bylaws of Capital One Financial Corporation (as amended October 30, 2008) (incorporated by reference to Exhibit 3.1 of the Corporation s Report on Form 8-K, filed November 3, 2008).
4.1	Specimen certificate representing the Common Stock (incorporated by reference to Exhibit 4.1 of the 2003 Form 10-K.
4.2.1	Senior Indenture dated as of November 1, 1996 between Capital One Financial Corporation and The Bank of New York Trust Company, N.A. (as successor to Harris Trust and Savings Bank) (incorporated by reference to Exhibit 4.1 of the corporation s Report on Form 8-K, filed on November 13, 1996).
4.2.2	Copy of 7.125% Notes, due 2008, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.8 of the 1998 Form 10-K).
4.2.3	Copy of 6.25% Notes, due 2013, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.5 of the 2003 Form 10-K).
4.2.4	

Copy of 5.25% Notes, due 2017, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.6 of the 2004 Form 10-K).

4.2.5 Copy of 4.80% Notes, due 2012, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.7 of the 2004 Form 10-K).

Table of Contents

Exhibit No.	Description
4.2.6	Copy of 5.50% Senior Notes, due 2015, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation s quarterly report on Form 10-Q for the period ending June 30, 2005).
4.2.7	Specimen of Floating Rate Senior Note, due 2009, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation s Report on Form 8-K, filed on September 18, 2006).
4.2.8	Specimen of 5.70% Senior Note, due 2011, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.2 of the Corporation s Report on Form 8-K, filed on September 18, 2006).
4.2.9	Specimen of 6.750% Senior Note, due 2017, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation s Report on Form 8-K, filed on September 5, 2007).
4.3	Indenture, dated as of June 6, 2006, between Capital One Financial Corporation and The Bank of New York, as indenture trustee (incorporated by reference to Exhibit 4.1 of the Corporation s Current Report on Form 8-K, filed on June 12, 2006).
4.4.1	First Supplemental Indenture, dated as of June 6, 2006, between Capital One Financial Corporation and The Bank of New York, as indenture trustee (incorporated by reference to Exhibit 4.2 of the Corporation s Current Report on Form 8-K, filed on June 12, 2006).
4.4.2	Amended and Restated Declaration of Trust of Capital One Capital II, dated as of June 6, 2006, between Capital One Financial Corporation as Sponsor, The Bank of New York as institutional trustee, The Bank of New York (Delaware) as Delaware Trustee and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.3 of the Corporation s Current Report on Form 8-K, filed on June 12, 2006).
4.4.3	Guarantee Agreement, dated as of June 6, 2006, between Capital One Financial Corporation and The Bank of New York, as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Corporation s Current Report on Form 8-K, filed on June 12, 2006).
4.4.4	Specimen certificate representing the Enhanced TRUPS (incorporated by reference to Exhibit 4.5 of the Corporation s Current Report on Form 8-K, filed on June 12, 2006).
4.4.5	Specimen certificate representing the Junior Subordinated Debt Security (incorporated by reference to Exhibit 4.6 of the Corporation s Current Report on Form 8-K, filed on June 12, 2006).
4.5.1	Second Supplemental Indenture, dated as of August 1, 2006, between Capital One Financial Corporation and The Bank of New York, as indenture trustee (incorporated by reference to Exhibit 4.2 of the Corporation s Current Report on Form 8-K, filed on August 4, 2006).
4.5.2	Copy of Junior Subordinated Debt Security Certificate (incorporated by reference to Exhibit 4.6 of the Corporation s Current Report on Form 8-K, filed on August 4, 2006).
4.5.3	Amended and Restated Declaration of Trust of Capital One Capital III, dated as of August 1, 2006, between Capital One Financial Corporation, as Sponsor, The Bank of New York, as institutional trustee, The Bank of New York (Delaware), as Delaware trustee and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.3 of the Corporation s Current Report on Form 8-K, filed on August 4, 2006).
4.5.4	Guarantee Agreement, dated as of August 1, 2006, between Capital One Financial Corporation and The Bank of New York, as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Corporation s Current Report on Form 8-K, filed on August 4, 2006).
4.5.5	Copy of Capital Security Certificate (incorporated by reference to Exhibit 4.5 of the Corporation s Current Report on Form 8-K, filed on August 4, 2006)
4.6.1	Third Supplemental Indenture, dated as of February 5, 2007, between Capital One Financial Corporation and The Bank of New York, as indenture trustee (incorporated by reference to Exhibit 4.2 of the Corporation s Current Report on Form 8-K, filed on February 8, 2007).
4.6.2	Amended and Restated Declaration of Trust of Capital One Capital IV, dated as of February 5, 2007, between Capital One Financial Corporation as Sponsor, The Bank of New York as institutional trustee, The Bank of New York (Delaware) as Delaware Trustee and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.3 of the Corporation s Current Report on Form 8-K, filed on February 8, 2007).

Table of Contents

Exhibit No.	Description
4.6.3	Guarantee Agreement, dated as of February 5, 2007, between Capital One Financial Corporation and The Bank of New York, as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Corporation s Current Report on Form 8-K, filed on February 8, 2007).
4.6.4	Specimen certificate representing the Capital Security (incorporated by reference to Exhibit 4.5 of the Corporation s Current Report on Form 8-K, filed on February 8, 2007).
4.6.5	Specimen certificate representing the Capital Efficient Note (incorporated by reference to Exhibit 4.6 of the Corporation s Current Report on Form 8-K, filed on February 8, 2007).
4.7.1	Indenture, dated as of August 29, 2006, between Capital One Financial Corporation and The Bank of New York, as indenture trustee (incorporated by reference to Exhibit 4.1 of the Corporation s Current Report on Form 8-K, filed on August 31, 2006).
4.7.2	Copy of Subordinated Note Certificate (incorporated by reference to Exhibit 4.2 of the Corporation s Current Report on Form 8-K, filed on August 31, 2006).
10.1*	Amendments to Processing Services Agreement, effective October 31, 2008, between the Corporation and Total System Services, Inc. (confidential treatment requested for these amendments and the original agreement, dated August 5, 2005, which was filed as exhibit 10.1 of the corporation s quarterly report on Form 10-Q for the period ending September 30, 2005).
31.1*	Certification of Richard D. Fairbank
31.2*	Certification of Gary L. Perlin
32.1*	Certification** of Richard D. Fairbank
32.2*	Certification** of Gary L. Perlin

* Indicates a document being filed with this Form 10-Q.

** Information in this 10-Q furnished herewith shall not be deemed to be filed for the purposes of Section 18 of the 1934 Act or otherwise subject to the liabilities of that section.

Table of Contents

SIGNATURES

Pursuant to the requirements 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

(Registrant)

Date: November 7, 2008

By: /s/ GARY L. PERLIN
Gary L. Perlin
Chief Financial Officer