

CAPITAL ONE FINANCIAL CORP
Form 10-Q
November 07, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

September 30, 2011 For the quarterly period ended September 30, 2011

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 1-13300

CAPITAL ONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)
1680 Capital One Drive,
McLean, Virginia
(Address of Principal Executive Offices)
54-1719854
(I.R.S. Employer
Identification No.)
22102
(Zip Code)
Registrant's telephone number, including area code:
(703) 720-1000
(Former name, former address and former fiscal year, if changed since last report)
(Not applicable)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

As of October 31, 2011, there were 459,677,105 shares of the registrant's Common Stock, par value \$.01 per share, outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our unaudited condensed consolidated financial statements and related notes in this Report and the more detailed information contained in our 2010 Annual Report on Form 10-K (2010 Form 10-K). This discussion contains forward-looking statements that are based upon management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review

Forward-Looking Statements for more information on the forward-looking statements in this Report. Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in this Report in Part II Item 1A. Risk Factors, in our 2010 Form 10-K in Part I Item 1A. Risk Factors and in Exhibit 99.5 to our Current Report on Form 8-K filed on July 13, 2011.

SUMMARY OF SELECTED FINANCIAL DATA

Below we provide selected consolidated financial data from our results of operations for the three and nine months ended September 30, 2011 and 2010, and selected comparative consolidated balance sheet data as of September 30, 2011, and December 31, 2010. We also provide selected key metrics we use in evaluating our performance.

Table 1: Consolidated Financial Highlights (Unaudited)

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Change	2011	2010	Change
Income statement						
Net interest income ⁽¹⁾	\$ 3,283	\$ 3,109	6%	\$ 9,559	\$ 9,434	1%
Non-interest income	871	907	(4)	2,670	2,775	(4)
Total revenue	4,154	4,016	3	12,229	12,209	**
Provision for loan and lease losses ⁽¹⁾	622	867	(28)	1,499	3,069	(51)
Non-interest expense	2,297	1,996	15	6,714	5,843	15
Income from continuing operations before income taxes	1,235	1,153	7	4,016	3,297	22
Income tax provision	370	335	10	1,174	948	24
Income from continuing operations, net of taxes	865	818	6	2,842	2,349	21
Loss from discontinued operations, net of taxes ⁽²⁾	(52)	(15)	247	(102)	(303)	(66)
Net income	\$ 813	\$ 803	1%	\$ 2,740	\$ 2,046	34%
Common share statistics						
Earnings per common share:						
Basic earnings per common share	\$ 1.78	\$ 1.78	**%	\$ 6.02	\$ 4.53	33%
Diluted earnings per common share	1.77	1.76	1	5.95	4.49	33
Weighted average common shares outstanding:						
Basic earnings per common share	456.0	452.5	1	455.2	451.9	1

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Diluted earnings per common share	460.4	456.6	1	461.0	456.0	1
Dividends per common share	0.05	0.05	**	0.15	0.15	**
Stock price per common share at period end	39.63	39.55	**	39.63	39.55	**
Total market capitalization at period end	18,075	17,900	1	18,075	17,900	1

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	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Change	2011	2010	Change
Average balances						
Loans held for investment	\$ 129,043	\$ 126,307	2%	\$ 127,360	\$ 129,565	(2)%
Interest-earning assets	177,710	172,473	3	175,147	176,332	(1)
Total assets	201,611	196,598	3	199,616	200,931	(1)
Interest-bearing deposits	110,750	104,186	6	109,552	104,119	5
Total deposits	128,268	118,255	8	126,102	118,095	7
Borrowings	37,366	45,910	(19)	39,107	52,044	(25)
Stockholders' equity	29,316	25,307	16	28,202	24,498	15
Performance metrics						
Purchase volume ⁽³⁾	\$ 34,918	\$ 27,039	29%	\$ 96,941	\$ 77,533	25%
Revenue margin ⁽¹⁾⁽⁴⁾	9.35%	9.31%	4bps	9.31%	9.23%	8bps
Net interest margin ⁽¹⁾⁽⁵⁾	7.39	7.21	18	7.28	7.13	15
Net charge-off rate ⁽¹⁾⁽⁶⁾	2.52	4.82	(230)	3.02	5.41	(239)
Return on average assets ⁽⁷⁾	1.72	1.66	6	1.90	1.56	34
Return on average equity ⁽⁸⁾	11.80	12.93	(113)	13.44	12.78	66
Non-interest expense as a % of average loans held for investment ⁽⁹⁾	7.12	6.32	80	7.03	6.01	102
Efficiency ratio ⁽¹⁰⁾	55.30	49.70	560	54.90	47.86	704
Effective income tax rate	29.96	29.05	91	29.23	28.75	48

	September 30, 2011	December 31, 2010	Change
Balance sheet (period end)			
Loans held for investment	\$ 129,952	\$ 125,947	3%
Interest-earning assets	174,308	172,024	1
Total assets	200,148	197,503	1
Interest-bearing deposits	110,777	107,162	3
Total deposits	128,318	122,210	5
Borrowings	34,315	41,796	(18)
Total liabilities	170,770	170,962	**
Stockholders' equity	29,378	26,541	11
Tangible common equity (TCE ⁽¹¹⁾)	15,425	12,558	23
Credit quality metrics (period end)			
Allowance for loan and lease losses	\$ 4,280	\$ 5,628	(24)%
Allowance as a % of loans held for investment	3.29%	4.47%	(118)bps
30+ day performing delinquency rate ⁽¹²⁾	3.13	3.52	(39)
30+ day delinquency rate	3.81	4.23	(42)
Capital ratios			
Tier 1 common equity ratio ⁽¹³⁾	10.0%	8.8%	120bps
Tier 1 risk-based capital ratio ⁽¹⁴⁾	12.4	11.6	80
Total risk-based capital ratio ⁽¹⁵⁾	15.4	16.8	(140)
Tangible common equity ratio (TCE ratio ⁽¹⁶⁾)	8.3	6.9	140

** Change is less than one percent.

(1) Interest income was reduced by \$206 million and \$421 million in the third quarter and first nine months of 2011, respectively, for amounts earned by Kohl's Department Stores (Kohl's). The reduction in the provision for loan and lease losses attributable to Kohl's was \$236 million for the first nine months of 2011. Loss-sharing amounts attributable to Kohl's reduced net charge-offs by \$39 million and \$80 million in the third quarter and first nine

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months of 2011, respectively. The expected loss reimbursement from Kohl's netted in our allowance for loan and lease losses was approximately \$156 million as of September 30, 2011. See Note 2 Acquisitions for additional information.

- (2) Discontinued operations reflect ongoing costs related to the mortgage origination operations of GreenPoint's wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. (GreenPoint), which we closed in 2007.
- (3) Consists of credit card purchase transactions for the period, net of returns. Excludes cash advance transactions.
- (4) Calculated based on annualized total revenue for the period divided by average interest-earning assets for the period.
- (5) Calculated based on annualized net interest income for the period divided by average interest-earning assets for the period.
- (6) Calculated based on annualized net charge-offs for the period divided by average loans held for investment for the period. Average loans held for investment include purchased credit-impaired loans acquired as part of the Chevy Chase Bank acquisition.
- (7) Calculated based on annualized income from continuing operations, net of tax, for the period divided by average total assets for the period.
- (8) Calculated based on annualized income from continuing operations, net of tax, for the period divided by average stockholders' equity for the period.
- (9) Calculated based on annualized non-interest expense, excluding restructuring and goodwill impairment charges, for the period divided by average loans held for investment for the period.
- (10) Calculated based on non-interest expense, excluding restructuring and goodwill impairment charges, for the period divided by total revenue for the period.
- (11) Tangible common equity is a non-GAAP measure consisting of total assets less assets from discontinued operations and intangible assets. See Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for the calculation of this measure and reconciliation to the comparative GAAP measure.
- (12) See Consolidated Balance Sheet Analysis and Credit Performance Credit Performance Nonperforming Assets for our policies for classifying loans as nonperforming by loan category.
- (13) Tier 1 common equity ratio is a non-GAAP measure calculated based on Tier 1 common equity divided by risk-weighted assets. See Liquidity and Capital Management Capital Management and Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information, including the calculation of this ratio and non-GAAP reconciliation.
- (14) Tier 1 risk-based capital ratio is a regulatory measure calculated based on Tier 1 capital divided by risk-weighted assets. See Liquidity and Capital Management Capital Management and Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information, including the calculation of this ratio.
- (15) Total risk-based capital ratio is a regulatory measure calculated based on total risk-based capital divided by risk-weighted assets. See Liquidity and Capital Management Capital Management and Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information, including the calculation of this ratio.
- (16) Tangible common equity ratio (TCE ratio) is a non-GAAP measure calculated based on tangible common equity divided by tangible assets. See Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for the calculation of this measure and reconciliation to the comparative GAAP measure.

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INTRODUCTION

Capital One Financial Corporation (the **Company**) is a diversified financial services holding company with banking and non-banking subsidiaries that offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. Our principal subsidiaries include:

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

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

The Company and its subsidiaries are collectively referred to as **we**, **us** or **our** in this Report. CONA and COBNA are collectively referred to as the **Banks** in this Report.

We had \$130.0 billion in total loans outstanding and \$128.3 billion in deposits as of September 30, 2011, compared with \$125.9 billion in total loans outstanding and \$122.2 billion in deposits as of December 31, 2010.

Our revenues 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 our profitability. Our expenses primarily consist of the cost of funding our assets, our provision for loan and lease losses, operating expenses (including associate salaries and benefits, infrastructure maintenance and enhancements and branch operations and expansion costs), marketing expenses and income taxes.

Our principal operations are currently organized, for management reporting purposes, into three major business segments, which are defined based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments.

Credit Card: Consists of our domestic consumer and small business card lending, national small business lending, national closed end installment lending and the international card lending businesses in Canada and the United Kingdom.

Consumer Banking: Consists of our branch-based lending and deposit gathering activities for consumers and small businesses, national deposit gathering, national automobile lending and consumer home loan lending and servicing activities.

Commercial Banking: Consists of our lending, deposit gathering and treasury management services to commercial real estate and middle market customers. Our middle market customers typically include commercial and industrial companies with annual revenues between \$10 million to \$1.0 billion.

Certain activities that are not part of a segment are included in our **Other** category.

Table 2 summarizes our business segment results, which we report based on income from continuing operations, net of tax, for the three and nine months ended September 30, 2011 and 2010. We provide a reconciliation of our total business segment results to our consolidated results using generally accepted accounting principles in the U.S. (**U.S. GAAP**) in **Note 14 Business Segments** of this Report.

Table of Contents**Table 2: Business Segment Results**

(Dollars in millions)	Three Months Ended September 30,							
	2011				2010			
	Total Revenue ⁽¹⁾		Net Income (Loss) ⁽²⁾		Total Revenue ⁽¹⁾		Net Income (Loss) ⁽²⁾	
Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	
Credit Card	\$ 2,720	65%	\$ 663	76%	\$ 2,605	65%	\$ 631	77%
Consumer Banking	1,285	31	190	22	1,142	28	175	21
Commercial Banking	415	10	145	17	355	9	39	5
Other ⁽³⁾	(266)	(6)	(133)	(15)	(86)	(2)	(27)	(3)
Total from continuing operations	\$ 4,154	100%	\$ 865	100%	\$ 4,016	100%	\$ 818	100%

(Dollars in millions)	Nine Months Ended September 30,							
	2011				2010			
	Total Revenue ⁽¹⁾		Net Income (Loss) ⁽²⁾		Total Revenue ⁽¹⁾		Net Income (Loss) ⁽²⁾	
Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	
Credit Card	\$ 7,844	64%	\$ 1,924	68%	\$ 8,072	66%	\$ 1,688	72%
Consumer Banking	3,699	30	692	24	3,451	28	785	33
Commercial Banking	1,202	10	435	15	1,088	9	67	3
Other ⁽³⁾	(516)	(4)	(209)	(7)	(397)	(3)	(191)	(8)
Total from continuing operations	\$ 12,229	100%	\$ 2,842	100%	\$ 12,214	100%	\$ 2,349	100%

(1) Total revenue consists of net interest income and non-interest income.

(2) Net income (loss) for our business segments reflects income from continuing operations, net of tax.

(3) Includes the residual impact of the allocation of our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management, to our business segments as well as other items as described in Note 14 Business Segments.

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EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

Financial Highlights

We reported net income of \$813 million (\$1.77 per diluted share) in the third quarter of 2011, with each of our three business segments contributing to our earnings. In comparison, we reported net income of \$911 million (\$1.97 per diluted share) in the second quarter of 2011 and net income of \$803 million (\$1.76 per diluted share) in the third quarter of 2010. Net income totaled \$2.7 billion (\$5.95 per diluted share) for the first nine months of 2011, compared with net income of \$2.0 billion (\$4.49 per diluted share) for the first nine months of 2010.

Our capital levels continued to increase during the third quarter of 2011, with total stockholders' equity up \$2.8 billion from year-end 2010. Our Tier 1 risk-based capital ratio under Basel I was 12.4% and our Tier 1 common equity ratio, a non-GAAP measure, was 10.0% as of September 30, 2011, both up 60 basis points from the end of the second quarter of 2011, reflecting strong internal capital generation as well as the continued decline in the amount of disallowed deferred tax assets. Based on our current understanding of the Basel III framework, which has not been implemented by the U.S. banking agencies and is subject to change, we estimate that our Tier 1 common equity ratio was 10.1% as of September 30, 2011. Our stockholders' equity and capital ratios do not reflect any impact from the equity forward sale agreements executed in July 2011 referenced below, as they have not been settled in whole or in part as of the date of this Report. We present the calculation of our regulatory capital ratios and a reconciliation of our supplemental non-GAAP capital measures below under Supplemental Tables.

Our strategies and actions are designed to deliver profitable long-term growth through the acquisition and retention of franchise-enhancing customer relationships across our businesses. We believe that franchise-enhancing customer relationships produce strong long-term economics through low credit costs, low customer attrition and a gradual build in loan balances and revenues over time. Examples of franchise-enhancing customer relationships include rewards customers and new partnerships in our Credit Card business, long-term retail deposit customers in our Consumer Banking business and primary banking relationships with commercial customers in our Commercial Banking business. We intend to grow these customer relationships by continuing to invest in our bank infrastructure to allow us to provide more convenient and flexible customer banking options, including a broader range of fee-based and credit products and services, by leveraging our direct bank customer franchise with national reach and by continued marketing investments to further strengthen our brand. We believe our actions have created a well-positioned balance sheet and strong capital and liquidity levels which have provided us with investment flexibility to take advantage of attractive opportunities and adjust, where we believe appropriate, to changing market conditions.

As previously announced, in June 2011, we entered into a definitive agreement with ING Groep N.V., ING Bank N.V., ING Direct N.V., ING Direct Bancorp, collectively, the Sellers, under which we will acquire substantially all of the Sellers' ING Direct business in the United States (ING Direct), in exchange for \$6.2 billion in cash and approximately 55.9 million shares of our common stock, subject to certain adjustments. We continue to expect the ING Direct acquisition to close in late 2011 or early 2012, subject to customary closing conditions, including certain governmental clearances and approvals. In the third quarter of 2011, we closed a public underwritten offering of our senior notes, from which we received total proceeds of approximately \$3.0 billion, and a public underwritten offering of 40 million shares of our common stock at a price per share of \$50.00, subject to forward sale agreements. After underwriter's discounts and commissions, the net proceeds to us from the equity offering will be at an initial forward sale price per share of \$48.50. The forward sale price is subject to adjustment under the forward sale agreements. We have not received any proceeds from this public offering of our shares of common stock yet. Under the terms of the forward sale agreements, we must settle the forward sale agreements on or before February 15, 2012. We expect to settle the forward sale agreements entirely by physical delivery of shares of common stock in exchange for cash proceeds from the forward purchasers of approximately \$1.9 billion based on the initial forward price. However, we may, subject to certain conditions, elect cash or net share settlement of all or a portion of our obligation to deliver shares of common stock. We expect to

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use the net proceeds from the debt and equity offerings, along with cash sourced from our current liquidity, to fund the \$6.2 billion in cash consideration payable in connection with the ING Direct acquisition.

In addition to the pending ING Direct acquisition, we announced in August 2011 that we had entered into a purchase agreement with HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc. (collectively, HSBC), to acquire substantially all of the assets and assume liabilities of HSBC's credit card and private-label credit card business in the United States for a premium estimated at \$2.6 billion as of June 30, 2011. We currently expect the HSBC acquisition to close in the second quarter of 2012, subject to customary closing conditions, including certain governmental clearances and approvals.

We took several actions during the quarter to manage the anticipated impact of the pending ING Direct acquisition on our market risk exposure and regulatory capital requirements. Since the date we entered into the agreement to acquire ING Direct, interest rates have declined substantially, and our current estimate of the fair value of the ING Direct net assets and liabilities has increased correspondingly. In order to capture some of the anticipated benefits to regulatory capital on the closing date attributable to this decline in interest rates, in August 2011, we entered into various pay-fixed/receive-floating interest-rate swap transactions with a total notional principal amount of approximately \$23.8 billion. These swap transactions are designed to mitigate the effect of a rise in interest rates on the fair values of a significant portion of the ING Direct assets and liabilities during the period from when we entered into the swap transactions to the anticipated closing date of the ING Direct acquisition in late 2011 or early 2012. Although the interest-rate swaps represent economic hedges, they are not designated for hedge accounting. Accordingly, changes in the fair value are recorded in earnings. Our results for the third quarter of 2011 include a mark-to-market loss of \$266 million related to these interest-rate swaps, which was attributable to a decline in interest rates as of the end of the quarter. Changes in the fair value of these interest-rate swaps will continue to be recorded in earnings until the swaps are terminated. We also sold approximately \$6.4 billion of investment securities, consisting predominantly of agency mortgage-backed securities (MBS). We recorded a gain of \$239 million on the sale of these securities, which largely offsets the mark-to-market loss recognized on the interest-rate swaps. We will continue to evaluate market conditions and may take additional balance sheet management actions, such as entering into similar swap transactions or selling additional investment securities, to manage the anticipated impact of the pending ING Direct and HSBC acquisitions on our market risk exposure and regulatory capital requirements. For additional detail, see Market Risk Management section of this Report and Note 10 Derivative Instruments and Hedging Activities.

Below are additional highlights of our performance for the third quarter and first nine months of 2011. These highlights generally are based on a comparison to the same prior year periods. The changes in our financial condition and credit performance are generally based on our financial condition and credit performance as of September 30, 2011, compared with our financial condition and credit performance as of December 31, 2010. We provide a more detailed discussion of our financial performance in the sections following this Executive Summary and Business Outlook.

Total Company

Earnings: Our earnings of \$813 million in the third quarter of 2011 increased by \$10 million, or 1%, from the third quarter of 2010, while our earnings of \$2.7 billion for the first nine months of 2011 increased by \$694 million, or 34%, from the first nine months of 2010. The increase in net income for each period was primarily attributable to significantly lower credit costs due to improvements in loan credit quality. The increase in net income for the first nine months of 2011 also reflected a substantial reduction in the provision for mortgage repurchase losses for legacy mortgage-related representation and warranty claims. These factors were partially offset by higher operating expenses related to our recent acquisitions and increased marketing expenditures.

Total Loans: Period-end loans held for investment increased by \$4.0 billion, or 3%, during the first nine months of 2011, to \$130.0 billion as of September 30, 2011, from \$125.9 billion as of December 31, 2010. The increase was primarily attributable to the additions of the \$3.7 billion private-label credit card loan

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portfolio of Kohl's in the second quarter of 2011 and the \$1.4 billion credit card loan portfolio of Hudson's Bay Company (HBC) in the first quarter of 2011, as well as growth in our auto finance, commercial and revolving domestic card balances. Excluding the impact of the addition of the Kohl's and HBC portfolios, total loans decreased by \$1.1 billion, or 1%, in the first nine months of 2011, due to the continued expected run-off of installment loans in our Credit Card business and legacy home loans in our Consumer Banking business, other loan paydowns and charge-offs. The impact from these factors more than offset the strong purchase volume growth across the Domestic Card business, a significant increase in auto loan originations and steady loan growth in our Commercial Banking business.

Charge-off and Delinquency Statistics: Net charge-off rates continued to decline during the third quarter of 2011. The net charge-off rate decreased to 2.52%, from 2.91% in the second quarter of 2011 and 4.82% in the third quarter of 2010. The net charge-off rate was 3.02% for the first nine months of 2011, a decrease of 239 basis points from the first nine months of 2010. The 30+ day delinquency rate was 3.81% as of September 30, 2011, compared with 3.57% as of June 30, 2011, and 4.23% as of December 31, 2010. As overall credit trends are stabilizing after almost two years of rapidly declining charge-offs, our quarterly credit metrics are increasingly driven by seasonal patterns.

Allowance for Loan and Lease Losses: We reduced our allowance by \$208 million in the third quarter of 2011 and by \$1.3 billion in the first nine months of 2011 to \$4.3 billion as of September 30, 2011. In comparison, we reduced our allowance by \$624 million in the third quarter of 2010 and by \$2.0 billion in the first nine months of 2010. The significant reductions in our allowance releases in the third quarter and first nine months of 2011 from the same prior year periods reflect the impact of stabilizing credit trends. While our net-charge off rate improved by 239 basis points in the first nine months of 2011, compared with the same prior year period, the allowance coverage ratio fell by only 118 basis points to 3.29% as of September 30, 2011, from 4.47% as of December 31, 2010.

Representation and Warranty Reserve: Our representation and warranty reserve totaled \$892 million as of September 30, 2011, compared with \$816 million as of December 31, 2010. This reserve relates to our mortgage loan repurchase exposure for legacy mortgage loans sold by our subsidiaries to various parties under contractual provisions that include various representations and warranties. The reserve reflects losses as of each balance sheet date that we consider to be both probable and reasonably estimable. We recorded a provision for this exposure of \$72 million and \$153 million in the third quarter and first nine months of 2011, respectively, compared with a provision of \$16 million and \$644 million in the third quarter and first nine months of 2010, respectively.

Business Segments

Credit Card Business: Our Credit Card business generated net income from continuing operations of \$663 million and \$1.9 billion in the third quarter and first nine months of 2011, respectively, compared with net income from continuing operations of \$631 million and \$1.7 billion in the third quarter and first nine months of 2010, respectively. The improvement in credit performance was the primary driver of the improvement in our Credit Card business, resulting in a significant decrease in the provision for loan and lease losses. The provision decrease for the first nine months of 2011 was partially offset by an increase in non-interest expense attributable to increased operating and integration costs related to the acquisitions of the credit card loan portfolios of Sony, HBC and Kohl's and increased marketing expenditures. New account originations have continued to grow in our Credit Card business.

Consumer Banking Business: Our Consumer Banking business generated net income from continuing operations of \$190 million and \$692 million in the third quarter and first nine months of 2011, respectively, compared with net income from continuing operations of \$175 million and \$785 million in the third quarter and first nine months of 2010, respectively. The increase in net income for the third quarter of 2011 was primarily due to revenue growth resulting from improved loan margins attributable to an increase in average loan yields, coupled with a decrease in the cost of funds. The decrease in net income for the first nine months of 2011 reflected the impact of the absence of a one-time pre-tax gain of \$128 million recorded in

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the first quarter of 2010 from the deconsolidation of certain option-adjustable rate mortgage trusts and an increase in the provision for loan and lease losses due to growth in auto loans. These factors were partially offset by an increase in total revenue due to a shift in our loan product mix toward higher priced auto loan originations, coupled with deposit growth resulting from our continued strategy to leverage our bank outlets to attract lower cost deposit funding. Strong growth in auto loan originations during the third quarter and first nine months of 2011 has more than offset the continued run-off in legacy home loans.

Commercial Banking: Our Commercial Banking business generated net income from continuing operations of \$145 million and \$435 million in the third quarter and first nine months of 2011, respectively, compared with net income from continuing operations of \$39 million and \$67 million in the third quarter and first nine months of 2010, respectively. The improvement in results for our Commercial Banking business reflected an increase in revenues, a decrease in non-interest expense and a decrease in the provision for loan and lease losses due to the improvement in credit quality. As a result of this improvement, we reduced our allowance for loan and lease losses and recorded a negative provision for loan and lease losses of \$10 million and \$43 million in the third quarter and first nine months of 2011, respectively. In comparison, we recorded a provision for loan and lease losses of \$95 million and \$395 million in the third quarter and first nine months of 2010, respectively, related to our Commercial Banking business. We continued to experience steady loan growth in our Commercial Banking business, with loan demand expanding beyond refinancing to include demand for new credit to finance growth for our commercial customers.

Business Environment and Recent Developments

Recent Business and Regulatory Developments

The challenging economic environment intensified during the third quarter of 2011, due to concerns about the U.S. debt ceiling and subsequent downgrade of the U.S. debt, the continued elevated U.S. unemployment rate and the European debt crisis. These concerns resulted in increased economic uncertainty and market volatility. We have continued to monitor our portfolio credit performance for signs that these difficult market conditions are causing deterioration in our credit results. Our credit metrics are stabilizing with normal seasonality re-emerging after a long period of cyclical improvement. We believe actions we made in underwriting and managing our business through the recession, including focusing on our most resilient businesses, have continued to drive our strong credit performance. In addition, our recent partnerships and acquisitions have contributed to new account originations and a continued increase in purchase volumes in our Credit Card business.

Recent Acquisitions and Related Developments

During the past several years, we have explored opportunities to acquire financial services companies and financial assets and enter into strategic partnerships as part of our growth strategy. Our financial strength and flexibility and our experience in the credit card and direct banking businesses are key factors that we believe have enabled us to take advantage of our recent investment opportunities, including the acquisition of HBC's existing credit card loan portfolio in the first quarter of 2011, the acquisition of Kohl's existing credit card loan portfolio in the second quarter of 2011 and our pending acquisitions of ING Direct and HSBC's U.S. credit card business. We continue to evaluate and anticipate engaging in additional strategic partnerships and selected acquisitions of financial institutions and other financial assets, including credit card and other loan portfolios. We may issue common stock or debt in connection with future acquisitions, including in public offerings, to fund such acquisitions.

Business Outlook

We discuss below our current expectations regarding our total company performance and the performance of each of our business segments over the near-term based on market conditions, the regulatory environment and our business strategies as of the time we filed this Report. The statements contained in this section are based on our current expectations regarding our outlook for our financial results and business strategies. Our expectations take into account, and should be read in conjunction with, our expectations regarding economic trends and

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analysis of our business as discussed in Part I Item 1. Business and Part I Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2010 Form 10-K. 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. Forward-looking statements do not reflect (i) any change in current dividend or repurchase strategies, (ii) the effect of any acquisitions, divestitures or similar transactions or (iii) any changes in laws, regulations or regulatory interpretations, in each case after the date as of which such statements are made. See Forward-Looking Statements in this Report, Item 1A. Risk Factors in our 2010 Form 10-K and the risk factors set forth in Exhibit 99.5 to our Current Report on Form 8-K filed on July 13, 2011, for factors that could materially influence our results.

Total Company Expectations

Our third quarter results continue to demonstrate the impact of our strategy to deliver profitable long-term growth through the acquisition and retention of franchise-enhancing customer relationships across our businesses. We believe we remain well-positioned to win in the marketplace and deliver shareholder value. We expect that the combined acquisitions of ING Direct and the HSBC U.S. credit card business will deliver attractive financial results in the near-term and put us in an even stronger position to enhance and sustain the value we can deliver to our customers, our communities and our shareholders over the long-term. We believe strong earnings will enable us to maintain strong capital levels and trajectory and that deep access to deposits will bolster our already-strong liquidity. Based on recent trends, including modest loan growth, and our targeted initiatives to attract new business and develop franchise-enhancing customer relationships, we believe the period of shrinking loans during the recession has come to an end. We expect modest year-over-year growth in ending loan balances in 2011. Although we expect an increase in period-end loans, we expect that average loan balances for 2011 will be comparable to average loan balances for 2010 given the lower loan balance starting point in 2011. Following the completion of the planned acquisitions of ING Direct and the HSBC U.S. credit card business, we expect our loan growth rate trajectory will be muted by the larger base of loans and the expected run-off of several of our legacy and acquired business loan portfolios.

Business Segments Expectations

Credit Card Business

We believe that our Domestic Card loan balances reached a low point in the first quarter of 2011. We expect seasonal loan growth in the fourth quarter of 2011. We believe we remain well positioned to gain market share in the new level playing field resulting from the CARD Act. We believe the credit results in our Domestic Card business are stabilizing and exhibiting expected seasonal patterns.

Consumer Banking Business

In our Consumer Banking business, we expect that auto originations and returns will remain strong and drive growth in auto loans for 2011. We expect that the continuing run-off of the legacy home loan portfolio will largely offset the growth in auto loans. We believe we have reached a cyclical low point for auto finance charge-offs. We expect that the auto finance charge-off rate will increase in the fourth quarter of 2011, driven by seasonal patterns. Over the long run, competitive factors and moderation in auction prices for used vehicles is likely to create higher charge-off rates.

Commercial Banking Business

In our Commercial Banking business, we believe that the worst of the commercial credit downturn is behind us and there is positive credit performance trajectory. However, we continue to expect some quarterly uncertainty and variability in commercial charge-offs and nonperforming loans. We have been growing commercial loans with lower credit risk and expect further modest growth to continue in the fourth quarter of 2011.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies in Note 1 Summary of Significant Accounting Policies of our 2010 Form 10-K.

We have identified the following accounting policies as critical because they require significant judgments and assumptions about highly complex and inherently uncertain matters and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies govern:

- Fair value
- Allowance for loan and lease losses
- Asset impairment
- Representation and warranty reserve
- Revenue recognition
- Derivative and hedge accounting
- Income taxes

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them as necessary based on changing conditions. The use of fair value to measure our financial instruments is fundamental to the preparation of our consolidated financial statements because we account for and record a significant portion of our assets and liabilities at fair value. Accordingly, we provide information below on financial instruments recorded at fair value in our consolidated balance sheets. We also discuss below refinements we made in the third quarter of 2011 in determining the estimated amount of uncollectible finance charges and fees for credit card loans. Management has discussed our critical accounting policies and estimates with the Audit and Risk Committee of the Board of Directors.

Fair Value

Fair value is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date (also referred to as an exit price). The fair value accounting guidance provides a three-level fair value hierarchy for classifying financial instruments. This hierarchy is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Fair value measurement of a financial asset or liability is assigned to a level based on the lowest level of any input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are described below:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities.
- Level 3: Unobservable inputs.

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted prices in active markets or observable market parameters. When quoted prices and observable data in active markets are not fully available, management judgment is necessary to estimate fair value. Changes in market conditions, such as reduced liquidity in the capital markets or changes in secondary market activities, may reduce the availability and reliability of quoted prices or observable data used to determine fair value.

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We have developed policies and procedures to determine when markets for our financial assets and liabilities are inactive if the level and volume of activity has declined significantly relative to normal conditions. If markets are determined to be inactive, it may be appropriate to adjust price quotes received. When significant adjustments are required to price quotes or inputs, it may be appropriate to utilize an estimate based primarily on unobservable inputs.

Significant judgment may be required to determine whether certain financial instruments measured at fair value are included in Level 2 or Level 3. In making this determination, we consider all available information that market participants use to measure the fair value of the financial instrument, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs used. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the Level 3 inputs to the instruments' fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions.

Our financial instruments recorded at fair value on a recurring basis represented approximately 20% of our total assets of \$200.1 billion as of September 30, 2011, compared with 22% of our total assets of \$197.5 billion as of December 31, 2010. Financial assets for which the fair value was determined using significant Level 3 inputs represented approximately 2% of these financial instruments (less than 1% of total assets) as of September 30, 2011, and approximately 2% of these financial instruments (less than 1% of total assets) as of December 31, 2010.

We discuss changes in the valuation inputs and assumptions used in determining the fair value of our financial instruments, including the extent to which we have relied on significant unobservable inputs to estimate fair value and our process for corroborating these inputs, in Note 13 Fair Value of Financial Instruments.

Key Controls Over Fair Value Measurement

We have a governance framework and a number of key controls that are intended to ensure that our fair value measurements are appropriate and reliable. Our governance framework provides for independent oversight and segregation of duties. Our control processes include review and approval of new transaction types, price verification and review of valuation judgments, methods, models, process controls and results. Groups independent from our trading and investing functions, including our Valuations Group and Valuations Advisory Committee, participate in the review and validation process. The Valuation Advisory Committee includes senior representation from business areas, our Enterprise Risk Oversight division and our Finance division.

Our Valuations Group performs monthly independent verification of fair value measurements by comparing the methodology driven price to other market source data (to the extent available), and uses independent analytics to determine if assigned fair values are reasonable. The Valuations Advisory Committee regularly reviews and approves our valuation methodologies to ensure that our methodologies and practices are consistent with industry standards and adhere to regulatory and accounting guidance.

Revenue Recognition

We recognize finance charges and fees on credit card loans when the amounts are billed to the customer and include these amounts in the loan balance, net of the estimated uncollectible amount of finance charges and fees. Our process for estimating the uncollectible amount of billed finance charges and fees is consistent with the process we use to estimate the allowance for incurred principal losses on our credit card loan receivables.

We determine the adequacy of the uncollectible finance charge and fee reserve on a quarterly basis, primarily based on the use of a roll-rate methodology. We refine our estimation process and key assumptions used in

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determining our loss reserves as additional information becomes available. In the third quarter of 2011, we revised the manner in which we estimate expected recoveries of finance charge and fee amounts previously considered to be uncollectible. Our revised recovery assumptions better reflect the post-recession pattern of relatively low delinquency roll-rates combined with increased recoveries of finance charges and fees previously considered uncollectible. This reduced the uncollectible finance charge and fee reserves by approximately \$83 million as of September 30, 2011, and resulted in a corresponding increase in revenues of \$83 million in the third quarter of 2011. We also applied these revised assumptions to the estimated recovery of principal charge-offs in determining our allowance for loan and lease losses. The revision, however, had an insignificant impact on the overall determination of our allowance for lease and loan losses as of September 30, 2011.

For additional information on our critical accounting policies and estimates, see Part II Item 7. MD&A Critical Accounting Policies and Estimates of our 2010 Form 10-K.

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance for the three and nine months ended September 30, 2011 and 2010. Following this section, we provide a discussion of our business segment results. You should read this section together with our Executive Summary and Business Outlook where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

Net interest income represents the difference between the interest income and applicable fees earned on our interest-earning assets, which include loans held for investment and investment securities, and the interest expense on our interest-bearing liabilities, which include interest-bearing deposits, senior and subordinated notes, securitized debt and other borrowings. We include in interest income any past due fees on loans that we deem are collectible. Our net interest margin represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities, including the impact of non-interest bearing funding. We expect net interest income and our net interest margin to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities.

Table 3 below presents, for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balances, interest income earned or interest expense incurred, and the average yield or cost for the three and nine months ended September 30, 2011 and 2010.

Table of Contents**Table 3: Average Balances, Net Interest Income and Net Interest Yield**

(Dollars in millions)	Three Months Ended September 30,					
	Average Balance	2011 Interest Income/Expense ⁽¹⁾	Yield/Rate	Average Balance	2010 Interest Income/Expense ⁽¹⁾	Yield/Rate
Assets:						
Interest-earning assets:						
Consumer loans: ⁽²⁾						
Domestic ⁽³⁾	\$ 88,995	\$ 2,828	12.71%	\$ 89,530	\$ 2,767	12.36%
International	8,703	354	16.27	7,342	302	16.45
Total consumer loans ⁽³⁾	97,698	3,182	13.03	96,872	3,069	12.67
Commercial loans ⁽³⁾	31,345	368	4.69	29,435	378	5.13
Total loans held for investment	129,043	3,550	11.00	126,307	3,447	10.92
Investment securities	37,189	264	2.84	39,872	347	3.48
Other interest-earning assets:						
Domestic	10,711	18	0.67	5,793	20	1.38
International	767	3	1.56	501	1	0.80
Total other interest-earning assets	11,478	21	0.73	6,294	21	1.33
Total interest-earning assets ⁽⁴⁾	\$ 177,710	\$ 3,835	8.63%	\$ 172,473	\$ 3,815	8.85%
Cash and due from banks	1,742			2,014		
Allowance for loan and lease losses	(4,488)			(6,803)		
Premises and equipment, net	2,731			2,709		
Other assets	23,916			26,205		
Total assets	\$ 201,611			\$ 196,598		
Liabilities and equity:						
Interest-bearing liabilities:						
Deposits	\$ 110,750	\$ 294	1.06%	\$ 104,186	\$ 358	1.37%
Securitized debt obligations:						
Domestic	14,734	73	1.98	25,928	159	2.45
International	3,744	16	1.71	4,822	32	2.65
Total securitized debt obligations	18,478	89	1.93	30,750	191	2.48
Senior and subordinated notes	10,519	84	3.19	8,677	72	3.32
Other borrowings	8,369	85	4.06	6,483	85	5.24
Total interest-bearing liabilities	\$ 148,116	\$ 552	1.49%	\$ 150,096	\$ 706	1.88%
Non-interest bearing deposits	17,518			14,069		
Other liabilities	6,661			7,126		
Total liabilities	172,295			171,291		
Stockholders' equity	29,316			25,307		

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Total liabilities and stockholders' equity	\$ 201,611		\$ 196,598	
Net interest income/spread ⁽⁴⁾	\$ 3,283	7.14%	\$ 3,109	6.97%
Interest income to average interest-earning assets		8.63%		8.85%
Interest expense to average interest-earning assets		1.24		1.64
Net interest margin		7.39%		7.21%

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(Dollars in millions)	Nine Months Ended September 30,					
	Average Balance	2011 Interest Income/Expense ⁽¹⁾	Yield/Rate	Average Balance	2010 Interest Income/Expense ⁽¹⁾	Yield/Rate
Assets:						
Interest-earning assets:						
Consumer loans: ⁽²⁾						
Domestic ⁽³⁾	\$ 88,129	\$ 8,194	12.40%	\$ 92,476	\$ 8,563	12.35%
International	8,741	1,056	16.11	7,526	903	16.00
Total consumer loans ⁽³⁾	96,870	9,250	12.73	100,002	9,466	12.62
Commercial loans ⁽³⁾	30,490	1,084	4.74	29,563	1,116	5.03
Total loans held for investment	127,360	10,334	10.82	129,565	10,582	10.89
Investment securities	39,684	893	3.00	38,979	1,037	3.55
Other interest-earning assets:						
Domestic	7,388	49	0.88	7,216	58	1.07
International	715	10	1.86	572	2	0.47
Total other interest-earning assets	8,103	59	0.97	7,788	60	1.03
Total interest-earning assets ⁽⁴⁾	\$ 175,147	\$ 11,286	8.59%	\$ 176,332	\$ 11,679	8.83%
Cash and due from banks	1,851			2,214		
Allowance for loan and lease losses	(5,058)			(7,623)		
Premises and equipment, net	2,722			2,719		
Other assets	24,954			27,289		
Total assets	\$ 199,616			\$ 200,931		
Liabilities and equity:						
Interest-bearing liabilities:						
Deposits	\$ 109,552	\$ 923	1.12%	\$ 104,119	\$ 1,125	1.44%
Securitized debt obligations:						
Domestic	18,214	281	2.06	31,275	548	2.34
International	3,827	61	2.13	5,092	96	2.51
Total securitized debt obligations	22,041	342	2.07	36,367	644	2.36
Senior and subordinated notes	8,910	211	3.16	8,731	211	3.22
Other borrowings	8,156	251	4.10	6,946	265	5.09
Total interest-bearing liabilities	\$ 148,659	\$ 1,727	1.55%	\$ 156,163	\$ 2,245	1.92%
Non-interest bearing deposits	16,550			13,976		
Other liabilities	6,205			6,294		
Total liabilities	171,414			176,433		
Stockholders equity	28,202			24,498		
Total liabilities and stockholders equity	\$ 199,616			\$ 200,931		
Net interest income/spread ⁽⁴⁾		\$ 9,559	7.04%		\$ 9,434	6.91%

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Interest income to average interest-earning assets	8.59%	8.83%
Interest expense to average interest-earning assets	1.31	1.70
Net interest margin	7.28%	7.13%

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- (1) Past due fees included in interest income totaled approximately \$303 million and \$249 million for the three months ended September 30, 2011 and 2010, respectively, and approximately \$793 million and \$893 million for the nine months ended September 30, 2011 and 2010, respectively.
- (2) Interest income on credit card, auto, home and retail banking loans is reflected in consumer loans. Interest income generated from small business credit cards also is included in consumer loans.
- (3) In the first quarter of 2011, we revised previously reported interest income on interest-earning assets and average yield on loans held for investment for 2010 to conform to the internal management accounting methodology used in our segment reporting. The interest income and average loan yields presented reflect this revision. The previously reported interest income and average yields for the third quarter of 2010 were as follows: domestic consumer loans (\$2,846 million and 12.72%); total consumer loans (\$3,148 million and 13.00%); and commercial loans (\$299 million and 4.06%). The previously reported interest income and average yields for the first nine months of 2010 were as follows: domestic consumer loans (\$8,691 million and 12.53%); total consumer loans (\$9,594 million and 12.79%); and commercial loans (\$988 million and 4.46%).
- (4) Interest income was reduced by \$206 million and \$421 million in the third quarter and first nine months of 2011, respectively, for amounts earned by Kohl s.

Table 4 presents the variance between our net interest income for the three months ended September 30, 2011 and 2010, and for the nine months ended September 30, 2011 and 2010, and the extent to which the variance was attributable to: (i) changes in the volume of our interest-earning assets and interest-bearing liabilities or (ii) changes in the interest rates of these assets and liabilities.

Table 4: Rate/Volume Analysis of Net Interest Income⁽¹⁾

	Three Months Ended September 30, 2011 vs. 2010			Nine Months Ended September 30, 2011 vs. 2010		
	Total	Variance Due to		Total	Variance Due to	
(Dollars in millions)	Variance	Volume	Rate	Variance	Volume	Rate
Interest income:						
Loans held for investment:						
Consumer loans	\$ 113	\$ 26	\$ 87	\$ (216)	\$ (299)	\$ 83
Commercial loans	(10)	24	(34)	(32)	35	(67)
Total loans held for investment, including past-due fees	103	50	53	(248)	(264)	16
Investment securities	(83)	(22)	(61)	(144)	18	(162)
Other		12	(12)	(1)	2	(3)
Total interest income	20	40	(20)	(393)	(244)	(149)
Interest expense:						
Deposits	(64)	21	(85)	(202)	56	(258)
Securitized debt obligations	(102)	(65)	(37)	(302)	(230)	(72)
Senior and subordinated notes	12	15	(3)	5	5	(5)
Other borrowings		22	(22)	(14)	42	(56)
Total interest expense	(154)	(7)	(147)	(518)	(127)	(391)
Net interest income	\$ 174	\$ 47	\$ 127	\$ 125	\$ (117)	\$ 242

- (1) We calculate the change in interest income and interest expense separately for each item. The change in net interest income attributable to both volume and rates is allocated based on the relative dollar amount of each item.

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Our net interest income of \$3.3 billion for the third quarter of 2011 increased by \$174 million, or 6%, from the third quarter of 2010, driven by a 2% (18 basis points) expansion in our net interest margin to 7.39% and a 3% increase in average interest-earning assets.

Net Interest Margin: The increase in our net interest margin in the third quarter of 2011 was primarily attributable to a reduction in our cost of funds, which was partially offset by a decline in the yield on our interest-earning assets. Our cost of funds continued to benefit from the shift in the mix of our funding to lower cost consumer and commercial banking deposits from higher cost wholesale sources. In addition, the prevailing low interest rate environment, combined with our disciplined pricing, contributed to the decrease in our average deposit interest rates.

Average Interest-Earning Assets: The increase in average interest-earning assets in the third quarter of 2011 was attributable to the additions of the existing HBC credit card loan portfolio of \$1.4 billion in the first quarter of 2011 and the \$3.7 billion Kohl's credit card loan portfolio in the second quarter of 2011, coupled with growth in auto loan originations, commercial loans and revolving credit card purchase volumes. The impact of these factors more than offset the continued run-off of businesses that we exited or repositioned, including our installment, home loan and small-ticket commercial real estate loan portfolios.

Our net interest income of \$9.6 billion for the first nine months of 2011 increased by \$125 million, or 1%, from the first nine months of 2010, driven by a 2% (15 basis points) expansion in our net interest margin to 7.28%, which was partially offset by a 1% decrease in average interest-earning assets.

Net Interest Margin: The increase in our net interest margin in the first nine months of 2011 reflected the benefit from the improvement in our cost of funds, as we shifted the mix of our funding to lower cost consumer and commercial banking deposits from higher cost wholesale sources and the decline in deposit interest rates as a result of the overall interest rate environment. The decrease in yield on interest-earning assets was attributable to a reduction in late payment fees resulting from the Federal Reserve guidelines regarding reasonable fees that went into effect in the third quarter of 2010 and the addition of the Kohl's portfolio. Under our partnership agreement with Kohl's, we share a fixed percentage of revenues, consisting of finance charges and late fees. We report revenues related to Kohl's credit card loans on a net basis in our consolidated financial statements, which has the effect of reducing the yield on our average interest-earning assets. The impact of these factors was partially offset by the run-off of lower margin installment loans, a reduced level of new accounts with low introductory promotional rates, and an increase in the recognition of billed finance charges and fees due to the improvement in credit performance as well as the change we made in the third quarter of 2011 in our estimation of non-principal recoveries used in determining our uncollectible finance charge and fee reserve.

Average Interest-Earning Assets: The decrease in average interest-earning assets in the first nine months of 2011 reflected the continued run-off of businesses that we exited or repositioned, including our installment, home loan and small-ticket commercial real estate loan portfolios, which more than offset the impact of modest revolving credit card loan growth and the addition of the existing HBC credit card loan portfolio of \$1.4 billion in the first quarter of 2011 and the addition of the existing Kohl's private-label credit card loan portfolio of \$3.7 billion in the second quarter of 2011.

Non-Interest Income

Non-interest income consists of servicing and securitizations income, service charges and other customer-related fees, interchange income (net of rewards expense) and other non-interest income. The servicing fees, finance charges, other fees, net of charge-offs and interest paid to third party investors related to our consolidated securitization trusts are reported as a component of non-interest income. We also record the provision for mortgage repurchase losses related to continuing operations in non-interest income. The other component of non-interest income includes gains and losses on derivatives not accounted for in hedge accounting relationships

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and gains and losses from the sale of investment securities, which we generally do not allocate to our business segments because they relate to centralized asset/liability and market risk management activities undertaken by our Corporate Treasury group.

Table 5 displays the components of non-interest income for the three and nine months ended September 30, 2011 and 2010.

Table 5: Non-Interest Income

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Servicing and securitizations	\$ 12	\$ 13	\$ 35	\$ (3)
Service charges and other customer-related fees	542	496	1,527	1,577
Interchange	321	346	972	991
Net other-than-temporary impairment	(6)	(5)	(15)	(62)
Provision for mortgage repurchase losses ⁽¹⁾	3	(16)	(5)	(211)
Other ⁽²⁾	(1)	73	156	483
Total non-interest income	\$ 871	\$ 907	\$ 2,670	\$ 2,775

⁽¹⁾ We recorded a total provision for mortgage repurchase losses of \$72 million and \$16 million for the three months ended September 30, 2011 and 2010, respectively, and \$153 million and \$644 million for the nine months ended September 30, 2011 and 2010, respectively. The remaining portion of the provision for repurchase losses is included in discontinued operations.

⁽²⁾ Other for the three and nine months ended September 30, 2011 includes a gain of \$239 million recognized on the sale of investment securities and a mark-to-market derivative loss of \$266 million related to interest-rate swaps we entered into in August 2011 to partially hedge the interest rate risk of the net assets associated with the pending ING acquisition.

Non-interest income of \$871 million for the third quarter of 2011 decreased by \$36 million, or 4%, from non-interest income of \$907 million for the third quarter of 2010. The decrease in non-interest income for the third quarter of 2011 reflects the net impact of two significant items recorded during the quarter resulting from actions taken to reposition our balance sheet and manage the anticipated impact of the pending ING Direct acquisition on our market risk exposure and regulatory capital requirements.

First, in August 2011, we entered into various pay-fixed/receive-floating interest-rate swap transactions with a total notional principal amount of approximately \$23.8 billion. Since the date we entered into the agreement to acquire ING Direct, interest rates have declined substantially, and our current estimate of the fair value of the ING Direct net assets and liabilities has increased correspondingly. These swap transactions are intended to capture some of the anticipated benefits to regulatory capital on the closing date attributable to this decline in interest rates and designed to mitigate the effect of a rise in interest rates on the fair values of a significant portion of the ING Direct assets and liabilities during the period from when we entered into the swap transactions to the anticipated closing date of the ING Direct acquisition in late 2011 or early 2012. Although the interest-rate swaps represent economic hedges, they are not designated for hedge accounting. Accordingly, changes in the fair value are recorded in earnings. We recognized a mark-to-market loss of \$266 million on these interest-rate swaps in the third quarter of 2011, which was attributable to the decline in interest rates as of the end of the quarter. Changes in the fair value of these interest-rate swaps will continue to be recorded in earnings until the swaps are terminated.

Second, we sold approximately \$6.4 billion of investment securities, consisting predominantly of agency MBS, during the third quarter of 2011. We recorded a gain of \$239 million on the sale of these securities. The combined impact of the mark-to-market derivative loss and the gain on the sale of investment securities accounted for \$27 million of the reduction in non-interest income in the third quarter of 2011.

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Non-interest income of \$2.7 billion for the first nine months of 2011 decreased by \$105 million, or 4%, from non-interest income of \$2.8 billion for the first nine months of 2010. This decrease was primarily due to the absence of a one-time pre-tax gain of \$128 million recorded in the first quarter of 2010 and net gains on the sale of securities in 2010.

We provide additional information on the reserve for representation and warranty claims below in Consolidated Balance Sheet Analysis and Credit Performance Potential Mortgage Representation and Warranty Liabilities.

Provision for Loan and Lease Losses

We build our allowance for loan and lease losses through the provision for loan and lease losses. Our provision for loan and lease losses in each period is driven by charge-offs and the level of allowance for loan and lease losses that we determine is necessary to provide for probable credit losses inherent in our loan portfolio as of each balance sheet date. Our provision for loan and lease losses declined by \$245 million to \$622 million in the third quarter of 2011 and by \$1.6 billion in the first nine months of 2011 to \$ 1.5 billion, relative to the same prior year periods. The decrease in the provision was largely driven by a substantial decline in net charge-offs across all of our business segments, reflecting the improvement in the credit performance of our loan portfolio. The net charge-off rate was 2.52% and 3.02% for the third quarter and first nine months of 2011, respectively, compared with 4.82% and 5.41% for the third quarter and first nine months of 2010, respectively. As charge-offs declined, we recorded an allowance release of \$208 million and \$1.3 billion in the third quarter and first nine months of 2011, respectively. Our allowance releases have been significantly lower in 2011 relative to 2010, reflecting a stabilization of the improvement in credit trends.

See Consolidated Balance Sheet Analysis and Credit Performance Allowance for Loan and Lease Losses for a discussion of changes in our allowance for loan and lease losses and details of our provision for loan and lease losses and charge-offs by loan category for the three and nine months ended September 30, 2011 and 2010.

Non-Interest Expense

Non-interest expense consists of ongoing operating costs, such as salaries and associated employee benefits, communications and other technology expenses, supplies and equipment, occupancy costs and miscellaneous expenses. Marketing expenses also are included in non-interest expense. Table 6 displays the components of non-interest expense for the three and nine months ended September 30, 2011 and 2010.

Table 6: Non-Interest Expense

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Salaries and associated benefits	\$ 750	\$ 641	\$ 2,206	\$ 1,937
Marketing	312	250	917	650
Communications and data processing	178	178	504	512
Supplies and equipment	143	129	402	381
Occupancy	122	135	359	371
Other ⁽¹⁾	792	663	2,326	1,992
Total non-interest expense	\$ 2,297	\$ 1,996	\$ 6,714	\$ 5,843

⁽¹⁾ Consists of professional services expenses, credit collection costs, fee assessments and intangible amortization expense. Non-interest expense of \$2.3 billion for the third quarter of 2011 was up \$301 million, or 15%, from the third quarter of 2010. Non-interest expense of \$6.7 billion for the first nine months of 2011 was up \$871 million, or 15%, from the first nine months of 2010. The increase reflects the recognition of expense of \$60 million and \$90 million in the third quarter and first nine months of 2011, respectively, for contingent payments related to

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acquisitions and partnership agreements. In addition, our operating costs have increased due in part to the integration of the recent acquisitions of the Sony, HBC and Kohl's loan portfolios, as well as higher marketing costs. We have expanded our marketing efforts to attract and support targeted customers and new business volume through a variety of channels. We provide additional information on contingent payment arrangements in Note 15 Commitments, Contingencies and Guarantees.

Income Taxes

We recorded an income tax provision based on income from continuing operations of \$370 million (30.0% effective income tax rate) in the third quarter of 2011, compared with an income tax provision of \$335 million (29.1 % effective income tax rate) in the third quarter of 2010, and \$1.2 billion (29.2% effective income tax rate) for the first nine months of 2011, compared with \$948 million (28.8% effective income tax rate) for the first nine months of 2010.

We recorded tax benefits of \$98 million in the first nine months of 2011, which were related to the release of a valuation allowance against certain state deferred tax assets and net operating loss carryforwards and the resolution of certain tax issues and audits. We monitor the status of our deferred tax assets on a regular basis. The release of the deferred tax valuation allowance reflects our projected ability to utilize the deferred tax assets to offset future taxable income based on our achieving sustained profitability in certain tax jurisdictions. We recorded tax benefits of \$71 million in the first nine months of 2010, which were related to adjustments for the resolution of certain tax issues and audits.

Our effective income tax rate excluding the benefit from these discrete tax benefit items was 31.7% and 30.9% for the first nine months of 2011 and 2010, respectively. The higher effective income tax rate for the first nine months of 2011 was primarily attributable to the recognition of expense for non-deductible contingent payments related to certain acquisitions.

We provide additional information on items affecting our income taxes and effective tax rate in our 2010 Form 10-K under Note 18 Income Taxes.

Loss from Discontinued Operations, Net of Tax

Loss from discontinued operations reflects ongoing costs, which primarily consist of mortgage loan repurchase representation and warranty charges, related to the mortgage origination operations of GreenPoint's wholesale mortgage banking unit, which we closed in 2007. We recorded a loss from discontinued operations, net of tax, of \$52 million and \$102 million in the third quarter and first nine months of 2011, respectively. In comparison, we recorded a loss from discontinued operations, net of tax, of \$15 million and \$303 million in the third quarter and first nine months of 2010, respectively.

The increase in the loss from discontinued operations in the third quarter of 2011 was attributable to the recognition of an additional provision for mortgage repurchase losses due to an increase in repurchase activity with respect to certain uninsured investors. The decrease in the loss from discontinued operations in the first nine months of 2011 was attributable to a significant reduction in the provision for mortgage repurchase losses. We provide information on our reserve for representation and warranty claims in Consolidated Balance Sheet Analysis and Credit Performance Potential Mortgage Representation and Warranty Liabilities.

BUSINESS SEGMENT FINANCIAL PERFORMANCE

Our principal operations are currently organized into three major business segments, which are defined based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments.

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The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. Our business segment results are intended to reflect each segment as if it were a stand-alone business. We use an internal management and reporting process to derive our business segment results. Our internal management and reporting process employs various allocation methodologies, including funds transfer pricing, to assign certain balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment. We may periodically change our business segments or reclassify business segment results based on modifications to our management reporting methodologies and changes in organizational alignment. Certain activities that are not part of a segment, such as management of our corporate investment portfolio and asset/liability management by our centralized Corporate Treasury group are included in the Other category. See Note 20 Business Segments of our 2010 Form 10-K for information on the allocation methodologies used to derive our business segment results.

We summarize our business segment results for the three and nine months ended September 30, 2011 and 2010 in the tables below and provide a comparative discussion of these results. We also discuss changes in our financial condition and credit performance statistics as of September 30, 2011, compared with December 31, 2010. See Note 14 Business Segments of this Report for a reconciliation of our business segment results to our consolidated U.S. GAAP results. Information on the outlook for each of our business segments is presented above under Executive Summary and Business Outlook.

Credit Card Business

Our Credit Card business generated net income from continuing operations of \$663 million and \$1.9 billion in the third quarter and first nine months of 2011, respectively, compared with net income from continuing operations of \$631 million and \$1.7 billion in the third quarter and first nine months of 2010, respectively. The primary sources of revenue for our Credit Card business are net interest income and non-interest income from customer and interchange fees. Expenses primarily consist of ongoing operating costs, such as salaries and associated benefits, communications and other technology expenses, supplies and equipment, occupancy costs and marketing expenses.

Table 7 summarizes the financial results of our Credit Card business, which is comprised of the Domestic Card and International Card operations, and displays selected key metrics for the periods indicated. Our Credit Card business results for 2011 reflect the impact of the acquisitions of the existing portfolio credit card loan portfolios of Kohl's and HBC. The results related to the Kohl's loan portfolio, which totaled approximately \$3.7 billion at acquisition on April 1, 2011, are included in our Domestic Card business. The results related to the HBC loan portfolio, which totaled approximately \$1.4 billion at acquisition on January 7, 2011, are included in our International Card business.

Under the terms of the partnership agreement with Kohl's, we share a fixed percentage of revenues, consisting of finance charges and late fees, with Kohl's, and Kohl's is required to reimburse us for a fixed percentage of credit losses incurred. Revenues and losses related to the Kohl's credit card program are reported on a net basis in our consolidated financial statements. The revenue sharing amounts earned by Kohl's are reflected as an offset against our revenues in our consolidated statements of income, which has the effect of reducing our net interest income and revenue margins. The loss sharing amounts from Kohl's are reflected as a reduction in our provision for loan and lease losses in our consolidated statements of income. We also report the related allowance for loan and lease losses attributable to the Kohl's portfolio in our consolidated balance sheets net of the loss sharing amount due from Kohl's.

Interest income was reduced by \$206 million and \$421 million in the third quarter and first nine months of 2011, respectively, for amounts earned by Kohl's. Loss sharing amounts attributable to Kohl's reduced charge-offs by \$39 million and \$80 million in the third quarter and first nine months of 2011, respectively. In addition, the

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expected reimbursement from Kohl's netted in our allowance for loan and lease losses was approximately \$156 million as of September 30, 2011. The reduction in the provision for loan and lease losses attributable to Kohl's was \$236 million for the first nine months of 2011.

We provide additional information on the acquisition of the existing credit card loan portfolios of Kohl's and HBC in Note 2 Acquisitions.

Table 7: Credit Card Business Results

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Change	2011	2010	Change
Selected income statement data:						
Net interest income	\$ 2,042	\$ 1,934	6%	\$ 5,873	\$ 6,024	(3)%
Non-interest income	678	671	1	1,971	2,048	(4)
Total revenue	2,720	2,605	4	7,844	8,072	(3)
Provision for loan and lease losses	511	660	(23)	1,270	2,600	(51)
Non-interest expense	1,188	978	21	3,604	2,894	25
Income from continuing operations before income taxes	1,021	967	6	2,970	2,578	15
Income tax provision	358	336	7	1,046	890	18
Income from continuing operations, net of tax	\$ 663	\$ 631	5%	\$ 1,924	\$ 1,688	14%
Selected performance metrics:						
Average loans held for investment	\$ 62,371	\$ 61,391	2%	\$ 61,889	\$ 63,314	(2)%
Average yield on loans held for investment ⁽¹⁾	14.84%	14.65%	19bps	14.45%	14.74%	(29)bps
Revenue margin ⁽²⁾	17.44	16.97	47	16.90	17.00	(10)
Net charge-off rate ⁽³⁾	4.23	8.16	(393)	5.13	9.30	(417)
Purchase volume ⁽⁴⁾	\$ 34,918	\$ 27,039	29%	\$ 96,941	\$ 77,533	25%
	September 30,	December 31,				
	2011	2010	Change			
Selected period-end data:						
Loans held for investment	\$ 62,030	\$ 61,371	1%			
30+ day delinquency rate ⁽⁵⁾	3.87%	4.29%	(42)bps			
Allowance for loan and lease losses	\$ 2,915	\$ 4,041	(28)%			

(1) Average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. In preparing our Report on Form 10-Q for the first quarter of 2011, we determined that beginning in the second quarter of 2010, our management accounting processes excluded certain accounts that should have been included in the calculation of the average yield on loans held for investment. The mapping error was limited to the average yields on loans held for investment for our Credit Card business and had no impact on income statement amounts or the yields reported for any of our other business segments or for the total company. The previously reported average loan yield for our Credit Card business was 14.27% and 14.48% for the three and nine months ended September 30, 2010, respectively.

(2) Revenue margin is calculated by dividing annualized revenues for the period by average loans held for investment during the period for the specified loan category.

(3) The net charge-off rate is calculated by loan category by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.

(4) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.

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- (5) The delinquency rate is calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category. The 30+ day performing delinquency rate is the same as the 30+ day delinquency rate for our Credit Card business, as credit card loans remain on accrual status until the loan is charged-off.

Key factors affecting the results of our Credit Card business for the third quarter and first nine months of 2011, compared with the third quarter and first nine months of 2010 included the following:

Net Interest Income: Net interest income increased by \$108 million, or 6%, in the third quarter of 2011, due in part to a 2% increase in average loan balances coupled with an increase in the average yield on loans held for investment. The growth in average loan balances reflect the additions of the HBC and Kohl's portfolios, which were partially offset by the continued expected run-off of the installment loan portfolio. The average yield for the third quarter of 2011 reflects the benefit from a revision we made in the third quarter of 2011 in estimating non-principal recoveries to determine the uncollectible finance charge and fee reserve, which we discuss above in Critical Accounting Policies and Estimates. This revision accounted for approximately \$83 million of the increase in net interest income. Net interest income decreased by \$151 million, or 3%, in the first nine months of 2011, reflecting the impact of a 2% decline in average loan balances. The expected run-off of the installment loan portfolio was the primary driver of the decline in average loan balances in the first nine months of 2011, more than offsetting modest revolving card loan growth and the additions of the HBC and Kohl's portfolios. The decrease in the average loan yields in the first nine months of 2011 reflects the impact of the Kohl's revenue-sharing agreement.

Non-Interest Income: Non-interest income was relatively stable in the third quarter of 2011, compared with the third quarter of 2010. Non-interest income, however, decreased by \$77 million, or 4%, in the first nine months of 2011. The decrease in the first nine months of 2011 reflects the impact of contra-revenue amounts recorded in the second quarter of 2011, including a provision of \$52 million for anticipated refunds to U.K. customers related to retrospective regulatory requirements pertaining to payment protection insurance (PPI) in our U.K. business and the recognition of expense of \$21 million related to the periodic adjustment of our customer rewards points liability to reflect the estimated cost of points earned to date that are ultimately expected to be redeemed. These decreases were partially offset by higher interchange fees during the first nine months of 2011, attributable to increased purchase volume from our higher spend customer segments.

Provision for Loan and Lease Losses: The provision for loan and lease losses related to our Credit Card business decreased by \$149 million in the third quarter of 2011, to \$511 million and by \$1.3 billion in the first nine months of 2011, to \$1.3 billion. The significant reduction in the provision was primarily attributable to the continued improvement in credit performance, including reduced delinquency rates, lower bankruptcy losses and higher recoveries. As a result of the reduction in charge-offs and improvement in the net charge-off rate, we recorded an allowance release for the Credit Card business of \$178 million and \$1.1 billion in the third quarter and first nine months of 2011, respectively.

Non-Interest Expense: Non-interest expense increased by \$210 million, or 21%, in the third quarter of 2011 and \$710 million, or 25%, in the first nine months of 2011. The increase was attributable to increased operating and integration costs related to the acquisitions of the credit card loan portfolios of Sony, HBC and Kohl's, coupled with increased marketing expenditures. We have expanded our marketing efforts to drive new business volume through a variety of channels.

Total Loans: Period-end loans in our Credit Card business increased by \$659 million, or 1%, in the first nine months of 2011, to \$62.0 billion as of September 30, 2011, from \$61.4 billion as of December 31, 2010. The increase was primarily attributable to the acquisitions of the Kohl's credit card portfolio of \$3.7 billion and the HBC credit card portfolio of \$1.4 billion, which were partially offset by the continued run-off of the installment loan portfolio and seasonal paydowns from year-end levels.

Charge-off and Delinquency Statistics: Net charge-off and delinquency rates continued to improve in the third quarter and first nine months of 2011. The net charge-off rate decreased to 4.23% and 5.13% in the

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third quarter and first nine months of 2011, respectively, from 8.16% and 9.30% in the third quarter and first nine months of 2010, respectively. The 30+ day delinquency rate decreased to 3.87% as of September 30, 2011, from 4.29% as of December 31, 2010. The improvement in the net charge-off and delinquency rates reflects the impact of improved credit quality across our credit card portfolio, tighter underwriting standards implemented over the last several years, and ongoing normalization of credit performance in the portfolio.

Domestic Credit Card Business

Table 7.1 summarizes the financial results for Domestic Card and displays selected key metrics for the periods indicated. Domestic Card accounted for 86% of total revenues for our Credit Card business in both the third quarter and first nine months of 2011, compared with 87% in both the third quarter and first nine months of 2010. Because our Domestic Card business currently accounts for the substantial majority of our Credit Card business, the key factors driving the results for this division are similar to the key factors affecting our total Credit Card business.

Table 7.1: Domestic Card Business Results

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Change	2011	2010	Change
Selected income statement data:						
Net interest income	\$ 1,753	\$ 1,691	4%	\$ 5,011	\$ 5,291	(5)%
Non-interest income	588	575	2	1,755	1,753	**
Total revenue	2,341	2,266	3	6,766	7,044	(4)
Provision for loan and lease losses	381	577	(34)	798	2,348	(66)
Non-interest expense	972	844	15	2,970	2,522	18
Income from continuing operations before income taxes	988	845	17	2,998	2,174	38
Income tax provision	351	301	17	1,065	775	37
Income from continuing operations, net of tax	\$ 637	\$ 544	17%	\$ 1,933	\$ 1,399	38%
Selected performance metrics:						
Average loans held for investment	\$ 53,668	\$ 54,049	(1)%	\$ 53,148	\$ 55,788	(5)%
Average yield on loans held for investment ⁽¹⁾	14.62%	14.40%	22bps	14.18%	14.57%	(39)bps
Revenue margin ⁽²⁾	17.45	16.77	68	16.97	16.84	13
Net charge-off rate ⁽³⁾	3.92	8.23	(431)	4.94	9.43	(449)
Purchase volume ⁽⁴⁾	\$ 31,686	\$ 24,858	27%	\$ 87,780	\$ 71,359	23%
Selected period-end data:						
Loans held for investment	\$ 53,820	\$ 53,849	**%			
30+ day delinquency rate ⁽⁵⁾	3.65%	4.09%	(44)bps			
Allowance for loan and lease losses	\$ 2,409	\$ 3,581	(33)%			

** Change is less than one percent.

⁽¹⁾ Average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. As indicated above, in preparing our Report on Form 10-Q for the first quarter of 2011, we determined that beginning in the second quarter of 2010, our management accounting processes excluded certain accounts that affected the calculation of the average yield on loans held for investment for our Credit Card business. The previously reported average loan yield for our Domestic Credit Card business was 13.95% and 14.25% for three and nine months ended September 30, 2010, respectively.

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- (2) Revenue margin is calculated by dividing annualized revenues for the period by average loans held for investment during the period for the specified loan category.
- (3) The net charge-off rate is calculated by loan category by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.
- (4) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.
- (5) The delinquency rate is calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category. The 30+ day performing delinquency rate is the same as the 30+ day delinquency rate for our Credit Card business, as credit card loans remain on accrual status until the loan is charged-off. The September 30, 2011 30+ day delinquency rate for Domestic Card reflects the impact of a revision in the way we estimate recoveries in determining the uncollectible amount of finance charges and fees, which resulted in an increase of 11 basis points as of September 30, 2011. See *Critical Accounting Policies and Estimates* above for additional information.

Domestic Card generated net income from continuing operations of \$637 million and \$1.9 billion in the third quarter and first nine months of 2011, respectively, compared with net income from continuing operations of \$544 million and \$1.4 billion in the third quarter and first nine months of 2010, respectively.

The increase in Domestic Card net income from continuing operations in the third quarter of 2011, compared with the third quarter of 2010 was driven by: (1) an increase in total revenue attributable to a benefit of approximately \$78 million in the third quarter of 2011 from the revision we made in the way we estimate recoveries in determining the uncollectible amount of finance charges and fees; (2) a significant reduction in the provision for loan and lease losses due to the improvement in credit performance metrics, including decreases in delinquency and charge-off rates; and (3) an increase in non-interest expense attributable to higher operating and integration costs related to the acquisitions of the credit card loan portfolios of Sony and Kohl's, coupled with increased marketing expenditures.

The increase in Domestic Card net income from continuing operations in the first nine months of 2011, compared with the first nine months of 2010 was driven by: (1) a decline in total revenue attributable to lower average loan balances and a decrease in average loan yields as a result of reduced fees and the impact of the addition of the Kohl's loan portfolio; (2) a significant reduction in the provision for loan and lease losses due to the improvement in credit performance metrics, including decreases in delinquency and charge-off rates; and (3) an increase in non-interest expense attributable to increased operating costs associated with higher purchase volumes and higher legal expenses and increased marketing expenditures.

International Credit Card Business

Table 7.2 summarizes the financial results for International Card and displays selected key metrics for the periods indicated. International Card accounted for 14% of total revenues for our Credit Card business in the third quarter and first nine months of 2011, compared with 13% in both the third quarter and first nine months of 2010.

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(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Change	2011	2010	Change
Selected income statement data:						
Net interest income	\$ 289	\$ 243	19%	\$ 862	\$ 733	18%
Non-interest income	90	96	(6)	216	295	(27)
Total revenue	379	339	12	1,078	1,028	5
Provision for loan and lease losses	130	83	57	472	252	87
Non-interest expense	216	134	61	634	372	70
Income from continuing operations before income taxes	33	122	(73)	(28)	404	(107)
Income tax provision	7	35	(80)	(19)	115	(117)
Income from continuing operations, net of tax	\$ 26	\$ 87	(70)%	\$ (9)	\$ 289	(103)%
Selected performance metrics:						
Average loans held for investment	\$ 8,703	\$ 7,342	19%	\$ 8,741	\$ 7,526	16%
Average yield on loans held for investment ⁽¹⁾	16.24%	16.40%	(16)bps	16.09%	16.02%	7bps
Revenue margin ⁽²⁾	17.42	18.47	(105)	16.44	18.21	(177)
Net charge-off rate ⁽³⁾	6.15	7.60	(145)	6.31	8.28	(197)
Purchase volume ⁽⁴⁾	\$ 3,232	\$ 2,181	48%	\$ 9,161	\$ 6,174	48%

December 31,

Selected period-end data:	September 30,		Change
	2011	2010	
Loans held for investment	\$ 8,210	\$ 7,522	9%
30+ day delinquency rate ⁽⁵⁾	5.35%	5.75%	(40)bps
Allowance for loan and lease losses	\$ 506	\$ 460	10%

(1) Average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. As indicated above, in preparing our Report on Form 10-Q for the first quarter of 2011, we determined that beginning in the second quarter of 2010, our management accounting processes excluded certain accounts that affected the calculation of the average yield on loans held for investment for our Credit Card business. The previously reported average loan yield for our International Credit Card business was 16.62% and 16.16% for the three and nine months ended September 30, 2010, respectively.

(2) Revenue margin is calculated by dividing annualized revenues for the period by average loans held for investment during the period for the specified loan category.

(3) The net charge-off rate is calculated by loan category by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.

(4) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.

(5) The delinquency rate is calculated by loan category by dividing delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category. The 30+ day performing delinquency rate is the same as the 30+ day delinquency rate for our Credit Card business, as credit card loans remain on accrual status until the loan is charged-off.

Our International Card division generated net income from continuing operations of \$26 million in the third quarter of 2011 and a net loss of \$9 million in the first nine months of 2011, compared with net income from continuing operations of \$87 million and \$289 million in the third quarter and first nine months of 2010, respectively.

The decrease in International Card net income from continuing operations in the third quarter of 2011, compared with the third quarter of 2010 was driven by: (1) an increase in the provision for loan losses due to the addition of

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the HBC loan portfolio and lower allowance releases relative to the same prior year periods and (2) an increase in non-interest expense attributable to increased operating costs associated with HBC associates who joined us as a result of the acquisition. These factors were partially offset by an increase in non-interest income attributable to higher loan balances.

The International Card net loss from continuing operations in the first nine months of 2011, compared with net income in the first nine months of 2010 was driven by: (1) a decrease in non-interest income due to the contra-revenue provision of \$52 million recorded in the second quarter of 2011 for the anticipated refunds to U.K. customers related to retrospective regulatory requirements pertaining to PPI insurance in our U.K. business; (2) an increase in the provision for loan losses due to the addition of the HBC loan portfolio and lower allowance releases relative to the same prior year periods; and (3) an increase in non-interest expense attributable to increased operating costs associated with HBC associates who joined us as a result of the acquisition. These factors were partially offset by an increase in interest income attributable to higher loan balances.

Consumer Banking Business

Our Consumer Banking business generated net income from continuing operations of \$190 million and \$692 million in the third quarter and first nine months of 2011, respectively, compared with \$175 million and \$785 million in the third quarter and first nine months of 2010, respectively. The primary sources of revenue for our Consumer Banking business are net interest income from loans and deposits and non-interest income from customer fees. Expenses primarily consist of ongoing operating costs, such as salaries and associated benefits, communications and other technology expenses, supplies and equipment and occupancy costs.

Table 8 summarizes the financial results of our Consumer Banking business and displays selected key metrics for the periods indicated.

Table of Contents**Table 8: Consumer Banking Business Results**

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Change	2011	2010	Change
Selected income statement data:						
Net interest income	\$ 1,097	\$ 946	16%	\$ 3,131	\$ 2,777	13%
Non-interest income	188	196	(4)	568	674	(16)
Total revenue	1,285	1,142	13	3,699	3,451	7
Provision for loan and lease losses	136	114	19	272	52	423
Non-interest expense	853	757	13	2,351	2,180	8
Income from continuing operations before income taxes	296	271	9	1,076	1,219	(12)
Income tax provision	106	96	10	384	434	(12)
Income from continuing operations, net of tax	\$ 190	\$ 175	9%	\$ 692	\$ 785	(12)%
Selected performance metrics:						
Average loans held for investment:						
Auto	\$ 19,757	\$ 17,397	14%	\$ 18,851	\$ 17,479	8%
Home loan	11,126	13,024	(15)	11,537	14,002	(18)
Retail banking	3,979	4,669	(15)	4,127	4,840	(15)
Total consumer banking	\$ 34,862	\$ 35,090	(1)%	\$ 34,515	\$ 36,321	(5)%
Average yield on loans held for investment	9.83%	9.28%	55bps	9.65%	9.07%	58bps
Average deposits	\$ 88,266	\$ 78,224	13%	\$ 86,375	\$ 76,818	12%
Average interest rate on deposits	0.95%	1.18%	(23)bps	0.98%	1.21%	(23)bps
Core deposit intangible amortization	\$ 32	\$ 36	(11)%	\$ 100	\$ 110	(9)%
Net charge-off rate ⁽¹⁾⁽²⁾	1.32%	1.79%	(47)bps	1.30%	1.77%	(47)bps
Automobile loan originations	\$ 3,409	\$ 2,439	40%	\$ 8,890	\$ 5,547	60%

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Selected period-end data:	December 31,		
	September 30, 2011	2010	Change
Loans held for investment:			
Auto	\$ 20,422	\$ 17,867	14%
Home loan	10,916	12,103	(10)
Retail banking	4,014	4,413	(9)
Total consumer banking	\$ 35,352	\$ 34,383	3%
30+ day performing delinquency rate ⁽¹⁾⁽³⁾	4.01%	4.28%	(27)bps
30+ day delinquency rate ⁽¹⁾⁽³⁾	5.57	5.96	(29)
Nonperforming loan rate ⁽¹⁾⁽⁴⁾	1.88	1.97	(9)
Nonperforming asset rate ⁽¹⁾⁽⁵⁾	2.04	2.17	(13)
Allowance for loan and lease losses	\$ 620	\$ 675	(8)%
Deposits	88,589	82,959	7

Loans serviced for others	18,624	20,689	(10)
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(1) Average loans held for investment used in the denominator in calculating net charge-off, delinquency and nonperforming loan and nonperforming asset rates includes the impact of loans acquired as part of the Chevy Chase Bank acquisition, which were considered purchased credit-impaired (PCI) loans. However, we separately track and report PCI loans and exclude these loans from our net charge-off, delinquency, nonperforming loan and nonperforming asset rates.

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- (2) The net charge-off rate is calculated by loan category by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category. The net charge-off rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 1.51% and 2.11% for the three months ended September 30, 2011 and 2010, respectively, and 1.50% and 2.10% for the nine months ended September 30, 2011 and 2010, respectively.
- (3) The delinquency rate is calculated by loan category by dividing delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category. The 30+ day performing delinquency rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 4.57% as of September 30, 2011 and 5.01% as of December 31, 2010. The 30+ day delinquency rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 6.36% as of September 30, 2011 and 6.98% as of December 31, 2010.
- (4) Nonperforming loans generally include loans that have been placed on nonaccrual status and certain restructured loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty. The nonperforming loan rate is calculated by loan category by dividing nonperforming loans as of the end of the period by period-end loans held for investment for the specified loan category. The nonperforming loan rate, excluding the impact of loans acquired from Chevy Chase Bank from the denominator, was 2.15% and 2.30% as of September 30, 2011 and December 31, 2010, respectively.
- (5) Nonperforming assets consist of nonperforming loans and real estate owned (REO). The nonperforming asset rate is calculated by loan category by dividing nonperforming assets as of the end of the period by period-end loans held for investment and REO for the specified loan category. The nonperforming asset rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 2.33% and 2.54% as of September 30, 2011 and December 31, 2010, respectively.

Key factors affecting the results of our Consumer Banking business for the third quarter and first nine months of 2011, compared with the third quarter and first nine months of 2010 included the following:

Net Interest Income: Net interest income increased by \$151 million, or 16%, in the third quarter of 2011, and \$354 million, or 13%, in the first nine months of 2011. The primary drivers of the increase in net interest income were improved loan margins attributable to an increase in average loan yields, coupled with a decrease in the cost of funds. The increase in loan yields reflects the shift in product mix as we replace the legacy home loan run-off with higher yielding auto loans. The decrease in the cost of funds reflects reduced deposit interest rates due to the prevailing low interest rate environment, combined with our disciplined pricing. Although average deposit rates have declined, we experienced strong deposit growth.

Non-Interest Income: Non-interest income decreased by \$8 million, or 4%, in the third quarter of 2011 and decreased by \$106 million, or 16%, in the first nine months of 2011. The decrease in non-interest income in the first nine months of 2011 from the same prior year period was primarily attributable to the combined impact of the absence of a net gain of \$128 million recorded in the first quarter of 2010 related to the deconsolidation of certain option-adjustable rate mortgage trusts that were consolidated on January 1, 2010 as a result of our adoption of the new consolidation accounting standards and the absence of the impairment charge on mortgage servicing rights recorded in the second quarter of 2010.

Provision for Loan and Lease Losses: The provision for loan and lease losses increased by \$22 million in the third quarter of 2011 to \$136 million, and by \$220 million in the first nine months of 2011 to \$272 million. Although we experienced continued improvement in credit performance in our Consumer Banking business, including reduced delinquency and net charge-off rates, we recorded a higher provision for loan and lease losses in the third quarter and first nine months of 2011 relative to the same prior year periods due to the absence of significant allowance releases that we experienced in 2010, growth in our auto loan portfolio and an increase in the allowance for home equity loans we acquired from Chevy Chase Bank.

Non-Interest Expense: Non-interest expense increased by \$96 million, or 13%, in the third quarter and by \$171 million, or 8%, in the first nine months of 2011. The increases over the same prior year periods were largely attributable to the recognition of expense for contingent payments related to recent acquisitions, higher infrastructure expenditures resulting from investments in our mortgage business and growth in auto originations.

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Total Loans: Period-end loans in the Consumer Banking business increased by \$969 million, or 3%, in the first nine months of 2011 to \$35.4 billion as of September 30, 2011, from \$34.4 billion as of December 31, 2010, primarily due to growth in auto loans that was partially offset by the continued run-off of our legacy home loan portfolios.

Deposits: Period-end deposits in the Consumer Banking business increased by \$5.6 billion, or 7%, in the first nine months of 2011 to \$88.6 billion as of September 30, 2011, reflecting the impact of our strategy to replace maturing higher cost wholesale funding sources with lower cost funding sources and our continued retail marketing efforts to attract new business to meet this objective.

Charge-off and Delinquency Statistics: The net charge-off rate decreased to 1.32% and 1.30% in the third quarter and first nine months of 2011, respectively, from 1.79% and 1.77% in the third quarter and first nine months of 2010, respectively. The 30+ day delinquency rate was 5.57% as of September 30, 2011, compared with 5.96% as of December 31, 2010. The improvement in the net charge-off and delinquency rates reflects the impact from strong underlying credit performance trends and the higher credit quality of our more recent auto loan vintages, as well as current favorable benefits from elevated auction prices.

Commercial Banking Business

Our Commercial Banking business generated net income from continuing operations of \$145 million and \$435 million for the third quarter and first nine months of 2011, respectively, compared with a net income from continuing operations of \$39 million and \$67 million in the third quarter and first nine months of 2010, respectively. The primary sources of revenue for our Commercial Banking business are net interest income from loans and deposits and non-interest income from customer fees. Expenses primarily consist of ongoing operating costs, such as salaries and associated benefits, communications and other technology expenses, supplies and equipment and occupancy costs.

Table 9 summarizes the financial results of our Commercial Banking business and displays selected key metrics for the periods indicated.

Table of Contents**Table 9: Commercial Banking Business Results**

(Dollars in millions)	6666666	6666666	6666666	6666666	6666666	6666666
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2011	2010	Change	2011	2010	Change
Selected income statement data:						
Net interest income	\$ 353	\$ 325	9%	\$ 1,007	\$ 956	5%
Non-interest income	62	30	107	195	132	48
Total revenue	415	355	17	1,202	1,088	10
Provision (Benefit) for loan and lease losses	(10)	95	(111)	(43)	395	(111)
Non-interest expense	200	199	1	569	589	(3)
Income from continuing operations before income taxes	225	61	269	676	104	550
Income tax provision	80	22	264	241	37	551
Income from continuing operations, net of tax	\$ 145	\$ 39	272%	\$ 435	\$ 67	549%
Selected performance metrics:						
Average loans held for investment:						
Commercial and multifamily real estate	\$ 14,021	\$ 13,411	5%	\$ 13,657	\$ 13,556	1%
Middle market	11,572	10,352	12	11,075	10,317	7
Specialty lending	4,154	3,715	12	4,045	3,660	11
Total commercial lending	29,747	27,478	8	28,777	27,533	5
Small-ticket commercial real estate	1,598	1,957	(18)	1,713	2,030	(16)
Total commercial banking	\$ 31,345	\$ 29,435	6%	\$ 30,490	\$ 29,563	3%
Average yield on loans held for investment						
	4.69%	5.13%	(44)bps	4.74%	5.03%	(29)bps
Average deposits	\$ 25,227	\$ 21,899	15%	\$ 24,553	\$ 21,976	12%
Average interest rate on deposits	0.48%	0.67%	(19)bps	0.50%	0.71%	(21)bps
Core deposit intangible amortization	\$ 10	\$ 14	(29)%	\$ 31	\$ 42	(26)%
Net charge-off rate ⁽¹⁾⁽²⁾	0.37%	1.27%	(90)bps	0.55%	1.28%	(73)bps

Selected period-end data:	December 31,		
	September 30, 2011	2010	Change
Loans held for investment:			
Commercial and multifamily real estate	\$ 14,389	\$ 13,396	7%
Middle market	11,924	10,484	14
Specialty lending	4,221	4,020	5
Total commercial lending	30,534	27,900	9
Small-ticket commercial real estate	1,571	1,842	(15)

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Total commercial banking	\$	32,105	\$	29,742	8%
Nonperforming loan rate ⁽¹⁾⁽³⁾		1.43%		1.66%	(23)bps
Nonperforming asset rate ⁽¹⁾⁽⁴⁾		1.55		1.80	(25)
Allowance for loan and lease losses	\$	700	\$	826	(15)%
Deposits		25,282		22,630	12

⁽¹⁾ Average loans held for investment used in the denominator in calculating net charge-off, delinquency and nonperforming loan and nonperforming asset rates includes the impact of loans acquired as part of the Chevy Chase Bank acquisition, which were considered purchased credit-impaired (PCI) loans. However, we separately track and report PCI loans and exclude these loans from our net charge-off, delinquency, nonperforming loan and nonperforming asset rates.

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- (2) The net charge-off rate is calculated by loan category by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category. The net charge-off rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 0.38% and 1.30% for the three months ended September 30, 2011 and 2010, respectively, and 0.56% and 1.32% for the nine months ended September 30, 2011 and 2010, respectively.
- (3) The nonperforming loan rate is calculated by loan category by dividing nonperforming loans as of the end of the period by period-end loans held for investment for the specified loan category. The nonperforming loan rate, excluding the impact of loans acquired from Chevy Chase Bank from the denominator, was 1.45% and 1.69% as of September 30, 2011 and December 31, 2010, respectively.
- (4) The nonperforming asset rate is calculated by loan category by dividing nonperforming assets as of the end of the period by period-end loans held for investment and REO for the specified loan category. The nonperforming asset rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 1.57% and 1.83% as of September 30, 2011 and December 31, 2010, respectively.

Key factors affecting the results of our Commercial Banking business for the third quarter and first nine months of 2011, compared with the third quarter and first nine months of 2010 included the following:

Net Interest Income: Net interest income increased by \$28 million, or 9%, in the third quarter of 2011, and by \$51 million, or 5%, in the first nine months of 2011. The primary drivers of the increase in net interest income from the same prior year periods were an increase in loans and deposits and continued downward pricing on deposits while growing loan yields.

Non-Interest Income: Non-interest income increased by \$32 million, or 107%, in the third quarter of 2011 and \$63 million, or 48%, in the first nine months of 2011. The increase in non-interest income from the same prior year periods was largely attributable to increased customer fees related to treasury management and public financing activities and the absence of a loss of \$18 million recognized in the third quarter of 2010 from the sale of a legacy portfolio of small-ticket commercial real estate loans.

Provision for Loan and Lease Losses: The Commercial Banking business recorded a negative provision for loan and lease losses of \$10 million and \$43 million in the third quarter and first nine months of 2011, respectively, compared with provision expense of \$95 million and \$395 million in the third quarter and first nine months of 2010, respectively. The negative provision in the third quarter and first nine months of 2011 was attributable to lower loss severities resulting from improvements in underlying collateral asset values. As a result, we reduced the allowance related to the Commercial Banking business by \$30 million and \$126 million in the third quarter and first nine months of 2011, respectively. In comparison, we increased the allowance by \$9 million in the third quarter of 2010 and by \$106 million in the first nine months of 2010.

Non-Interest Expense: Non-interest expense of \$200 million in the third quarter of 2011 was flat relative to the third quarter of 2010 despite an increase in loan volume, reflecting operational efficiency improvements. Non-interest expense decreased by \$20 million, or 3%, in the first nine months of 2011 to \$569 million, primarily due to a reduction in integration costs related to the Chevy Chase Bank acquisition.

Total Loans: Period-end loans increased by \$2.4 billion, or 8%, in the first nine months of 2011 to \$32.1 billion as of September 30, 2011, from \$29.7 billion as of December 31, 2010. The increase was driven by stronger loan originations in the middle market and commercial real estate businesses, which was partially offset by the run-off and sale of a portion of the small-ticket commercial real estate loan portfolio.

Deposits: Period-end deposits in the Commercial Banking business increased by \$2.7 billion, or 12%, in the first nine months of 2011 to \$25.3 billion as of September 30, 2011, driven by our strategy to strengthen existing relationships and increase liquidity from commercial customers.

Charge-off and Nonperforming Loan Statistics: The net charge-off rate decreased to 0.37% and 0.55% in the third quarter and first nine months of 2011, respectively, from 1.27% and 1.28% in the third quarter and first nine months of 2010, respectively. The nonperforming loan rate decreased to 1.43% as of September 30, 2011, from 1.66% as of December 31, 2010. The improvement in the net charge-off and

nonperforming loan rates was attributable to slowly improving underlying credit trends and improvements in underlying collateral asset values.

Table of Contents**CONSOLIDATED BALANCE SHEET ANALYSIS AND CREDIT PERFORMANCE**

Total assets of \$200.1 billion as of September 30, 2011 increased by \$2.6 billion, or 1%, from \$197.5 billion as of December 31, 2010. Total liabilities of \$170.8 billion as of September 30, 2011, decreased by \$192 million, or less than 1%, from \$171.0 billion as of December 31, 2010. Stockholders' equity increased by \$2.8 billion during the first nine months of 2011, to \$29.4 billion as of September 30, 2011 from \$26.5 billion as of December 31, 2010. The increase in stockholders' equity was primarily attributable to our net income of \$2.7 billion in the first nine months of 2011. Following is a discussion of material changes in the major components of our assets and liabilities during the first nine months of 2011.

Investment Securities

Our investment securities portfolio, which had a fair value of \$38.4 billion and \$41.5 billion, as of September 30, 2011 and December 31, 2010, respectively, consists of the following: U.S. Treasury and U.S. agency debt obligations; agency and non-agency mortgage-backed securities; other asset-backed securities collateralized primarily by credit card loans, auto loans, student loans, auto dealer floor plan inventory loans and leases, equipment loans and home equity lines of credit; municipal securities; and limited Community Reinvestment Act (CRA) equity securities. Our investments in U.S. Treasury and agency securities, based on fair value, represented approximately 69% and 70% of our total investment securities portfolio as of September 30, 2011, and December 31, 2010, respectively.

All of our investment securities were classified as available for sale as of September 30, 2011 and December 31, 2010, and reported in our consolidated balance sheet at fair value. Table 10 presents the amortized cost and fair value of our investment securities, by investment type, as of September 30, 2011 and December 31, 2010.

Table 10: Investment Securities

(Dollars in millions)	September 30, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury debt obligations	\$ 115	\$ 125	\$ 373	\$ 386
U.S. Agency debt obligations ⁽¹⁾	166	175	301	314
Residential mortgage-backed securities (RMBS):				
Agency ⁽²⁾	25,139	25,747	27,980	28,504
Non-agency	1,405	1,273	1,826	1,700
Total RMBS	26,544	27,020	29,806	30,204
Commercial mortgage-backed securities (CMBS):				
Agency ⁽²⁾	418	429	44	45
Non-agency	400	398	0	0
Total CMBS	818	827	44	45
Asset-backed securities (ABS ⁽³⁾)	9,691	9,734	9,901	9,966
Other securities ⁽⁴⁾	467	519	563	622
Total securities available for sale	\$ 37,801	\$ 38,400	\$ 40,988	\$ 41,537

⁽¹⁾ Consists of debt securities issued by Fannie Mae and Freddie Mac with an amortized cost of \$165 million and \$200 million, as of September 30, 2011 and December 31, 2010, respectively, and fair value of \$174 million and \$213 million, as of September 30, 2011 and December 31, 2010, respectively.

⁽²⁾

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Consists of MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae with an amortized cost of \$12.9 billion, \$8.4 billion and \$4.3 billion, respectively, and fair value of \$13.2 billion, \$8.6 billion and \$4.4 billion, respectively, as of September 30, 2011. The book value of Fannie Mae, Freddie Mac and Ginnie Mae investments each exceeded 10% of our stockholders' equity as of September 30, 2011.

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(3) Consists of securities collateralized by credit card loans, auto dealer and floor plan inventory loans and leases, student loans, auto loans, equipment loans and other. The distribution among these asset types was approximately 73.2% credit card loans, 11.3% auto dealer floor plan inventory loans and leases, 6.8% auto loans, 4.6% student loans, 2.3% equipment loans, and 1.8% of other loans as of September 30, 2011. In comparison, the distribution was approximately 77.8% credit card loans, 5.6% auto dealer floor plan inventory loans and leases, 6.7% auto loans, 7.2% student loans, 2.5% equipment loans and 0.2% home equity lines of credit as of December 31, 2010. Approximately 89% of the securities in our asset-backed security portfolio were rated AAA or its equivalent as of September 30, 2011, compared with 90% as of December 31, 2010.

(4) Consists of municipal securities and equity investments, primarily related to CRA activities.

We sold approximately \$6.4 billion of investment securities, consisting predominantly of agency MBS, in the third quarter of 2011. We recorded a gain of \$239 million on the sale of these securities. We provide additional information in Market Risk Management.

Unrealized gains and losses on our available-for-sale securities are recorded net of tax as a component of accumulated other comprehensive income (AOCI). We had gross unrealized gains of \$776 million and gross unrealized losses of \$177 million on available-for-sale securities as of September 30, 2011, compared with gross unrealized gains of \$830 million and gross unrealized losses of \$281 million as of December 31, 2010. Of the \$177 million in gross unrealized losses as of September 30, 2011, \$134 million related to securities that had been in a loss position for more than 12 months.

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment (OTTI) based on a number of criteria, including the extent and duration of the decline in value, the severity and duration of the impairment, recent events specific to the issuer and/or industry to which the issuer belongs, the payment structure of the security, external credit ratings, the failure of the issuer to make scheduled interest or principal payments, the value of underlying collateral, our intent and ability to hold the security and current market conditions. We recognized OTTI losses on investment securities of \$6 million and \$15 million in the third quarter and first nine months of 2011, respectively. In comparison, we recognized OTTI losses on investment securities of \$5 million and \$62 million in the third quarter and first nine months of 2010, respectively, which was due in part to our decision to sell certain other securities before recovery of the impairment amount as well as the deterioration in the credit performance of certain non-agency mortgage-related securities resulting from weaknesses in the housing market and high unemployment.

We provide additional information on our available-for-sale securities and OTTI assessment in Note 4 Investment Securities.

Credit Ratings

Our investment securities portfolio continues to be heavily concentrated in securities that generally have lower credit risk and high credit ratings, such as securities issued and guaranteed by the U.S. Treasury and government sponsored enterprises or agencies. On August 6, 2011, Standard & Poor's (S&P) downgraded the long-term sovereign credit rating of the U.S. government from AAA to AA+. As a result, the credit ratings for our U.S. Treasury and U.S. Agency securities, which accounted for \$26.1 billion, or 69%, of our total investment securities portfolio were lowered to AA+. This credit rating reduced the percentage of securities in our investment portfolio with a AAA or equivalent rating to 24% as of September 30, 2011, from 92% as of December 31, 2010. If the S&P downgrade had not occurred, the securities in our investment portfolio with a AAA or equivalent rating would have been approximately 93% as of September 30, 2011. We categorize our available-for-sale securities based on the lowest credit ratings issued by the rating agencies.

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The table below presents information on the credit ratings of our non-agency residential MBS, which account for the substantial majority of the unrealized losses related to our investment securities portfolio as of September 30, 2011 and December 31, 2010:

	September 30, 2011				December 31, 2010			
	% of Investment Securities Portfolio ⁽¹⁾ AAA	Other Investment Grade	Below Investment Grade or Not Rated	% of Investment Securities Portfolio ⁽¹⁾ AAA	Other Investment Grade	Below Investment Grade or Not Rated		
Non-agency residential MBS	4%	0%	4%	96%	5%	0%	9%	91%

⁽¹⁾ Calculated based on the amortized cost of the major security type presented divided by the amortized cost of our total investment securities portfolio as of the end of each period.

Total Loans

Table 11 presents the composition of our total loan portfolio, by business segments, as of September 30, 2011 and December 31, 2010.

Table 11: Loan Portfolio Composition

(Dollars in millions)	September 30, 2011		December 31, 2010	
	Amount	% of Total Loans	Amount	% of Total Loans
Credit Card business:				
Credit card loans:				
Domestic credit card loans	\$ 51,510	39.6%	\$ 49,979	39.7%
International credit card loans	8,210	6.3	7,513	6.0
Total credit card loans	59,720	45.9	57,492	45.7
Installment loans:				
Domestic installment loans	2,310	1.8	3,870	3.0
International installment loans			9	
Total installment loans	2,310	1.8	3,879	3.0
Total credit card	62,030	47.7	61,371	48.7
Consumer Banking business:				
Automobile	20,422	15.7	17,867	14.2
Home loan	10,916	8.4	12,103	9.6
Retail banking	4,014	3.1	4,413	3.5
Total consumer banking	35,352	27.2	34,383	27.3
Commercial Banking business:				
Commercial and multifamily real estate ⁽¹⁾	14,389	11.1	13,396	10.6
Middle market	11,924	9.2	10,484	8.3
Specialty lending	4,221	3.2	4,020	3.2
Total commercial lending	30,534	23.5	27,900	22.1

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Small-ticket commercial real estate	1,571	1.2	1,842	1.5
Total commercial banking	32,105	24.7	29,742	23.6
Other:				
Other loans	465	0.4	451	0.4
Total loans	\$ 129,952	100.0%	\$ 125,947	100.0%

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⁽¹⁾ Includes construction and land development loans totaling \$2.2 billion and \$2.4 billion as of September 30, 2011 and December 31, 2010, respectively.

Total loans increased by \$4.0 billion, or 3%, during the first nine months of 2011, to \$130.0 billion as of September 30, 2011, from \$125.9 billion as of December 31, 2010. The increase was primarily attributable to the additions of the \$3.7 billion private-label credit card loan portfolio of Kohl's in the second quarter of 2011 and the \$1.4 billion credit card loan portfolio of HBC in the first quarter of 2011, as well as growth in our auto finance, commercial and revolving domestic card balances. Excluding the impact of the addition of the Kohl's and HBC portfolios, total loans decreased by \$1.1 billion, or 1%, in the first nine months of 2011, due to the continued expected run-off of loans in businesses we exited or repositioned early in the economic recession, other loan paydowns and charge-offs. The run-off portfolios include installment loans in our Credit Card business, home loans in our Consumer Banking business and small-ticket commercial real estate loans in our Commercial Banking business.

Credit Performance

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of commercial loans. The improvements we have experienced in our credit trends across all of our businesses are stabilizing and our credit performance is increasingly driven by seasonal trends. We present information in the section below on the credit performance of our loan portfolio, including the key metrics we use in tracking changes in the credit quality of our loan portfolio. See Note 5 Loans for additional information.

Delinquency Rates

We consider the entire balance of an account to be delinquent if the minimum required payment is not received by the first statement cycle date equal to or following the due date specified on the customer's billing statement. Table 12 below compares 30+ day performing loan delinquency rates, by loan category, as of September 30, 2011 and December 31, 2010. We also present total 30+ day delinquent loans.

Our 30+ day delinquency metrics include all held for investment loans that are 30 or more days past due, whereas our 30+ day performing delinquency metrics include loans that are 30 or more days past due and that are also currently classified as performing and accruing interest. The 30+ day delinquency and 30+ day performing delinquency metrics are the same for credit card loans, as we continue to classify credit card loans as performing until they are charged-off, generally when the loan is 180 days past due. However, the 30+ day delinquency and 30+ day performing delinquency metrics differ for other loan categories based on our policies for classifying loans as nonperforming. See Note 5 Loans for additional information on our policies for classifying loans as nonperforming and for charging-off loans.

The delinquency rates presented are calculated, by loan category, based on our total loan portfolio. Our total loan portfolio consists of loans recorded on our balance sheet, which includes purchased credit-impaired (PCI) loans acquired from Chevy Chase Bank, and loans held in our securitization trusts. Loans acquired from Chevy Chase Bank were recorded at fair value at acquisition. We separately track and report the performance of PCI loans and exclude these loans from the numerator in calculating our net charge-off, delinquency, nonperforming loan and nonperforming asset rates.

Table of Contents**Table 12: 30+ Day Delinquencies**

(Dollars in millions)	September 30, 2011				December 31, 2010			
	30+ Day Performing Amount	30+ Day Total Rate ⁽¹⁾	30+ Day Total Amount	30+ Day Total Rate ⁽¹⁾	30+ Day Performing Amount	30+ Day Total Rate ⁽¹⁾	30+ Day Total Amount	30+ Day Total Rate ⁽¹⁾
Credit Card business:⁽³⁾								
Domestic credit card and installment loans	\$ 1,962	3.65%	\$ 1,962	3.65%	\$ 2,200	4.09%	\$ 2,200	4.09%
International credit card and installment loans	439	5.35	439	5.35	432	5.75	432	5.75
Total credit card	2,401	3.87	2,401	3.87	2,632	4.29	2,632	4.29
Consumer Banking business:								
Automobile	1,295	6.34	1,387	6.79	1,355	7.58	1,453	8.13
Home loan ⁽²⁾	85	0.78	497	4.55	77	0.64	504	4.16
Retail banking ⁽²⁾	36	0.89	85	2.12	41	0.93	93	2.11
Total consumer banking ⁽²⁾	1,416	4.01	1,969	5.57	1,473	4.28	2,050	5.96
Commercial Banking business:								
Commercial and multifamily real estate ⁽²⁾	145	1.01	333	2.31	147	1.10	302	2.25
Middle market ⁽²⁾	13	0.11	76	0.64	28	0.27	89	0.85
Specialty lending	22	0.51	41	0.97	33	0.81	58	1.44
Small-ticket commercial real estate	43	2.75	63	4.01	95	5.16	131	7.11
Total commercial banking ⁽²⁾	223	0.69	513	1.60	303	1.02	580	1.95
Other:								
Other loans	21	4.52	63	13.55	22	4.88	69	15.30
Total	\$ 4,061	3.13%	\$ 4,946	3.81%	\$ 4,430	3.52%	\$ 5,331	4.23%

⁽¹⁾ Delinquency rates are calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category.

⁽²⁾ The 30+ day performing delinquency rate, excluding the impact of loans acquired from Chevy Chase Bank from the denominator, for home loans, retail banking, total consumer banking, commercial and multifamily real estate, middle market, and total commercial banking was 1.28%, 0.90%, 4.57%, 1.02%, 0.11% and 0.71%, respectively, as of September 30, 2011, compared with 1.06%, 0.97%, 5.01%, 1.12%, 0.28% and 1.04%, respectively, as of December 31, 2010.

⁽³⁾ The September 30, 2011 30+ day delinquency rate for Domestic Card reflects the impact of the change we made in the way we estimate recoveries in determining the uncollectible amount of finance charges and fees, which resulted in an increase of 11 basis points as of September 30, 2011. For International Card, the change did not have a significant impact on the 30+ day delinquency rate as of September 30, 2011.

Table 13 presents an aging of total 30+ day delinquent loans included in the above table.

Table of Contents**Table 13: Aging of 30+ Day Delinquent Loans**

(Dollars in millions)	September 30, 2011		December 31, 2010	
	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾
Total loan portfolio	\$ 129,952	100.00%	\$ 125,947	100.00%
Delinquency status:				
30 - 59 days	\$ 1,904	1.47%	\$ 2,008	1.59%
60 - 89 days	1,055	0.81	1,103	0.88
90 + days	1,987	1.53	2,220	1.76
Total	\$ 4,946	3.81%	\$ 5,331	4.23%
Geographic region:				
Domestic	\$ 4,507	3.47%	\$ 4,899	3.89%
International	439	0.34	432	0.34
Total	\$ 4,946	3.81%	\$ 5,331	4.23%

⁽¹⁾ Calculated by dividing loans in each delinquency status category and geographic region as of the end of the period by the total loan portfolio.

Table 14 summarizes loans that were 90 days or more past due as to interest or principal payments and still accruing interest as of September 30, 2011 and December 31, 2010. These loans consist primarily of credit card accounts between 90 days and 179 days past due. As permitted by regulatory guidance issued by The Federal Financial Institutions Examination Council (FFIEC), we continue to accrue interest on credit card loans through the date of charge-off, typically in the period the account becomes 180 days past due. While credit card loans remain on accrual status until the loan is charged-off, we establish a reserve for finance charges and fees billed but not expected to be collected and exclude this amount from revenue.

Table 14: 90+ Day Delinquent Loans Accruing Interest

(Dollars in millions)	September 30, 2011		December 31, 2010	
	Amount	% of Total Loans	Amount	% of Total Loans
Loan category:⁽¹⁾				
Credit card ⁽²⁾	\$ 1,109	1.79%	\$ 1,379	2.25%
Consumer	2	0.01	5	0.01
Commercial	40	0.13	14	0.05
Total	\$ 1,151	0.89%	\$ 1,398	1.11%
Geographic region:⁽³⁾				
Domestic	\$ 957	0.74%	\$ 1,195	0.95%
International	194	0.15	203	0.16
Total	\$ 1,151	0.89%	\$ 1,398	1.11%

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- (1) Delinquency rates are calculated by loan category by dividing 90+ day delinquent loans accruing interest as of the end of the period by period-end loans held for investment for the specified loan category.
- (2) Includes credit card loans that continue to accrue finance charges and fees until charged-off at 180 days. The amounts reported for credit card loans are net of billed finance charges and fees that we do not expect to collect. The estimated uncollectible portion of billed finance charges and fees excluded from revenue totaled \$24 million and \$190 million in the third quarter of 2011 and 2010, respectively, and \$241 million and \$805 million in the first nine months of 2011 and 2010, respectively. The reserve for uncollectible billed finance charges and fees decreased to \$67 million as of September 30, 2011, from \$211 million as of December 31, 2010.
- (3) Calculated by dividing loans in each geographic region as of the end of the period by the total loan portfolio.

Table of Contents**Nonperforming Assets**

Nonperforming assets consist of nonperforming loans and foreclosed property and repossessed assets. Nonperforming loans generally include loans that have been placed on nonaccrual status and certain restructured loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty. We continue to classify credit card loans as performing until they are charged-off. As a result, delinquent credit cards loans are excluded from the numerator in calculating our nonperforming loan and nonperforming asset rates. We provide an aging of delinquent loans by loan category and describe our policies for classifying loans as nonperforming and for charging-off loans in Note 5 Loans.

Table 15 presents comparative information on nonperforming loans, by loan category, as of September 30, 2011 and December 31, 2010, and the ratio of nonperforming loans to total loans. We do not report loans classified as held for sale as nonperforming, as they are recorded at lower of cost or fair value. We also do not report PCI loans as nonperforming, as these loans were written down to fair value at acquisition and accrete interest income over the remaining life of the loan. We separately track and report the performance of PCI loans. See Purchased Credit-Impaired Loans below for additional information on PCI loans.

Table 15: Nonperforming Loans and Other Nonperforming Assets⁽¹⁾⁽²⁾

(Dollars in millions)	September 30, 2011 ⁽³⁾		December 31, 2010	
	Amount	% of Total HFI Loans	Amount	% of Total HFI Loans
Nonperforming loans held for investment:				
Consumer Banking business:				
Automobile	\$ 92	0.45%	\$ 99	0.55%
Home loans	495	4.54	486	4.01
Retail banking	79	1.97	91	2.07
Total consumer banking	666	1.88	676	1.97
Commercial Banking business:				
Commercial and multifamily real estate	287	1.99	276	2.06
Middle market	116	0.97	133	1.27
Specialty lending	35	0.83	48	1.20
Total commercial lending	438	1.44	457	1.64
Small-ticket commercial real estate	21	1.32	38	2.04
Total commercial banking	459	1.43	495	1.66
Other:				
Other loans	47	10.19	54	12.12
Total nonperforming loans held for investment ⁽⁴⁾	\$ 1,172	0.90%	\$ 1,225	0.97%
Other nonperforming assets:				
Foreclosed property ⁽⁵⁾	\$ 193	0.15%	\$ 306	0.24%
Repossessed assets	17	0.01	20	0.02
Total other nonperforming assets	210	0.16	326	0.26
Total nonperforming assets	\$ 1,382	1.06%	\$ 1,551	1.23%

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- (1) The ratio of nonperforming loans as a percentage of total loans held for investment is calculated based on the nonperforming loans in each loan category divided by the total outstanding unpaid principal balance of loans held for investment in each loan category. The denominator used in calculating the nonperforming asset ratios consists of total loans held for investment and other nonperforming assets.
- (2) The nonperforming loan ratios, excluding the impact of loans acquired from Chevy Chase Bank from the denominator, for home loans, retail banking, total consumer banking, commercial and multifamily real estate, middle market, total

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commercial banking, and total nonperforming loans held for investment were 7.47%, 1.99%, 2.15%, 2.02%, 1.00%, 1.45% and 0.94%, respectively, as of September 30, 2011, compared with 6.67%, 2.16%, 2.30%, 2.11%, 1.30%, 1.69% and 1.02%, respectively, as of December 31, 2010. The nonperforming asset ratio, excluding loans acquired from Chevy Chase Bank, was 1.10% and 1.29% as of September 30, 2011 and December 31, 2010, respectively.

- (3) For the nine months ended September 30, 2011, we recognized interest income for loans classified as nonperforming of \$23 million. For the nine months ended September 30, 2011, interest income foregone related to nonperforming loans was \$37 million. Foregone interest income represents the amount of interest income that would have been recorded during the period for nonperforming loans as of the end of the period had the loans performed according to their contractual terms.
- (4) Nonperforming loans as a percentage of loans held for investment, excluding credit card loans from the denominator, was 1.73% and 1.90% as of September 30, 2011 and December 31, 2010, respectively.
- (5) Includes \$98 million and \$201 million of foreclosed properties related to loans acquired from Chevy Chase Bank, as of September 30, 2011 and December 31, 2010, respectively.

Net Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine are uncollectible, net of recovered amounts. We exclude accrued and unpaid finance charges and fees and fraud losses from charge-offs. Charge-offs are recorded as a reduction to the allowance for loan and lease losses and subsequent recoveries of previously charged-off amounts are credited to the allowance for loan and lease losses. Costs incurred to recover charged-off loans are recorded as collection expense and included in our consolidated statements of income as a component of other non-interest expense. We discuss our charge-off time frame for loans, which varies based on the loan type, in Note 5 Loans.

Table 16 presents our net charge-off amounts and rates, by business segment, for the three and nine months ended September 30, 2011 and 2010. We provide additional information on the amount of charge-offs by loan category below in Table 18.

Table 16: Net Charge-Offs

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾
Credit card ⁽²⁾	\$ 661	4.23%	\$ 1,251	8.16%	\$ 2,383	5.13%	\$ 4,408	9.30%
Consumer banking ⁽³⁾⁽⁴⁾	115	1.32	157	1.79	336	1.30	483	1.77
Commercial banking ⁽³⁾⁽⁴⁾	29	0.37	93	1.27	126	0.55	284	1.28
Other	7	6.39	21	17.63	43	12.28	83	21.20
Total company⁽⁴⁾	\$ 812	2.52%	\$ 1,522	4.82%	\$ 2,888	3.02%	\$ 5,258	5.41%
Average loans held for investment ⁽⁵⁾	\$ 129,043		\$ 126,307		\$ 127,360		\$ 129,565	

(1) Calculated for each loan category by dividing annualized net charge-offs for the period by average loans held for investment during the period.

(2) The reduction in the provision for loan and lease losses attributable to Kohl's was \$236 million for the first nine months of 2011. Loss sharing amounts attributable to Kohl's reduced net charge-offs by \$39 million and \$80 million in the third quarter and first nine months of 2011, respectively. The expected reimbursement from Kohl's netted in our allowance for loan and lease losses was approximately \$156 million as of September 30, 2011.

(3) Excludes losses on the purchased credit-impaired loans acquired from Chevy Chase Bank. We separately track and report these loans. We provide additional information on the loans acquired from Chevy Chase Bank in Note 5 Loans.

(4) The average loans held for investment used in calculating net charge-off rates includes the impact of loans acquired as part of the Chevy Chase Bank acquisition. Our total net charge-off rate, excluding the impact of acquired Chevy Chase Bank loans, was 2.62% and 5.06% for the three months ended September 30, 2011 and 2010, respectively and 3.15% and 5.70% for the nine months ended September 30, 2011 and 2010, respectively.

(5) The average balances of the acquired Chevy Chase Bank loan portfolio, which are included in the total average loans held for investment used in calculating the net charge-off rates, were \$5.0 billion and \$6.0 billion for the three months

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ended September 30, 2011 and 2010, respectively, and \$5.1 billion and \$6.5 billion for the nine months ended September 30, 2011 and 2010, respectively.

The overall decrease in net charge-offs in the third quarter and first nine months of 2011 from the third quarter and first nine months of 2010 reflects the improvement in credit performance.

Loan Modifications and Restructurings

As part of our customer retention efforts, we may modify loans for certain borrowers who have demonstrated performance under the previous terms. As part of our loss mitigation efforts, we may make loan modifications to a borrower experiencing financial difficulty that are intended to minimize our economic loss and avoid the need for foreclosure or repossession of collateral. We may provide short-term (three to twelve months) or long-term (greater than twelve months) modifications to improve the long-term collectability of the loan. Our most common types of modifications include a reduction in the borrower's initial periodic principal and interest payment through an extension of the loan term, a reduction in the interest rate or a combination of both. These modifications may result in our receiving the full amount due, or certain installments due, under the loan over a period of time that is longer than the period of time originally provided for under the terms of the loan. In some cases, we may curtail the amount of principal owed by the borrower. Loan modifications in which an economic concession has been granted to a borrower experiencing financial difficulty are accounted for and reported as troubled debt restructurings (TDRs). Loan modifications that involve a trial period are not classified as TDRs until the borrower successfully completes the trial period under the revised payment terms and the loan modification becomes permanent. We did not have a significant number of loans in a trial modification period as of September 30, 2011.

In the third quarter of 2011, we adopted new accounting guidance that provides clarification on determining whether a debtor is experiencing financial difficulties and whether a concession has been granted to the debtor for purposes of determining if a loan modification constitutes a TDR. The new guidance applies retrospectively to our loan restructurings on or after January 1, 2011. The adoption of this amended accounting guidance in the third quarter of 2011 resulted in a net increase in loan modifications considered to be TDRs of \$56 million for consumer loans and \$77 million for commercial loans. The allowance for credit losses associated with these loans was \$22 million as of September 30, 2011.

Table 17 presents the loan balances as of September 30, 2011 and December 31, 2010 of loan modifications made as part of our loss mitigation efforts, all of which are considered to be TDRs. Table 17 excludes loan modifications that do not meet the definition of a TDR and acquired loans from Chevy Chase Bank, which we track and report separately. We provide additional detail on acquired loans from Chevy Chase Bank below under Purchased Credit-Impaired Loans.

Table 17: Loan Modifications and Restructurings⁽¹⁾

(Dollars in millions)	September 30, 2011	December 31, 2010 ⁽²⁾
Modified and restructured loans:		
Credit card ⁽³⁾	\$ 915	\$ 913
Auto ⁽⁴⁾	44	
Home loan	101	57
Retail banking	65	13
Commercial	379	162
Total	\$ 1,504	\$ 1,145
Status of modified and restructured loans:		
Performing	\$ 1,380	\$ 1,049
Nonperforming	124	96
Total	\$ 1,504	\$ 1,145

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- (1) Reflects modifications and restructuring of loans in our total loan portfolio. The total loan portfolio includes loans recorded on our balance sheet and loans held in securitization trusts.
- (2) Certain prior period amounts have been reclassified to conform to the current period presentation.
- (3) Amount reported reflects the total outstanding customer balance, which consists of unpaid principal balance, accrued interest and fees.
- (4) Prior to the first quarter of 2011, modified Auto loans were charged-off at the net collateral value and the remaining asset balance was reclassified to Other Assets on our consolidated balance sheet.

The outstanding balance of TDR loan modifications increased to \$1.5 billion as of September 30, 2011 from \$1.1 billion as of December 31, 2010. Of these modifications, \$124 million, or 8%, were classified as nonperforming as of September 30, 2011, compared with \$96 million, or 8%, as of December 31, 2010.

Credit card loan modifications have accounted for the substantial majority of our TDR loan modifications, representing \$915 million, or 61%, of the outstanding balance of total TDR loans as of September 30, 2011, and \$913 million, or 80%, of the outstanding balance of total TDR loans as of December 31, 2010. The vast majority of our credit card TDR loan modifications involve a reduction in the interest rate on the account and placing the customer on a fixed payment plan not exceeding 60 months. In some cases, the interest rate on a credit card account is automatically increased due to non-payment, late payment or similar events. We determine the effective interest rate for purposes of measuring impairment on modified loans that involve an increase and are considered to be a TDR based on the interest rate in effect immediately prior to the loan entering the modification program. In all cases, we cancel the customer's available line of credit on the credit card. If the cardholder does not comply with the modified payment terms, then the credit card loan agreement will revert back to its original payment terms, with the amount of any loan outstanding reflected in the appropriate delinquency category. The loan amount may then be charged-off in accordance with our standard charge-off policy.

Home loan modifications represented \$101 million, or 7%, of the outstanding balance of total modified loans as of September 30, 2011, compared with \$57 million, or 5%, of the outstanding balance of total modified loans as of December 31, 2010. The majority of our modified mortgage loans involve a combination of an interest rate reduction, term extension or principal reduction.

Commercial loan modifications represented \$379 million, or 25%, of the outstanding balance of total modified loans as of September 30, 2011, compared with \$162 million, or 14%, of the outstanding balance of total modified loans as of December 31, 2010. The vast majority of modified commercial loans include a reduction in interest rate or a term extension.

We provide additional information on modified loans accounted for as TDRs, including the performance of those loans subsequent to modification, in Note 5 Loans.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due from the borrower in accordance with the original contractual terms of the loan. Loans defined as individually impaired, based on applicable accounting guidance, include larger balance commercial nonperforming loans and TDR loans. We do not report nonperforming consumer loans that have not been modified in a TDR as individually impaired, as we collectively evaluate these smaller-balance homogenous loans for impairment in accordance with applicable accounting guidance. Loans held for sale are also not reported as impaired, as these loans are recorded at lower of cost or fair value. Impaired loans also exclude loans acquired from Chevy Chase Bank because these loans were recorded at fair value upon acquisition.

Impaired loans, including TDRs, totaled \$1.8 billion as of September 30, 2011, compared with \$1.5 billion as of December 31, 2010. TDRs accounted for \$1.5 billion and \$1.1 billion of impaired loans as of September 30, 2011 and December 31, 2010, respectively. We provide additional information on our impaired loans, including the allowance established for these loans, in Note 5 Loans and Note 6 Allowance for Loan and Lease Losses.

Table of Contents***Purchased Credit-Impaired Loans***

Purchased credit-impaired loans decreased to \$4.9 billion as of September 30, 2011, from \$5.6 billion as of December 31, 2010. Our portfolio of purchased credit-impaired loans consists of loans acquired in the Chevy Chase Bank transaction, which were recorded at fair value at the date of acquisition. The fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans. Therefore, no allowance for loan and lease losses was recorded for these loans as of the acquisition date. However, we regularly update the amount of expected principal and interest to be collected from these loans and evaluate the results on an aggregated pool basis for loans with common risk characteristics. Probable decreases in expected loan principal cash flows would trigger the recognition of impairment through our provision for loan and lease losses. Probable and significant increases in expected cash flows would first reverse any previously recorded allowance for loan and losses, with any remaining increase in expected cash flows recognized prospectively in interest income over the remaining estimated life of the underlying loans. In the first quarter of 2011, we recorded impairment of \$8 million related to certain loan pools. In the second quarter of 2011, we reduced the allowance related to these loans by \$28 million as a result of an increase in expected loan principal cash flows. In the third quarter of 2011, we recorded impairment of \$9 million related to certain loan pools. Cumulative impairment recognized on PCI loans totaled \$22 million as of September 30, 2011. The credit performance of the remaining pools has generally been in line with our expectations, and, in some cases, more favorable than expected, which has resulted in the reclassification of amounts from the nonaccretable difference to the accretable yield. We provide additional information on the PCI loans acquired from Chevy Chase Bank in Note 5 Loans.

Allowance for Loan and Lease Losses

Our allowance for loan and lease losses represents management's best estimate of incurred loan and lease credit losses inherent in our held-for-investment portfolio as of each balance sheet date. We do not maintain an allowance for held-for-sale loans or purchased credit-impaired loans that are performing in accordance with or better than our expectations as of the date of acquisition, as the fair values of these loans already reflect a credit component. The allowance for loan and lease losses is increased through the provision for loan and lease losses and reduced by net charge-offs. The provision for loan and lease losses, which is charged to earnings, reflects credit losses we believe have been incurred and will eventually be reflected over time in our charge-offs. Charge-offs of uncollectible amounts are deducted from the allowance and subsequent recoveries are added.

Table 18, which displays changes in our allowance for loan and lease losses for the three and nine months ended September 30, 2011 and 2010, details, by loan type, the provision for credit losses recognized in our consolidated statements of income each period and the charge-offs recorded against our allowance for loan and lease losses.

Table of Contents**Table 18: Allowance for Loan and Lease Losses Activity**

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance at beginning of period, as reported	\$ 4,488	\$ 6,799	\$ 5,628	\$ 4,127
Impact from January 1, 2010 adoption of new consolidation accounting				4,317
Balance at beginning of period, as adjusted	\$ 4,488	\$ 6,799	\$ 5,628	\$ 8,444
Provision for loan and lease losses ⁽¹⁾⁽²⁾	633	867	1,553	3,069
Charge-offs:				
Credit Card business: ⁽²⁾				
Domestic credit card and installment loans	(783)	(1,381)	(2,780)	(4,793)
International credit card and installment loans	(184)	(182)	(582)	(591)
Total credit card	(967)	(1,563)	(3,362)	(5,384)
Consumer Banking business:				
Auto	(129)	(166)	(372)	(508)
Home loan	(20)	(14)	(74)	(68)
Retail banking	(23)	(32)	(78)	(97)
Total consumer banking	(172)	(212)	(524)	(673)
Commercial Banking business:				
Commercial and multifamily real estate	(6)	(60)	(45)	(162)
Middle market	(14)	(17)	(28)	(62)
Specialty lending	(6)	(8)	(17)	(26)
Total commercial lending	(26)	(85)	(90)	(250)
Small-ticket commercial real estate	(9)	(17)	(62)	(63)
Total commercial banking	(35)	(102)	(152)	(313)
Other loans	(9)	(23)	(47)	(89)
Total charge-offs	(1,183)	(1,900)	(4,085)	(6,459)
Recoveries:				
Credit Card business:				
Domestic credit card and installment loans	256	269	811	853
International credit card and installment loans	50	43	168	123
Total credit card	306	312	979	976
Consumer Banking business:				
Automobile	46	48	148	168
Home loans	5	1	21	3
Retail banking	6	6	19	19
Total consumer banking	57	55	188	190

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Commercial Banking business:

Commercial and multifamily real estate	3		10	13
Middle market	2	6	8	10
Specialty lending	1	3	4	4
Total commercial lending	6	9	22	27
Small-ticket commercial real estate			4	2
Total commercial banking	6	9	26	29
Other loans	2	2	4	6
Total recoveries	371	378	1,197	1,201
Net charge-offs	(812)	(1,522)	(2,888)	(5,258)
Impact from loan sales and other changes	(29) ⁽³⁾	31 ⁽⁴⁾	(13) ⁽³⁾	(80) ⁽⁴⁾
Balance at end of period ⁽²⁾	\$ 4,280	\$ 6,175	\$ 4,280	\$ 6,175

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- (1) Excludes negative provision for unfunded lending commitments of \$11 million and \$8 million for the three months ended September 30, 2011 and 2010, respectively, and a provision of \$54 million and \$7 million for the nine months ended September 30, 2010, respectively.
- (2) The reduction in the provision for loan and lease losses attributable to Kohl's was \$236 million for the first nine months of 2011. Loss sharing amounts attributable to Kohl's reduced charge-offs by \$39 million and \$80 million in the third quarter and first nine months of 2011, respectively. The expected reimbursement from Kohl's netted in our allowance for loan and lease losses was approximately \$156 million as of September 30, 2011.
- (3) Includes foreign translation adjustment of \$29 million and \$13 million for the third quarter and first nine months of 2011, respectively.
- (4) Includes a reduction in our allowance for loan and lease losses of \$73 million in the first quarter of 2010 attributable to the sale of certain interest-only option-ARM bonds and the deconsolidation of the related securitization trusts related to Chevy Chase Bank in the first quarter of 2010.

Table 19 presents an allocation of our allowance for loan and lease losses by loan category as of September 30, 2011 and December 31, 2010:

Table 19: Allocation of the Allowance for Loan and Lease Losses

(Dollars in millions)	September 30, 2011		December 31, 2010	
	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾
Credit Card:				
Domestic credit card and installment loans ⁽²⁾	\$ 2,409	4.48%	\$ 3,581	6.65%
International credit card and installment loans	506	6.16	460	6.12
Total credit card ⁽²⁾	2,915	4.70	4,041	6.58
Consumer Banking:				
Auto	358	1.75	353	1.98
Home loan	93	0.85	112	0.93
Retail banking	169	4.21	210	4.76
Total consumer banking	620	1.75	675	1.96
Commercial Banking:				
Commercial and multifamily real estate	411	2.86	495	3.70
Middle market	113	0.95	162	1.55
Specialty lending	74	1.75	91	2.26
Total commercial lending	598	1.96	748	2.68
Small-ticket commercial real estate	102	6.49	78	4.23
Total commercial banking	700	2.18	826	2.78
Other loans	45	9.68	86	19.07
Total ⁽²⁾	\$ 4,280	3.29%	\$ 5,628	4.47%
Total allowance coverage ratios:				
Period-end loans	\$ 129,952	3.29%	\$ 125,947	4.47%
Nonperforming loans ⁽³⁾	1,172	365.17	1,225	459.43
Allowance coverage ratios by loan category:				
Credit card (30 + day delinquent loans)	\$ 2,401	121.41%	\$ 2,632	153.53%
Consumer banking (30 + day delinquent loans)	1,969	31.49	2,050	32.93

Commercial banking (nonperforming loans)	459	152.51	495	166.87
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- (1) Calculated based on the allowance for loan and lease losses attributable to each loan category divided by the outstanding balance of loans within the specified loan category.

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- (2) The reduction in the provision for loan and lease losses attributable to Kohl's was \$236 million in the first nine months of 2011. Loss sharing amounts attributable to Kohl's reduced net charge-offs by \$39 million and \$80 million in the third quarter and first nine months of 2011, respectively. The expected reimbursement from Kohl's netted in our allowance for loan and lease losses was approximately \$156 million as of September 30, 2011.
- (3) As permitted by regulatory guidance issued by the FFIEC, our policy is generally not to classify credit card loans as nonperforming. We accrue interest on credit card loans through the date of charge-off, typically in the period that the loan becomes 180 days past due. The allowance for loan and lease losses as a percentage of nonperforming loans, excluding the allowance related to our credit card loans, was 116.47% as of September 30, 2011 and 129.55% as of December 31, 2010.

Our allowance for loan and lease losses decreased by \$1.3 billion during the first nine months of 2011 to \$4.3 billion. The decrease in our allowance reflects the improvements in credit performance across our portfolios, which have generally outpaced the modest and fragile economic recovery. These improvements are due in part to actions taken over the past several years to tighten our underwriting standards and exit certain portfolios. Our allowance as a percentage of our total loan portfolio also decreased to 3.29% as of September 30, 2011, from 4.47% as of December 31, 2010.

Deposits

Our deposits have become our largest source of funding for our operations and asset growth. Total deposits increased by \$6.1 billion, or 5%, in the first nine months of 2011, to \$128.3 billion as of September 30, 2011. The increase in deposits reflects our increased retail marketing efforts to attract new business and continued strategy to leverage our bank outlets to attract lower cost deposit funding. We provide additional information on the composition of our deposits, average outstanding balances, interest expense and yield, below in [Liquidity and Funding](#).

Senior and Subordinated Notes and Other Borrowings

Senior and subordinated notes and other borrowings increased to \$17.2 billion as of September 30, 2011, from \$14.9 billion as of December 31, 2010. The \$2.3 billion increase in senior and subordinated notes and other borrowing was primarily attributable to the proceeds of approximately \$3.0 billion from our public debt offering in July 2011. These proceeds were partially offset by the maturity in the third quarter of 2011 of a senior note totaling \$854 million.

The public debt offering included four different series of our senior notes (the 2011 Notes): \$250 million aggregate principal amount of our Floating Rate Senior Notes due 2014; \$750 million aggregate principal amount of our 2.125% Senior Notes due 2014; \$750 million aggregate principal amount of our 3.150% Senior Notes due 2016 and \$1.25 billion aggregate principal amount of our 4.750% Senior Notes due 2021. If we do not consummate the ING Direct acquisition on or prior to June 30, 2012, or if the purchase and sale agreement governing the ING Direct acquisition is terminated at any time prior to such date, we must redeem all the 2011 Notes at a redemption price equal to 101% of the aggregate principal amount of the 2011 Notes, plus accrued and unpaid interest from July 19, 2011, or the most recent date to which interest has been paid or provided for, as the case may be, to but excluding the mandatory redemption date of the 2011 Notes.

Securitized Debt Obligations

Borrowings owed to securitization investors decreased by \$9.7 billion to \$17.1 billion as of September 30, 2011, from \$26.8 billion as of December 31, 2010. This decrease was attributable to pay downs of the loans underlying the consolidated securitization trusts.

Potential Mortgage Representation & Warranty Liabilities

In recent years, we acquired three subsidiaries that originated residential mortgage loans and sold them to various purchasers, including purchasers who created securitization trusts. These subsidiaries are Capital One Home

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Loans, which was acquired in February 2005; GreenPoint Mortgage Funding, Inc. (GreenPoint), which was acquired in December 2006 as part of the North Fork acquisition; and Chevy Chase Bank, which was acquired in February 2009 and subsequently merged into CONA.

In connection with their sales of mortgage loans, the subsidiaries entered into agreements containing varying representations and warranties about, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with any applicable loan criteria established by the purchaser, including underwriting guidelines and the ongoing existence of mortgage insurance, and the loan's compliance with applicable federal, state and local laws. The representations and warranties do not address the credit performance of the mortgage loans, but mortgage loan performance often influences whether a claim for breach of representation and warranty will be asserted and has an effect on the amount of any loss in the event of a breach of a representation or warranty.

Each of these subsidiaries may be required to repurchase mortgage loans in the event of certain breaches of these representations and warranties. In the event of a repurchase, the subsidiary is typically required to pay the then unpaid principal balance of the loan together with interest and certain expenses (including, in certain cases, legal costs incurred by the purchaser and/or others). The subsidiary then recovers the loan or, if the loan has been foreclosed, the underlying collateral. The subsidiary is exposed to any losses on the repurchased loans after giving effect to any recoveries on the collateral. In some instances, rather than repurchase the loans, a subsidiary may agree to make a cash payment to make an investor whole on losses or to settle repurchase claims. In addition, our subsidiaries may be required to indemnify certain purchasers and others against losses they incur as a result of certain breaches of representations and warranties. In some cases, the amount of such losses could exceed the repurchase amount of the related loans.

These subsidiaries, in total, originated and sold to non-affiliates approximately \$111 billion original principal balance of mortgage loans between 2005 and 2008, which are the years (or vintages) with respect to which our subsidiaries have received the vast majority of the repurchase requests and other related claims.

The following table presents the original principal balance of mortgage loan originations, by vintage, for the three general categories of purchasers of mortgage loans and the outstanding principal balance as of September 30, 2011 and December 31, 2010:

Table 20: Unpaid Principal Balance of Mortgage Loans Originated and Sold to Third Parties Based on Category of Purchaser

(Dollars in billions)	Unpaid Principal Balance			Original Unpaid Principal Balance			
	September 30, 2011	December 31, 2010	Total	2008	2007	2006	2005
Government sponsored enterprises (GSEs ⁽¹⁾)	\$ 5	\$ 5	\$ 11	\$ 1	\$ 4	\$ 3	\$ 3
Insured Securitizations	7	7	18		1	8	9
Uninsured Securitizations and Other	30	33	82	3	16	30	33
Total	\$ 42	\$ 45	\$ 111	\$ 4	\$ 21	\$ 41	\$ 45

⁽¹⁾ GSEs include Fannie Mae and Freddie Mac.

Between 2005 and 2008, our subsidiaries sold an aggregate amount of \$11 billion in original principal balance mortgage loans to the GSEs.

Of the \$18 billion in original principal balance of mortgage loans sold directly by our subsidiaries to private-label purchasers who placed the loans into securitizations supported by bond insurance (Insured Securitizations), approximately \$13 billion original principal balance was placed in securitizations as to which the monoline bond

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insurers have made repurchase requests or loan file requests to one of our subsidiaries (Active Insured Securitizations), and the remaining approximately \$5 billion original principal balance was placed in securitizations as to which the monoline bond insurers have not made repurchase requests or loan file requests to one of our subsidiaries (Inactive Insured Securitizations). Insured Securitizations often allow the monoline bond insurer to act independently of the investors. Bond insurers typically have indemnity agreements directly with both the mortgage originators and the securitizers, and they often have super-majority rights within the trust documentation that allow them to direct trustees to pursue mortgage repurchase requests without coordination with other investors.

Because we do not service most of the loans our subsidiaries sold to others, we do not have complete information about the current ownership of the \$82 billion in original principal balance of mortgage loans not sold directly to GSEs or placed in Insured Securitizations. We have determined based on information obtained from third-party databases that about \$49 billion original principal balance of these mortgage loans are currently held by private-label publicly issued securitizations not supported by bond insurance (Uninsured Securitizations). In contrast with the bond insurers in Insured Securitizations, investors in Uninsured Securitizations often face a number of legal and logistical hurdles before they can direct a securitization trustee to pursue mortgage repurchases, including the need to coordinate with a certain percentage of investors holding the securities and to indemnify the trustee for any litigation it undertakes. An additional approximately \$23 billion original principal balance of mortgage loans were initially sold to private investors as whole loans. Of this amount, we believe approximately \$10 billion original principal balance of mortgage loans were ultimately purchased by GSEs. For purposes of our reserves-setting process, we consider these loans to be private-label loans rather than GSE loans. We do not have information about the current holders or disposition of the remaining \$10 billion original principal balance of mortgage loans in this category.

With respect to the \$111 billion in original principal balance of mortgage loans originated and sold to others between 2005 and 2008, we estimate that approximately \$42 billion in unpaid principal balance remains outstanding as of September 30, 2011, approximately \$14 billion in losses have been realized and approximately \$11 billion in unpaid principal balance is at least 90 days delinquent. Because we do not service most of the loans we sold to others, we do not have complete information about the underlying credit performance levels for some of these mortgage loans. These amounts reflect our best estimates, including extrapolations where necessary. These extrapolations occur on the approximately \$10 billion original principal balance of mortgage loans for which we do not have information about the current holders or any underlying credit performance. These estimates could change as we get additional data or refine our analysis.

The subsidiaries had open repurchase requests relating to approximately \$1.9 billion original principal balance of mortgage loans as of September 30, 2011, compared with \$1.7 billion as of June 30, 2011 and \$1.6 billion as of December 31, 2010. As of September 30, 2011, the majority of new repurchase demands received over the last year and, as discussed below, the majority of our \$892 million reserve relates to the \$24 billion of original principal balance of mortgage loans originally sold to the GSEs or to Active Insured Securitizations. Currently, repurchase demands predominantly relate to the 2006 and 2007 vintages. We have received relatively few repurchase demands from the 2008 and 2009 vintages, mostly because GreenPoint ceased originating mortgages in August 2007.

Table 21 presents information on pending repurchase requests by counterparty category and timing of initial repurchase request. The amounts presented are based on original loan principal balances.

Table of Contents**Table 21: Open Pipeline All Vintages (all entities)⁽¹⁾**

(Dollars in millions)	GSEs	Insured Securitized	Uninsured Securitized and Other	Total
Open claims as of December 31, 2009	\$ 61	\$ 366	\$ 588	\$ 1,015
Gross new demands received	204	645	104	953
Loans repurchased/made whole ⁽²⁾	(52)	(179)	(5)	(236)
Demands rescinded ⁽²⁾	(87)		(22)	(109)
Open claims as of December 31, 2010	\$ 126	\$ 832	\$ 665	\$ 1,623
Gross new demands received	142	171	102	415
Loans repurchased/made whole	(56)	(15)	(14)	(85)
Demands rescinded	(65)		(16)	(81)
Reclassifications ⁽³⁾	4	70	(74)	
Open claims as of September 30, 2011	\$ 151	\$ 1,058	\$ 663	\$ 1,872

⁽¹⁾ The open pipeline includes all repurchase requests ever received by our subsidiaries where the requesting party has not formally rescinded the repurchase request and where our subsidiary has not agreed to either repurchase the loan at issue or make the requesting party whole with respect to its losses. Accordingly, repurchase requests denied by our subsidiaries and not pursued by the counterparty remain in the open pipeline. Moreover, repurchase requests submitted by parties without contractual standing to pursue repurchase requests are included within the open pipeline unless the requesting party has formally rescinded its repurchase request. Finally, the amounts reflected in this chart are original principal balance amounts and do not correspond to the losses our subsidiary would incur upon the repurchase of these loans.

⁽²⁾ Activity in 2010 relates to repurchase demands from all years prior.

⁽³⁾ Represents adjustments to correct the counterparty category as of September 30, 2011 for amounts that were misclassified. The reclassification had no impact on the total pending repurchase requests; however, it resulted in an increase in open claims attributable to insured securitizations and a decrease in open claims attributable to GSEs and Uninsured Securitized & Other.

We have established representation and warranty reserves for losses associated with the mortgage loans sold by each subsidiary that we consider to be both probable and reasonably estimable, including both litigation and non-litigation liabilities. These reserves are reported in our consolidated balance sheets as a component of other liabilities. The reserve setting process relies heavily on estimates, which are inherently uncertain, and requires the application of judgment. We evaluate these estimates on a quarterly basis. We build our representation and warranty reserves through the provision for repurchase losses, which we report in our consolidated statements of income as a component of non-interest income for loans originated and sold by Chevy Chase Bank and Capital One Home Loans and as a component of discontinued operations for loans originated and sold by GreenPoint. In establishing the representation and warranty reserves, we consider a variety of factors depending on the category of purchaser.

In establishing reserves for the \$11 billion original principal balance of GSE loans, we rely on the historical relationship between GSE loan losses and repurchase outcomes to estimate: (1) the percentage of current and future GSE loan defaults that we anticipate will result in repurchase requests from the GSEs over the lifetime of the GSE loans; and (2) the percentage of those repurchase requests that we anticipate will result in actual repurchases. We also rely on estimated collateral valuations and loss forecast models to estimate our lifetime liability on GSE loans. This reserving approach to the GSE loans reflects the historical interaction with the GSEs around repurchase requests, and also includes anticipated repurchases resulting from mortgage insurance rescissions. The GSEs typically have stronger contractual rights than non-GSE counterparties because GSE contracts typically do not contain prompt notice requirements for repurchase requests or materiality qualifications to the representations and warranties. Moreover, although we often disagree with the GSEs about the validity of their repurchase requests, we have established a negotiation pattern whereby the GSEs and our subsidiaries continually negotiate around individual repurchase requests, leading to the GSEs rescinding some

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repurchase requests and our subsidiaries agreeing in some cases to repurchase some loans or make the GSEs whole with respect to losses. Our lifetime representation and warranty reserves with respect to GSE loans are grounded in this history.

For the \$13 billion original principal balance in Active Insured Securitizations, our reserving approach also reflects our historical interaction with monoline bond insurers around repurchase requests. Typically, monoline bond insurers allege a very high repurchase rate with respect to the mortgage loans in the Active Insured Securitization category. In response to these repurchase requests, our subsidiaries typically request information from the monoline bond insurers demonstrating that the contractual requirements around a valid repurchase request have been satisfied, such as, for example, the typical requirements that the counterparty promptly notify us upon discovery of any breach and that any breach materially and adversely affect the value of the mortgage loan at issue. In response to these requests for supporting documentation, monoline bond insurers typically initiate litigation. Accordingly, our reserves within the Active Insured Securitization are not based upon the historical repurchase rate with monoline bond insurers, but rather upon the expected resolution of litigation with the monoline bond insurers. Every bond insurer within this category is pursuing a substantially similar litigation strategy either through active or probable litigation. Accordingly, our representation and warranty reserves for this category are litigation reserves. In establishing litigation reserves for this category, we consider current and future losses inherent within the securitization and apply legal judgment to the anticipated factual and legal record to estimate the lifetime legal liability for each securitization. Our estimated legal liability for each securitization within this category assumes that we will be responsible for only a portion of the losses inherent in each securitization. Our litigation reserves with respect to both the U.S. Bank Litigation and the DBSP Litigation, in each case as referenced below, are contained within the Active Insured Securitization reserve category. Further, our litigation reserves with respect to indemnification risks from certain representation and warranty lawsuits brought by monoline bond insurers against third-party securitizations sponsors, where GreenPoint provided some or all of the mortgage collateral within the securitization but is not a defendant in the litigation, are also contained within this category. Our estimated legal liability for securitizations within this category often assumes we will pay only a portion of the liabilities ultimately incurred by the party defendants to the litigation.

For the \$5 billion original principal balance of mortgage loans in the Inactive Insured Securitizations category and the \$82 billion original principal balance of mortgage loans in the Uninsured Securitizations and other whole loan sales categories, we establish reserves by relying on our historical repurchase rates and current negotiation patterns to estimate repurchase liabilities over the next twelve (12) months. We do not believe we can estimate repurchase liability for these categories for a period longer than twelve (12) months because of the relatively irregular nature of repurchase activity within these categories. Some Uninsured Securitization investors from this category who have not made repurchase requests or filed representation and warranty lawsuits have filed actions under federal and/or state securities laws against investment banks and securitization sponsors. Although we face some direct and indirect indemnity risks from these litigations, we have not established reserves with respect to these indemnity risks because we do not consider them to be both probable and reasonably estimable liabilities.

The aggregate reserve for all three subsidiaries was \$892 million as of September 30, 2011, compared with \$869 million as of June 30, 2011, and \$816 million as of December 31, 2010. Almost all of the increase in the reserve from June 30, 2011 is allocated to the Uninsured Securitizations and Other category, resulting from an increase in repurchase activity with respect to certain uninsured investors. We recorded a total provision for repurchase losses for our representation and warranty repurchase exposure of \$72 million and \$153 million for the three and nine months ended September 30, 2011, respectively, and we had settlements of repurchase requests of \$49 million and \$77 million for the three and nine months ended September 30, 2011, respectively, that were charged against the reserve.

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Table 22 summarizes changes in our representation and warranty reserve for the three and nine months ended September 30, 2011 and 2010, and for full year 2010:

Table 22: Changes in Representation and Warranty Reserve

(Dollars in millions)	Three Months Ended		Nine Months Ended		Full Year
	September 30,		September 30,		
	2011	2010	2011	2010	2010
Representation and warranty repurchase reserve, beginning of period ⁽¹⁾	\$ 869	\$ 853	\$ 816	\$ 238	\$ 238
Provision for repurchase losses ⁽²⁾	72	16	153	644	636
Net realized losses	(49)	(33)	(77)	(46)	(58)
Representation and warranty repurchase reserve, end of period ⁽¹⁾	\$ 892	\$ 836	\$ 892	\$ 836	\$ 816

⁽¹⁾ Reported in our consolidated balance sheets as a component of other liabilities.

⁽²⁾ In the third quarter of 2011, we recognized a reduction to the reserve for mortgage repurchase claims of \$3 million in our consolidated statements of income as a component of non-interest income. In the first nine months of 2011, we recognized a provision for mortgage repurchase claims of \$5 million. In the third quarter and first nine months of 2010, we recognized a provision for mortgage repurchase claims of \$16 million and \$211 million, respectively. The pre-tax portion of the provision for mortgage repurchase claims recognized in our consolidated statements of income as a component of discontinued operations totaled \$75 million and \$147 million, for the three and nine months ended September 30, 2011, respectively, and \$0 million and \$433 million for the three and nine months ended September 30, 2010, respectively.

As indicated in the table below, most of the representation and warranty reserve relates to the \$11 billion in original principal balance of mortgage loans sold directly to the GSEs and to the \$13 billion in mortgage loans sold to purchasers who placed them into Active Insured Securitizations.

Table 23: Allocation of Representation and Warranty Reserve

(Dollars in millions, except for loans sold)	Reserve Liability		Loans Sold 2005 to 2008 ⁽¹⁾
	September 30, 2011	December 31, 2010	
GSEs and Active Insured Securitizations	\$ 771	\$ 796	\$ 24
Inactive Insured Securitizations, Uninsured Securitizations and Other	121	20	87
Total	\$ 892	\$ 816	\$ 111

⁽¹⁾ Reflects, in billions, the total original principal balance of mortgage loans originated by our subsidiaries and sold to third party investors between 2005 and 2008.

The adequacy of the reserves and the ultimate amount of losses incurred by our subsidiaries will depend on, among other things, actual future mortgage loan performance, the actual level of future repurchase and indemnification requests (including the extent, if any, to which Inactive Insured Securitizations and other currently inactive investors ultimately assert claims), the actual success rates of claimants, developments in litigation, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices).

As part of our business planning processes, we have considered various outcomes relating to the potential future representation and warranty liabilities of our subsidiaries that are possible but do not rise to the level of being both probable and reasonably estimable outcomes that would justify an incremental accrual under applicable accounting standards. We believe that the upper end of the reasonably possible future losses from

representation

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and warranty claims beyond the current accrual levels, including reasonably possible future losses relating to the US Bank Litigation, DBSP Litigation and the FHLB of Boston Litigation, could be as high as \$1.5 billion, an increase of \$400 million from the estimate we provided as of June 30, 2011. This increase is attributable to increased activity from uninsured investors, increased governmental and regulatory scrutiny of mortgage practices and continued difficulty in the housing market and overall economy. Notwithstanding our ongoing attempts to estimate a reasonably possible amount of loss beyond our current accrual levels based on current information, it is possible that actual future losses will exceed both the current accrual level and our current estimated upper-end of the amount of reasonably possible losses. There is still significant uncertainty regarding the numerous factors that may impact the ultimate loss levels, including, but not limited to, litigation outcomes, future repurchase claims levels, ultimate repurchase success rates and mortgage loan performance levels.

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

In the ordinary course of business, we are involved in various types of arrangements with limited liability companies, partnerships or trusts that often involve special purpose entities and variable interest entities (VIEs). Some of these arrangements are not recorded on our consolidated balance sheets or may be recorded in amounts different from the full contract or notional amount of the arrangements, depending on the nature or structure of, and accounting required to be applied to, the arrangement. These arrangements may expose us to potential losses in excess of the amounts recorded in the consolidated balance sheets. Our involvement in these arrangements can take many forms, including securitization and servicing activities, the purchase or sale of mortgage-backed or other asset-backed securities in connection with our home loan portfolio and loans to VIEs that hold debt, equity, real estate or other assets. Under previous accounting guidance, we were not required to consolidate the majority of our securitization trusts because they were qualified special purpose entities. Accordingly, we considered these trusts to be off-balance sheet arrangements.

Our continuing involvement in unconsolidated VIEs primarily consists of certain mortgage loan trusts and community reinvestment and development entities. The carrying amount of assets and liabilities of these unconsolidated VIEs was \$2.2 billion and \$294 million, respectively, as of September 30, 2011, and our maximum exposure to loss was \$2.3 billion. We provide a discussion of our activities related to these VIEs in Note 7 Variable Interest Entities and Securitizations.

RISK MANAGEMENT

Our business activities expose us to eight major categories of risks: liquidity risk, credit risk, reputational risk, market risk, strategic risk, operational risk, compliance risk and legal risk. Our risk management framework is intended to identify, assess and mitigate risks that affect or have the potential to affect our business in order to target financial returns commensurate with our risk appetite and to avoid excessive risk-taking. We follow four key risk management principles:

Individual businesses take and manage risk in pursuit of strategic, financial and other business objectives.

Independent risk management organizations support individual businesses by providing risk management tools and policies and by aggregating risks; in some cases, risks are managed centrally.

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The Board of Directors and senior management review our aggregate risk position, establish the risk appetite and work with management to ensure conformance to policy and adherence to our adopted mitigation strategy. We employ a top risk identification system to maintain the appropriate focus on the risks and issues that may have the most impact and to identify emerging risks of consequence.

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We have established liquidity guidelines that are intended to ensure that we have sufficient asset-based liquidity to withstand the potential impact of deposit attrition or diminished liquidity in the funding markets. Our guidelines include maintaining an adequate liquidity reserve to cover our potential funding requirements and diversified funding sources to avoid over-dependence on volatile, less reliable funding markets. Our liquidity reserves consist of cash and cash equivalents and unencumbered available-for-sale securities. Table 24 below presents the composition of our liquidity reserves as of September 30, 2011 and December 31, 2010.

Table 24: Liquidity Reserves

(Dollars in millions)	September 30, 2011	December 31, 2010
Cash and cash equivalents	\$ 6,358	\$ 5,249
Securities available-for-sale ⁽¹⁾	38,400	41,537
Less: Pledged available-for-sale securities	(8,850)	(9,963)
Unencumbered available-for-sale securities	29,550	31,574
Undrawn committed securitization borrowing facilities		207
Total liquidity reserves	\$ 35,908	\$ 37,030

⁽¹⁾ The weighted average life of our available-for-sale securities was approximately 2.9 years and 3.8 years as of September 30, 2011, and December 31, 2010, respectively.

Funding

Our funding objective is to establish an appropriate maturity profile using a cost-effective mix of both short-term and long-term funds. We use a variety of funding sources, including deposits, loan securitizations, debt and equity securities, securitization borrowing facilities and Federal Home Loan Bank (FHLB) advances.

Deposits

Our deposits provide a stable and relatively low cost of funds and have become our largest source of funding. We have expanded our opportunities for deposit growth through direct and indirect marketing channels, our existing branch network and branch expansion. These channels offer a broad range of deposit products that include demand deposits, money market deposits, negotiable order of withdrawal (NOW) accounts, savings accounts and certificates of deposit. Table 25 presents the composition of our deposits by type as of September 30, 2011 and December 31, 2010.

Table 25: Deposits

(Dollars in millions)	September 30, 2011	December 31, 2010
Non-interest bearing	\$ 17,541	\$ 15,048

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NOW accounts	12,777	13,536
Money market deposit accounts	47,745	44,485
Savings accounts	31,225	26,077
Other consumer time deposits	12,972	15,753
Total core deposits	122,260	114,899
Public fund certificates of deposit \$100,000 or more	84	177
Certificates of deposit \$100,000 or more	5,149	6,300
Foreign time deposits	825	834
Total deposits	\$ 128,318	\$ 122,210

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Total deposits increased by \$6.1 billion, or 5.0%, in the first nine months of 2011, to \$128.3 billion as of September 30, 2011. Of our total deposits, \$825 million and \$834 million were held in foreign banking offices as of September 30, 2011 and December 31, 2010, respectively. Large domestic denomination certificates of deposits of \$100,000 or more represented \$5.2 billion and \$6.5 billion of our total deposits as of September 30, 2011 and December 31, 2010, respectively. Our funding and liquidity strategy takes into consideration the scheduled maturities of large denomination time deposits. Of the \$5.2 billion in large domestic denomination certificates of deposit as of September 30, 2011, \$1.0 billion is scheduled to mature within the next three months, \$1.1 billion is scheduled to mature between three and 12 months and \$3.1 billion is scheduled to mature over 12 months. Based on past activity, we expect to retain a portion of these deposits as they mature.

We have brokered deposits, which we obtained through the use of third-party intermediaries. Brokered deposits are included in money market deposit accounts and other consumer time deposits in Table 25 above. The Federal Deposit Insurance Corporation Improvement Act of 1991 limits the use of brokered deposits to well capitalized insured depository institutions and, with a waiver from the Federal Deposit Insurance Corporation, to adequately capitalized institutions. COBNA and CONA were well capitalized, as defined under the federal banking regulatory guidelines, as of September 30, 2011, and therefore permitted to maintain brokered deposits. Our brokered deposits totaled \$14.4 billion, or 11%, of total deposits as of September 30, 2011. Brokered deposits totaled \$16.5 billion, or 14%, of total deposits as of December 31, 2010. Based on our historical access to the brokered deposit market, we expect to replace maturing brokered deposits with new brokered deposits or direct deposits and branch deposits.

Other Funding Sources

We also access the capital markets to meet our funding needs through the use of federal funds purchased and securities loaned or sold under agreements to purchase, the issuance of senior and subordinated notes and other borrowings and, to a lesser extent, loan securitization transactions. In addition, we utilize advances from the FHLB for our funding needs. FHLB advances are secured by our investment securities and certain of our loan portfolios.

Our debt, including federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and other borrowings, such as FHLB advances, but excluding securitized debt obligations, totaled \$17.2 billion as of September 30, 2011, up from \$14.9 billion as of December 31, 2010. We had no open committed loan securitization conduit lines as of September 30, 2011. The \$2.3 billion increase in our debt, excluding securitized debt obligations, was primarily attributable to the proceeds of approximately \$3.0 billion from the issuance of senior notes in the third quarter of 2011, which was partially offset by the maturity of one senior note totaling \$854 million in the third quarter of 2011.

Our public debt offering in the third quarter of 2011 included four different series of our senior notes: \$250 million aggregate principal amount of our Floating Rate Senior Notes due 2014; \$750 million aggregate principal amount of our 2.125% Senior Notes due 2014; \$750 million aggregate principal amount of our 3.150% Senior Notes due 2016 and \$1.25 billion aggregate principal amount of our 4.750% Senior Notes due 2021. If we do not consummate the ING Direct acquisition on or prior to June 30, 2012, or if the purchase and sale agreement governing the ING Direct acquisition is terminated at any time prior to such date, we must redeem all of these notes at a redemption price equal to 101% of the aggregate principal amount of the 2011 Notes, plus accrued and unpaid interest from July 19, 2011, or the most recent date to which interest has been paid or provided for, as the case may be, to but excluding the mandatory redemption date of the 2011 Notes.

We participate in the federal funds market daily to take advantage of attractive offers and to keep a visible presence in the market, which is intended to ensure that we are able to access the federal funds market in a time of need. We expect monthly fluctuations in our borrowings, as borrowing amounts are highly dependent on our counterparties' cash positions. Our FHLB membership is secured by our investment in FHLB stock, which totaled \$218 million as of September 30, 2011.

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Table 26 presents our short-term borrowings and long-term debt and the maturity profile based on expected maturities as of September 30, 2011. We provide additional information on our short-term borrowings and long-term debt in Note 9 Deposits and Borrowings.

Table 26: Expected Maturity Profile of Short-term Borrowings and Long-term Debt

(Dollars in millions)	Up to 1 Year	> 1 Year to 2 Years	> 2 Years to 3 Years	> 3 Years to 4 Years	> 4 Years To 5 Years	> 5 Years	Total
Short-term borrowings:							
Federal funds purchased and securities loaned or sold under agreements to repurchase	\$ 1,441	\$	\$	\$	\$	\$	\$ 1,441
Total short-term borrowings	1,441						1,441
Long-term debt:⁽¹⁾							
Securitized debt obligations	4,671	3,650	2,907	502	1,330	4,060	17,120
Senior and subordinated notes:							
Unsecured senior debt	285		2,632	413	749	3,033	7,112
Unsecured subordinated debt	360	523	107		1,199	1,750	3,939
Total senior and subordinated notes	645	523	2,739	413	1,948	4,783	11,051
Other long-term borrowings:							
Junior subordinated debt						3,642	3,642
FHLB advances	15	19	948	15	9	55	1,061
Other long-term borrowings	15	19	948	15	9	3,697	4,703
Total long-term debt⁽²⁾	5,331	4,192	6,594	930	3,287	12,540	32,874
Total short-term borrowings and long-term debt	\$ 6,772	\$ 4,192	\$ 6,594	\$ 930	\$ 3,287	\$ 12,540	\$ 34,315
Percentage of total	20%	12%	19%	3%	10%	36%	100%

(1) Includes fair value adjustments of \$830 million as of September 30, 2011.

(2) Includes unamortized net discount of \$28 million as of September 30, 2011.

Borrowing Capacity

As of September 30, 2011, we had an effective shelf registration statement filed with the U.S. Securities & Exchange Commission (SEC) under which, from time to time, we may offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depository shares representing preferred stock, common stock, purchase contracts, warrants, units, trust preferred securities, junior subordinated debt securities, guarantees of trust preferred securities and certain back-up obligations. There is no limit under this shelf registration statement to the amount or number of such securities that we may offer and sell. Under SEC rules, the shelf registration statement, which we filed in May 2009, expires three years after filing. As previously discussed, during the third quarter of 2011, we issued four different series of our senior notes for total proceeds of approximately \$3.0 billion. The offering of senior notes included \$250 million aggregate principal amount of our Floating Rate Senior Notes due 2014, \$750 million aggregate principal amount of our 2.125% Senior Notes due 2014, \$750 million aggregate principal amount of our 3.150% Senior Notes due 2016 and \$1.25 billion aggregate principal amount of our 4.750% Senior Notes due 2021.

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In addition to issuance capacity under the shelf registration statement, we have access to other borrowing programs. Table 27 summarizes our borrowing capacity as of September 30, 2011.

Table 27: Borrowing Capacity

(Dollars in millions)	Capacity ⁽¹⁾	Outstanding	Availability ⁽¹⁾	Termination Date ⁽²⁾
FHLB advances and letters of credit ⁽³⁾	\$ 8,277	\$ 1,297	\$ 6,980	

⁽¹⁾ All funding sources are non-revolving. Funding availability under all other sources is subject to market conditions. Capacity is the maximum amount that can be borrowed. Availability is the amount that can still be borrowed against the facility.

⁽²⁾ Refers to the date the facility terminates, where applicable.

⁽³⁾ The ability to draw down funding is based on membership status, and the amount is dependent upon the Banks' ability to post collateral.

Credit Ratings

Rating agencies base their ratings on numerous factors, including liquidity, capital adequacy, asset quality and quality of earnings. Significant changes in these factors could result in different ratings. Such ratings help to support our cost effective unsecured funding as part of our overall financing programs. Table 28 provides a summary of the credit ratings for the senior unsecured debt of Capital One Financial Corporation, COBNA and CONA as of September 30, 2011.

Table 28: Senior Unsecured Debt Credit Ratings

	As of September 30, 2011		
	Capital One Financial Corporation	Capital One Bank (USA), N.A.	Capital One, N.A.
Moody's Investor Services (Moody's)	Baa1	A3	A3
Standard & Poor's (S&P)	BBB	BBB+	BBB+
Fitch Ratings (Fitch)	A-	A-	A-
Dominion Bond Rating Services (DBRS)	BBB**	A*	A*

* low

** high

As of October 31, 2011, DBRS had us on a stable outlook while Fitch, Moody's and S&P had us on negative outlook.

Capital Management

The level and composition of our equity capital are determined by multiple factors, including our consolidated regulatory capital requirements and an internal risk-based capital assessment, and may also be influenced by rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in our business and market environments.

Capital Standards and Prompt Corrective Action

Bank holding companies and national banks are subject to capital adequacy standards adopted by the Federal Reserve and the Office of the Comptroller of the Currency (OCC), respectively. The capital adequacy standards set forth minimum risk-based and leverage capital requirements that are based on quantitative and

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qualitative measures of their assets and off-balance sheet items. Under the capital adequacy standards, bank holding companies and banks currently are required to maintain a Tier 1 risk-based capital ratio of at least 4%, a total risk-based capital ratio of at least 8%, and a Tier 1 leverage capital ratio of at least 4% (3% for banks that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate exposure and the highest regulatory rating). Table 29 provides the details of the calculation of our capital ratios as of September 30, 2011 and December 31, 2010.

National banks also are subject to prompt corrective action capital regulations. Under prompt corrective action regulations, a bank is considered to be well capitalized if it maintains a Tier 1 risk-based capital ratio of at least 6% (200 basis points higher than the above minimum capital standard), a total risk-based capital ratio of at least 10% (200 basis points higher than the above minimum capital standard), a Tier 1 leverage capital ratio of at least 5% and is not subject to any supervisory agreement, order or directive to meet and maintain a specific capital level for any capital reserve. A bank is considered to be adequately capitalized if it meets the above minimum capital ratios and does not otherwise meet the well capitalized definition. Currently, prompt corrective action capital requirements do not apply to bank holding companies.

In addition to disclosing our regulatory capital ratios, we also disclose Tier 1 common equity and TCE ratios, which are non-GAAP measures widely used by investors, analysts, rating agencies and bank regulatory agencies to assess the capital position of financial services companies. There is currently no mandated minimum or well capitalized standard for Tier 1 common equity; instead the risk-based capital rules state that voting common stockholders' equity should be the dominant element within Tier 1 common equity. While these non-GAAP capital measures are widely used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies, they may not be comparable to similarly titled measures reported by other companies. We provide information on the calculation of these ratios and non-GAAP reconciliation in Supplemental Tables below.

Capital Ratios

Table 29 provides a comparison of our capital ratios under the Federal Reserve's capital adequacy standards and the capital ratios of the Banks under the OCC's capital adequacy standards as of September 30, 2011 and December 31, 2010. Table 30 provides the details of the calculation of our capital ratios.

Table 29: Capital Ratios Under Basel I⁽¹⁾

(Dollars in millions)	September 30, 2011			December 31, 2010		
	Capital Ratio	Minimum Capital Adequacy	Well Capitalized	Capital Ratio	Minimum Capital Adequacy	Well Capitalized
Capital One Financial Corp.⁽²⁾						
Tier 1 common equity ⁽³⁾	10.0%	N/A	N/A	8.8%	N/A	N/A
Tier 1 risk-based capital ⁽⁴⁾	12.4	4.0%	6.0%	11.6	4.0%	6.0%
Total risk-based capital ⁽⁵⁾	15.4	8.0	10.0	16.8	8.0	10.0
Tier 1 leverage ⁽⁶⁾	9.9	4.0	N/A	8.1	4.0	N/A
Capital One Bank (USA) N.A.						
Tier 1 risk-based capital	13.0%	4.0%	6.0%	13.5%	4.0%	6.0%
Total risk-based capital	17.0	8.0	10.0	23.6	8.0	10.0
Tier 1 leverage	11.3	4.0	5.0	8.3	4.0	5.0
Capital One, N.A.						
Tier 1 risk-based capital	12.3%	4.0%	6.0%	11.1%	4.0%	6.0%
Total risk-based capital	13.5	8.0	10.0	12.4	8.0	10.0
Tier 1 leverage	9.2	4.0	5.0	8.1	4.0	5.0

⁽¹⁾ Calculated under capital standards and regulations based on the international capital framework commonly known as Basel I.

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- (2) The regulatory framework for prompt corrective action does not apply to Capital One Financial Corp. because it is a bank holding company.
(3) Tier 1 common equity ratio is a non-GAAP measure calculated based on Tier 1 common equity divided by risk-weighted assets.
(4) Calculated based on Tier 1 capital divided by risk-weighted assets.
(5) Calculated based on Total risk-based capital divided by risk-weighted assets.
(6) Calculated based on Tier 1 capital divided by quarterly average total assets, after certain adjustments.

We exceeded minimum capital requirements and met the well capitalized ratio levels for total risk-based capital and Tier 1 risk-based capital under Federal Reserve rules for bank holding companies as of September 30, 2011. The Banks also exceeded minimum regulatory requirements under the OCC's applicable capital adequacy guidelines and were well capitalized under prompt corrective action requirements as of September 30, 2011. Based on our current understanding of the Basel III framework, which has not been implemented by the U.S. banking agencies and is subject to change, we estimate that our Tier 1 common equity ratio was 10.1% as of September 30, 2011. See Supplemental Tables Table B: Reconciliation of Basel III Capital Measures for a calculation of this measure.

Table 30: Risk-Based Capital Components Under Basel I⁽¹⁾

(Dollars in millions)	September 30, 2011	December 31, 2010
Total stockholders' equity	\$ 29,378	\$ 26,541
Less: Net unrealized gains recorded in AOCI ⁽²⁾	(401)	(368)
Net losses on cash flow hedges recorded in AOCI ⁽²⁾	55	86
Disallowed goodwill and other intangible assets ⁽³⁾	(13,899)	(13,953)
Disallowed deferred tax assets	(227)	(1,150)
Other	(2)	(2)
Tier 1 common equity	14,904	11,154
Plus: Tier 1 restricted core capital items ⁽⁴⁾	3,636	3,636
Tier 1 risk-based capital	18,540	14,790
Plus: Long-term debt qualifying as Tier 2 capital	2,438	2,827
Qualifying allowance for loan and lease losses	1,896	3,748
Other Tier 2 components	24	29
Tier 2 risk-based capital	4,358	6,604
Total risk-based capital	\$ 22,898	\$ 21,394
Risk-weighted assets⁽⁵⁾	\$ 149,028	\$ 127,043

(1) Calculated under capital standards and regulations based on the international capital framework commonly known as Basel I.

(2) Amounts presented are net of tax.

(3) Disallowed goodwill and other intangible assets are net of related deferred tax liability.

(4) Consists primarily of trust preferred securities.

(5) Under regulatory guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total risk-weighted assets.

The January 1, 2010 adoption of the new consolidation accounting standards resulted in our consolidating a substantial portion of our securitization trusts and establishing an allowance for loan and lease losses for the assets underlying these trusts, which reduced retained earnings and our Tier 1 capital ratios. In January 2010, banking regulators issued regulatory capital rules related to the impact of the new consolidation accounting standards. Under these rules, we were required to hold additional capital for the assets we consolidated. The

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capital rules also provided for an optional phase-in of the impact from the adoption of the new consolidation accounting standards, including a two-quarter implementation delay followed by a two-quarter partial implementation of the effect on regulatory capital ratios.

We elected the phase-in option, which required us to phase-in 50% of consolidated assets beginning with the third quarter of 2010 for purposes of determining risk-weighted assets. The phase-in provisions expired after December 31, 2010, and we completed the final phase-in during the first quarter of 2011, which resulted in the addition of approximately \$15.5 billion of assets to the denominator used in calculating our regulatory ratios. The addition of these assets contributed to a decrease in our risk-based regulatory capital ratios as of September 30, 2011 from December 31, 2010.

Under the Dodd-Frank Act, many trust preferred securities will cease to qualify for Tier 1 capital, subject to a three year phase-out period expected to begin in 2013.

Dividend Policy

The declaration and payment of dividends to our stockholders, as well as the amount thereof, are subject to the discretion of our Board of Directors, in consultation with the Federal Reserve, and will depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects, assessments of potential future losses due to adverse changes in our business and market environments and other factors deemed relevant by the Board of Directors. As a bank holding company, our ability to pay dividends is largely dependent upon the receipt of dividends or other payments from our subsidiaries. We provide additional information on factors affecting our dividend policy in our 2010 Form 10-K under Part I Item 1. Business Supervision and Regulation Dividends, Stock Purchases and Transfer of Funds.

Restrictions exist that limit the ability of the Banks to transfer funds to our bank holding company. Funds available for dividend payments from COBNA and CONA based on the Earnings Limitation Test were \$3.1 billion and \$1.2 billion, respectively, as of September 30, 2011. Applicable 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 we will declare and pay any dividends.

Equity Offering

On July 19, 2011, we closed a public underwritten offering of 40 million shares of our common stock at a price per share of \$50.00, subject to forward sale agreements. After underwriter's discounts and commissions, the net proceeds to us will be at an initial forward sale price per share of \$48.50. The forward sale price is subject to adjustment under the forward sale agreements. We have not received any proceeds from this public offering of our shares of common stock yet. Under the terms of the forward sale agreements, we must settle the forward sale agreements on or before February 15, 2012. We expect to settle the forward sale agreements entirely by physical delivery of shares of common stock in exchange for cash proceeds from the forward purchasers of approximately \$1.9 billion based on the initial forward price. However, we may, subject to certain conditions, elect cash or net share settlement of all or a portion of our obligation to deliver shares of common stock. We expect to use the net proceeds from this equity offering, along with proceeds from our recent debt offering and cash sourced from our current liquidity, to fund the \$6.2 billion in cash consideration payable in connection with the ING Direct acquisition.

Pending HSBC U.S. Credit Card Business Acquisition

In August 2011, we announced that we entered into a purchase agreement with HSBC to acquire substantially all of the assets and assume liabilities of HSBC's credit card and private-label credit card business in the United States. We currently expect the HSBC acquisition to close in the second quarter of 2012, subject to customary closing conditions, including certain governmental clearances and approvals. We also announced that we expect

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our Tier 1 common equity ratio will be in the mid-9% range at the end of the second quarter of 2012, inclusive of our planned capital raise of \$1.25 billion in connection with the HSBC acquisition. We have the option, subject to certain conditions, to issue \$750 million of the \$1.25 billion to HSBC in the form of our common stock (valued at \$39.23 per share). The decision to raise any capital and, if so, the amount of capital to be raised will be dependent on a number of factors, including the timing of the closings for our pending ING Direct and HSBC acquisitions, changes in interest rates, regulatory expectations, our results of operations and financial condition and our assessment of the appropriate level of regulatory capital to hold at that time.

MARKET RISK MANAGEMENT

Overview

Market risk represents the risk that our earnings and/or economic value of equity may be adversely affected by changes in market conditions, including changes in interest rates and foreign currency exchange rates, changes in credit spreads and price fluctuations and changes in value due to changes in market perception or the actual credit quality of issuers. Market risk is inherent in the financial instruments associated with our operations and activities, including loans, deposits, securities, short-term borrowings, long-term debt and derivatives. Below we discuss our primary sources of market risk, our market risk management strategies and measures used to evaluate our market risk exposure.

Primary Market Risk Exposures

Our primary sources of market risk include interest rate risk and foreign exchange risk.

Interest Rate Risk

Interest rate risk, which represents exposure to instruments whose yield or price varies with the level or volatility of interest rates, is our most significant source of market risk exposure. Banks are inevitably exposed to interest rate risk due to differences in the timing between the maturities or repricing of assets and liabilities. For example, if more assets are repricing than deposits and other borrowings when interest rates are declining, our earnings will decrease. Similarly, if more deposits and other borrowings are repricing than assets when interest rates are rising, our earnings will decrease.

Interest rate risk also results from changes in customer behavior and competitors' responses to changes in interest rates or other market conditions. For example, decreases in mortgage rates generally result in faster than expected prepayments, which may adversely affect earnings. Increases in interest rates, coupled with strong demand from competitors for deposits, may influence industry pricing. Such competition may affect customer decisions to maintain balances in the deposit accounts, which may require replacing lower cost deposits with higher cost alternative sources of funding.

Foreign Exchange Risk

Foreign exchange risk represents exposure to changes in the values of current holdings and future cash flows denominated in other currencies. The types of instruments exposed to this risk include investments in foreign subsidiaries, foreign currency-denominated loans and securities, future cash flows in foreign currencies arising from foreign exchange transactions, foreign currency-denominated debt and various foreign exchange derivative instruments whose values fluctuate with changes in the level or volatility of currency exchange rates or foreign interest rates.

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Market Risk Management

We employ several techniques to manage our interest rate and foreign currency risk, which include, but are not limited to, changing the maturity and re-pricing characteristics of our various assets and liabilities. Derivatives are one of the primary tools we use in managing interest rate and foreign exchange risk.

We execute our derivative contracts in both over-the-counter and exchange-traded derivative markets. Although the majority of our derivatives are interest rate swaps, we also use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage our interest rate and foreign currency risk. The outstanding notional amount of our derivative contracts increased to \$71.9 billion as of September 30, 2011, from \$50.7 billion as of December 31, 2010. This increase was primarily attributable to actions we took during the third quarter of 2011 to manage the anticipated impact of the pending ING Direct acquisition on our market risk exposure and regulatory capital requirements, as discussed above in Executive Summary and Business Outlook.

Since the date we entered into the agreement to acquire ING Direct, interest rates have declined substantially, and our current estimate of the fair value of the ING Direct net assets and liabilities has increased correspondingly. In order to capture some of the anticipated benefits to regulatory capital on the closing date attributable to this decline in interest rates, in August 2011, we entered into various pay-fixed/receive-floating interest-rate swap transactions with a total notional principal amount of approximately \$23.8 billion. These swap transactions are designed to mitigate the effect of a rise in interest rates on the fair values of a significant portion of the ING Direct assets and liabilities during the period from when we entered into the swap transactions to the anticipated closing date of the ING Direct acquisition in late 2011 or early 2012. Although the interest-rate swaps represent economic hedges, they are not designated for hedge accounting. Accordingly, changes in the fair value are recorded in earnings. We recognized a mark-to-market loss on these interest-rate swaps of \$266 million in the third quarter of 2011, which was attributable to the decline in interest rates as of the end of the quarter. Changes in the fair value of these interest-rate swaps will continue to be recorded in earnings until the swaps are terminated. See Note 10 Derivative Instruments and Hedging Activities for additional information.

Market Risk Measurement

We have prescribed risk management policies and limits established by our Asset/Liability Management Committee. Our objective is to manage our asset/liability risk position and exposure to market risk in accordance with these policies and prescribed limits based on prevailing market conditions and long-term expectations. Because no single measure can reflect all aspects of market risk, we use various industry standard market risk measurement techniques and analyses to measure, assess and manage the impact of changes in interest rates and foreign exchange rates on our earnings and the economic value of equity.

We consider the impact on both earnings and economic value of equity in measuring and managing our interest rate risk. Our earnings sensitivity measure estimates the impact on net interest income and the valuation of our mortgage servicing rights, including derivative hedging activity, resulting from movements in interest rates. Our economic value of equity sensitivity measure estimates the impact on the net present value of our assets and liabilities, including derivative hedging activity, resulting from movements in interest rates. Our earnings sensitivity and economic value of equity measurements are based on our existing assets and liabilities, including derivatives, and do not incorporate business growth assumptions or projected plans for funding mix changes. We do, however, assess and factor into our interest rate risk management decisions the potential impact of growth assumptions, changing business activities and alternative interest rate scenarios, such as a steepening or flattening of the yield curve.

Under our current asset/liability management policy, our objective is to: (i) limit the potential decrease in our projected net interest income resulting from a gradual plus or minus 200 basis point change in forward rates to less than 5% over the next 12 months and (ii) limit the adverse change in the economic value of our equity due to

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an instantaneous parallel interest rate shock to spot rates of plus or minus 200 basis points to less than 12%. The federal funds rate remained at a target range of zero to 0.25% during the first nine months of 2011. Given the level of short-term rates as of September 30, 2011 and December 31, 2010, a scenario where interest rates would decline by 200 basis points is not plausible. Therefore, in 2008, we temporarily revised our customary declining interest rate scenario of 200 basis points to a 50 basis point decrease. Our current asset/liability management policy also includes the use of derivatives to hedge material foreign currency denominated transactions to limit our earnings exposure to foreign exchange risk.

Table 31 shows the estimated percentage impact on our adjusted projected net interest income and economic value of equity, calculated under our base case interest rate scenario, as of September 30, 2011 and December 31, 2010, resulting from selected hypothetical interest rate scenarios. Our adjusted projected net interest income consists of net interest income adjusted to include changes in the fair value of mortgage service rights, including related derivative hedging activity, and changes in the fair value of free-standing interest rate swaps. In measuring the sensitivity of interest rate movements on our adjusted projected net interest income, we assume a hypothetical gradual increase in interest rates of 200 basis points and a hypothetical gradual decrease of 50 basis points to forward rates over the next three quarters. In measuring the sensitivity of interest rate movements on our economic value of equity, we assume a hypothetical instantaneous parallel shift in the level of interest rates of plus 200 basis points and minus 50 basis points to spot rates in measuring the sensitivity of the valuation of our economic value of equity.

Table 31: Interest Rate Sensitivity Analysis

	September 30, 2011		December 31, 2010
	Excluding ING Direct Swaps ⁽¹⁾	Including ING Direct Swaps	
Impact on adjusted projected base-line net interest income:			
+ 200 basis points	1.2%	15.0%	(0.7)%
- 50 basis points	(0.4)	(4.3)	(0.2)
Impact on economic value of equity:			
+ 200 basis points	(1.7)%	2.7%	(3.8)%
- 50 basis points	(0.2)	(1.4)	0.1

⁽¹⁾ Calculated excluding the impact of the interest-rate swap transactions of approximately \$23.8 billion entered into in the third quarter of 2011 to mitigate some of the interest rate risk related to the pending ING Direct acquisition.

Because of the large but temporary impact of the ING Direct-related swap transactions on our standard interest rate risk reporting measures, we expanded our standard interest rate sensitivity analysis to present our interest rate risk measures with and without the impact of the \$23.8 billion of interest rate swaps described above. This presentation highlights changes in our core interest rate risk profile and the incremental impact of the ING Direct-related swaps on our core profile over the time period that the swaps will remain outstanding. Excluding the \$23.8 billion swap transactions, our interest rate sensitivity measures reflect that we became more asset sensitive between December 31, 2010 and September 30, 2011. Our asset sensitivity position is larger when factoring in the effect of the \$23.8 billion of swaps, given their pay-fixed structure and non-designation for hedge accounting. As noted, we currently expect the impact of the \$23.8 billion of interest-swaps to be temporary in nature, as it is our intention to terminate them around the timing of the ING Direct acquisition. Our adjusted projected net interest income and economic value of equity sensitivity measures, excluding the impact of the ING-Direct related swap transactions, were within our prescribed asset/liability policy limits as of September 30, 2011 and December 31, 2010.

The interest rate risk models that we use in deriving these measures incorporate contractual information, internally-developed assumptions and proprietary modeling methodologies, which project borrower and deposit behavior patterns in certain interest rate environments. Other market inputs, such as interest rates, market prices and interest rate volatility, are also critical components of our interest rate risk measures. We regularly evaluate,

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update and enhance these assumptions, models and analytical tools as we believe appropriate to reflect our best assessment of the market environment and the expected behavior patterns of our existing assets and liabilities.

Limitations of Market Risk Measures

There are inherent limitations in any methodology used to estimate the exposure to changes in market interest rates. The above sensitivity analyses contemplate only certain movements in interest rates and are performed at a particular point in time based on the existing balance sheet, and do not incorporate other factors that may have a significant effect, most notably future business activities and strategic actions that management may take to manage interest rate risk. Actual earnings and economic value of equity could differ from the above sensitivity analyses.

We provide additional information on our market risk exposure and interest rate risk management process in our 2010 Form 10-K under Part II Item 7. MD&A Market Risk Management.

SUPERVISION AND REGULATORY DEVELOPMENTS

Dodd-Frank Act

We continue to assess the potential impact of proposed and final rules promulgated by the agencies charged with implementing the Dodd-Frank Act, including rules relating to resolution plans, the FDIC's orderly liquidation authority, proprietary trading and fund investment restrictions (the Volcker Rule), derivatives, and other capital markets matters. These rules may result in modifications to our business models and organizational structure, and may subject us to escalating costs associated with any such changes.

Basel II

In December 2007, U.S. Federal banking regulators finalized the Basel II Final Rules. The rule is mandatory for those institutions with consolidated total assets of \$250 billion or more or consolidated total on-balance-sheet foreign exposure of \$10 billion or more. Capital One is not yet subject to this rule but will likely become so in the future, due to growth in our reported total assets or foreign assets.

Prior to full implementation of the Basel II framework, organizations must complete a qualification period of four consecutive quarters during which they must meet the requirements of the rule to the satisfaction of their primary U.S. banking regulator. The Collins Amendment within the Dodd-Frank Act and the U.S. banking regulators' implementing final rules establish a risk-based capital floor so that organizations subject to Basel II rules may not hold less capital than would be required using Basel I capital calculations. Our current analysis suggests that our risk-weighted assets will increase under the Basel II framework, and therefore we would need to hold more regulatory capital in order to maintain a given capital ratio.

ACCOUNTING CHANGES AND DEVELOPMENTS

See Note 1 Summary of Significant Accounting Policies for information concerning recently issued accounting pronouncements, including those that we have not yet adopted and that will likely affect our consolidated financial statements.

FORWARD-LOOKING STATEMENTS

From time to time, we have made and will make forward-looking statements, including those that discuss, among other things, strategies, goals, outlook or other non-historical matters; projections, revenues, income, returns, accruals for claims in litigation and for other claims against us; earnings per share or other financial measures for

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us; future financial and operating results; our plans, objectives, expectations and intentions; the projected impact and benefits of the pending transactions involving HSBC, ING Direct and us (the Transactions); and the assumptions that underlie these matters.

To the extent that any such information is forward-looking, it is intended to fit within the safe harbor for forward-looking information provided by the Private Securities Litigation Reform Act of 1995. Numerous factors could cause our actual results to differ materially from those described in such forward-looking statements, including, among other things:

general economic and business conditions in the U.S., the U.K., Canada, or our local markets, including conditions affecting employment levels, interest rates, consumer income and confidence, spending and savings that may affect consumer bankruptcies, defaults, charge-offs and deposit activity;

an increase or decrease in credit losses (including increases due to a worsening of general economic conditions in the credit environment);

the possibility that regulatory and other approvals and conditions to either of the Transactions are not received or satisfied on a timely basis or at all;

the possibility that modifications to the terms of either of the Transactions may be required in order to obtain or satisfy such approvals or conditions;

the possibility that we will not receive third-party consents necessary to fully realize the anticipated benefits of the Transactions;

the possibility that we may not fully realize the projected cost savings and other projected benefits of the Transactions;

changes in the anticipated timing for closing either of the Transactions;

difficulties and delays in integrating the assets and businesses acquired in the Transactions;

business disruption during the pendency of or following the Transactions;

diversion of management time on issues related to the Transactions;

reputational risks and the reaction of customers and counterparties to the Transactions;

disruptions relating to the Transactions negatively impacting our ability to maintain relationships with customers, employees and suppliers;

changes in asset quality and credit risk as a result of the Transactions;

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financial, legal, regulatory, tax or accounting changes or actions, including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations promulgated thereunder;

developments, changes or actions relating to any litigation matter involving us;

the inability to sustain revenue and earnings growth;

increases or decreases in interest rates;

our ability to access the capital markets at attractive rates and terms to capitalize and fund our operations and future growth;

the success of our marketing efforts in attracting and retaining customers;

increases or decreases in our aggregate loan balances or the number of customers and the growth rate and composition thereof, including increases or decreases resulting from factors such as shifting product mix, amount of actual marketing expenses we incur and attrition of loan balances;

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the level of future repurchase or indemnification requests we may receive, the actual future performance of mortgage loans relating to such requests, the success rates of claimants against us, any developments in litigation and the actual recoveries we may make on any collateral relating to claims against us;

the amount and rate of deposit growth;

changes in the reputation of or expectations regarding the financial services industry or us with respect to practices, products or financial condition;

any significant disruption in our operations or technology platform;

our ability to maintain a compliance infrastructure suitable for our size and complexity;

our ability to control costs;

the amount of, and rate of growth in, our expenses as our business develops or changes or as it expands into new market areas;

our ability to execute on our strategic and operational plans;

any significant disruption of, or loss of public confidence in, the United States Mail service affecting our response rates and consumer payments;

our ability to recruit and retain experienced personnel to assist in the management and operations of new products and services;

changes in the labor and employment markets;

fraud or misconduct by our customers, employees or business partners;

competition from providers of products and services that compete with our businesses; and

other risk factors listed from time to time in reports that we file with the SEC.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events or otherwise. You should carefully consider the factors discussed above in evaluating these forward-looking statements. For additional information on factors that could materially influence forward-looking statements included in this Report, see the risk factors set forth under Part I Item 1A. Risk Factors in our 2010 Form 10-K and the risk factors set forth in Exhibit 99.5 to our Current Report on Form 8-K filed on July 13, 2011.

Table of Contents**SUPPLEMENTAL TABLES****Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures**

(Dollars in millions)	September 30, 2011	December 31, 2010
Stockholders' Equity to Non-GAAP Tangible Common Equity		
Total stockholders' equity	\$ 29,378	\$ 26,541
Less: Intangible assets ⁽¹⁾	(13,953)	(13,983)
Tangible common equity	\$ 15,425	\$ 12,558
Total Assets to Tangible Assets		
Total assets	\$ 200,148	\$ 197,503
Less: Assets from discontinued operations	(304)	(362)
Total assets from continuing operations	199,844	197,141
Less: Intangible assets ⁽¹⁾	(13,953)	(13,983)
Tangible assets	\$ 185,891	\$ 183,158
Non-GAAP TCE Ratio		
Tangible common equity	\$ 15,425	\$ 12,558
Tangible assets	185,891	183,158
TCE ratio ⁽²⁾	8.3%	6.9%
Regulatory Capital and Non-GAAP Tier 1 Common Equity Ratios		
Total stockholders' equity	\$ 29,378	\$ 26,541
Less: Net unrealized gains recorded in AOCI ⁽³⁾	(401)	(368)
Net losses on cash flow hedges recorded in AOCI ⁽³⁾	55	86
Disallowed goodwill and other intangible assets ⁽⁴⁾	(13,899)	(13,953)
Disallowed deferred tax assets	(227)	(1,150)
Other	(2)	(2)
Tier 1 common equity	14,904	11,154
Plus: Tier 1 restricted core capital items ⁽⁵⁾	3,636	3,636
Tier 1 capital	18,540	14,790
Plus: Long-term debt qualifying as Tier 2 capital	2,438	2,827
Qualifying allowance for loan and lease losses	1,896	3,748
Other Tier 2 components	24	29
Tier 2 capital	4,358	6,604
Total risk-based capital ⁽⁶⁾	\$ 22,898	\$ 21,394

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Risk-weighted assets ⁽⁷⁾	\$ 149,028	\$ 127,043
Tier 1 common equity ratio ⁽⁸⁾	10.0%	8.8%
Tier 1 risk-based capital ratio ⁽⁹⁾	12.4	11.6
Total risk-based capital ratio ⁽¹⁰⁾	15.4	16.8

(1) Includes impact from related deferred taxes.

(2) Calculated based on tangible common equity divided by tangible assets.

(3) Amounts presented are net of tax.

(4) Disallowed goodwill and other intangible assets are net of related deferred tax liability.

(5) Consists primarily of trust preferred securities.

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- (6) Total risk-based capital equals the sum of Tier 1 capital and Tier 2 capital.
- (7) Calculated based on prescribed regulatory guidelines.
- (8) Tier 1 common equity ratio is a non-GAAP measure calculated based on Tier 1 common equity divided by risk-weighted assets.
- (9) Tier 1 risk-based capital ratio is a regulatory capital measure calculated based on Tier 1 capital divided by risk-weighted assets.
- (10) Total risk-based capital ratio is a regulatory capital measure calculated based on total risk-based capital divided by risk-weighted assets.

Table of Contents**Table B: Reconciliation of Basel III Capital Measures⁽¹⁾**

(Dollars in millions)	September 30, 2011
Regulatory Capital and Non-GAAP Tier 1 Common Equity Ratios	
Total stockholders' equity	\$ 29,378
Less: Net unrealized gains recorded in AOCI ⁽²⁾	(401)
Net losses on cash flow hedges recorded in AOCI ⁽²⁾	55
Disallowed goodwill and other intangible assets ⁽³⁾	(13,899)
Disallowed deferred tax assets	(227)
Other	(2)
Tier 1 common equity	14,904
Plus: Tier 1 restricted core capital items ⁽⁴⁾	3,636
Tier 1 capital	18,540
Less: Tier 1 restricted core capital items ⁽⁴⁾	(3,636)
Defined benefit pension fund asset	(42)
90% of purchased credit card relationship intangibles	(51)
Other Tier 1 components	(32)
Plus: Unrealized gain on available-for-sale securities	401
90% of mortgage servicing rights	85
Disallowed deferred tax assets	227
Tier 1 common equity under Basel III	\$ 15,492
Risk-weighted assets under Basel I ⁽⁵⁾	\$ 149,028
Less: Defined benefit pension fund asset	(42)
Deferred tax assets included in the risk weighted assets under Basel I	(2,010)
90% of MSR	(85)
90% of purchased credit card relationship intangibles	(51)
Plus: Deferred tax assets and MSR included in Tier 1 common equity at 250%	5,827
Other adjustments at 1250%	230
Adjusted risk-weighted assets under Basel III	\$ 152,897
Tier 1 common equity ratio under Basel III ⁽⁶⁾	10.1%

(1) Calculations are based on our current understanding of the Basel III framework, which has not been implemented by the U.S. banking agencies and is subject to change.

(2) Amounts presented are net of tax.

(3) Disallowed goodwill and other intangible assets are net of related deferred tax liability.

(4) Consists primarily of trust preferred securities.

(5) Calculated based on prescribed regulatory guidelines.

(6) Tier 1 common equity ratio is a non-GAAP measure calculated based on Tier 1 common equity divided by risk-weighted assets.

Table of Contents**Item 1. Financial Statements****CAPITAL ONE FINANCIAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(Dollars in millions, except per share-related data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest income:				
Loans held for investment, including past-due fees	\$ 3,550	\$ 3,447	\$ 10,334	\$ 10,582
Investment securities	264	347	893	1,037
Other	21	21	59	60
Total interest income	3,835	3,815	11,286	11,679
Interest expense:				
Deposits	294	358	923	1,125
Securitized debt obligations	89	191	342	644
Senior and subordinated notes	84	72	211	211
Other borrowings	85	85	251	265
Total interest expense	552	706	1,727	2,245
Net interest income	3,283	3,109	9,559	9,434
Provision for loan and lease losses	622	867	1,499	3,069
Net interest income after provision for loan and lease losses	2,661	2,242	8,060	6,365
Non-interest income:				
Servicing and securitizations	12	13	35	(3)
Service charges and other customer-related fees	542	496	1,527	1,577
Interchange fees	321	346	972	991
Total other-than-temporary losses	(33)	(39)	(83)	(116)
Less: Non-credit component of other-than-temporary impairment losses recorded in AOCI	27	34	68	54
Net other-than-temporary losses recognized in earnings	(6)	(5)	(15)	(62)
Other	2	57	151	272
Total non-interest income	871	907	2,670	2,775
Non-interest expense:				
Salaries and associate benefits	750	641	2,206	1,937
Marketing	312	250	917	650
Communications and data processing	178	178	504	512
Supplies and equipment	143	129	402	381
Occupancy	122	135	359	371
Other	792	663	2,326	1,992
Total non-interest expense	2,297	1,996	6,714	5,843
Income from continuing operations before income taxes	1,235	1,153	4,016	3,297
Income tax provision	370	335	1,174	948
Income from continuing operations, net of tax	865	818	2,842	2,349

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Loss from discontinued operations, net of tax	(52)	(15)	(102)	(303)
Net income	\$ 813	\$ 803	\$ 2,740	\$ 2,046
Basic earnings per common share:				
Income from continuing operations	\$ 1.89	\$ 1.81	\$ 6.24	\$ 5.19
Loss from discontinued operations	(0.11)	(0.03)	(0.22)	(0.66)
Net income per basic common share	\$ 1.78	\$ 1.78	\$ 6.02	\$ 4.53
Diluted earnings per common share:				
Income from continuing operations	\$ 1.88	\$ 1.79	\$ 6.17	\$ 5.15
Loss from discontinued operations	(0.11)	(0.03)	(0.22)	(0.66)
Net income per diluted common share	\$ 1.77	\$ 1.76	\$ 5.95	\$ 4.49
Dividends paid per common share	\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.15

See Notes to Consolidated Financial Statements.

Table of Contents**CAPITAL ONE FINANCIAL CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(Dollars in millions, except per share data)	September 30, 2011	December 31, 2010
Assets:		
Cash and due from banks	\$ 1,794	\$ 2,067
Interest-bearing deposits with banks	3,238	2,776
Federal funds sold and securities purchased under agreements to resell	1,326	406
Cash and cash equivalents	6,358	5,249
Restricted cash for securitization investors	984	1,602
Securities available for sale, at fair value	38,400	41,537
Loans held for investment:		
Unsecuritized loans held for investment, at amortized cost	83,010	71,921
Restricted loans for securitization investors	46,942	54,026
Total loans held for investment	129,952	125,947
Less: Allowance for loan and lease losses	(4,280)	(5,628)
Net loans held for investment	125,672	120,319
Loans held for sale, at lower-of-cost-or-fair value	312	228
Accounts receivable from securitizations	101	118
Premises and equipment, net	2,785	2,749
Interest receivable	958	1,070
Goodwill	13,593	13,591
Other	10,985	11,040
Total assets	\$ 200,148	\$ 197,503
Liabilities:		
Interest payable	\$ 401	\$ 488
Customer deposits:		
Non-interest bearing deposits	17,541	15,048
Interest bearing deposits	110,777	107,162
Total customer deposits	128,318	122,210
Securitized debt obligations	17,120	26,915
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	1,441	1,517
Senior and subordinated notes	11,051	8,650
Other borrowings	4,703	4,714
Total other debt	17,195	14,881
Other liabilities	7,736	6,468
Total liabilities	\$ 170,770	\$ 170,962
Stockholders equity:		
Preferred stock, par value \$.01 per share; authorized 50,000,000 shares; zero shares issued or outstanding as of September 30, 2011 and December 31, 2010	0	0
Common stock, par value \$.01 per share; authorized 1,000,000,000 shares; 508,195,751 and 504,801,064 issued as of September 30, 2011 and December 31, 2010, respectively	5	5

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Paid-in capital, net	19,234	19,084
Retained earnings	13,091	10,406
Accumulated other comprehensive income	291	248
Less: Treasury stock, at cost; 48,622,469 and 47,787,697 shares as of September 30, 2011 and December 31, 2010, respectively	(3,243)	(3,202)
Total stockholders equity	29,378	26,541
Total liabilities and stockholders equity	\$ 200,148	\$ 197,503

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

(Dollars in millions, except per share data)	Common Stock		Additional	Retained	Accumulated Other Comprehensive	Treasury	Total
	Shares	Amount	Paid-In Capital	Earnings	Income (Loss)	Stock	Stockholders Equity
Balance as of December 31, 2010	504,801,064	\$ 5	\$ 19,084	\$ 10,406	\$ 248	\$ (3,202)	\$ 26,541
Net income				2,740			2,740
Other comprehensive income (loss), net of tax:							
Unrealized gain on securities, net of taxes of \$30 million					47		47
Other-than-temporary impairment on available-for-sale securities not recognized in earnings, net of taxes of \$8 million					(14)		(14)
Defined benefit plans, net of taxes of \$1 million					(1)		(1)
Foreign currency translation adjustments					(20)		(20)
Unrealized gains on cash flow hedges, net of taxes of \$18 million					31		31
Other comprehensive income					43		43
Total comprehensive income							2,783
Cash dividends common stock \$0.15 per share				(69)			(69)
Purchases of treasury stock						(41)	(41)
Issuances of common stock and restricted stock, net of forfeitures	2,220,598		28				28
Exercise of stock options and tax benefits of exercises and restricted stock vesting	1,174,089		59				59
Restricted stock awards and stock options			63				63
Other				14			14
Balance as of September 30, 2011	508,195,751	\$ 5	\$ 19,234	\$ 13,091	\$ 291	\$ (3,243)	\$ 29,378
Balance as of December 31, 2009	502,394,396	\$ 5	\$ 18,955	\$ 10,727	\$ 83	\$ (3,180)	\$ 26,590
Cumulative effect from adoption of new consolidation accounting standards				(2,957)	(16)		(2,973)
Cumulative effect from July 1, 2010 adoption of new embedded credit derivative accounting standard, net of taxes				(16)			(16)
Comprehensive income:							
Net income				2,046			2,046
Other comprehensive income (loss), net of tax:							
Change in net unrealized gains on available-for-sale securities, net of taxes of \$178 million					355		355
Other-than-temporary impairment on available-for-sale securities not recognized in earnings, net of taxes of \$24 million					40		40
Defined benefit pension plans					(1)		(1)
Foreign currency translation adjustments					(9)		(9)
Unrealized gains on cash flow hedges, net of taxes of \$9 million					17		17
Other comprehensive income					402		402
Total comprehensive income							2,448
Cash dividends common stock \$0.15 per share				(70)			(70)
Purchases of treasury stock						(22)	(22)

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Issuances of common stock and restricted stock, net of forfeitures	1,727,412	22	22				
Exercise of stock options and tax benefits of exercises and restricted stock vesting	536,474	6	6				
Restricted stock awards and stock options		76	76				
Balance as of September 30, 2010	504,658,282	\$ 5	\$ 19,059	\$ 9,730	\$ 469	\$ (3,202)	\$ 26,061

See Notes to Consolidated Financial Statements.

Table of Contents**CAPITAL ONE FINANCIAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(Dollars in millions)	Nine Months Ended September 30,	
	2011	2010
Operating activities:		
Income from continuing operations, net of tax	\$ 2,842	\$ 2,349
Loss from discontinued operations, net of tax	(102)	(303)
Net income	2,740	2,046
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan and lease losses	1,499	3,069
Depreciation and amortization, net	424	422
Net gains on sales of securities available for sale	(251)	(134)
Net gains on deconsolidation	0	(177)
Loans held for sale:		
Transfers in	(781)	(400)
Losses on sales	16	(25)
Proceeds from sales	681	516
Other	13	0
Stock plan compensation expense	135	117
Changes in assets and liabilities, net of effects from purchase of companies acquired and the effect of new accounting standards:		
(Increase) decrease in interest receivable	112	(92)
(Increase) decrease in accounts receivable from securitizations ⁽¹⁾	17	17
(Increase) decrease in other assets ⁽¹⁾	222	1,473
Increase (decrease) in interest payable	(87)	(45)
Increase (decrease) in other liabilities ⁽¹⁾	1,096	1,215
Net cash provided by operating activities attributable to discontinued operations	80	18
Net cash provided by operating activities	5,916	8,020
Investing activities:		
Increase in restricted cash for securitization investors ⁽¹⁾	618	1,312
Sales (purchases) of securities available for sale	(12,689)	(20,561)
Proceeds from paydowns and maturities of securities available for sale	7,065	8,710
Proceeds from sales of securities available for sale	8,980	11,483
Proceeds from sale of interest-only bonds	0	57
Net (increase) decrease in loans held for investment ⁽¹⁾	(6,607)	3,974
Principal recoveries of loans previously charged off	1,197	1,201
Additions of premises and equipment	(269)	(225)
Net payment for companies acquired	(1,444)	0
Net cash provided by (used in) investing activities attributable to discontinued operations	0	(1)
Net cash provided by (used in) investing activities	(3,149)	5,950
Financing activities:		
Net increase in deposits	6,104	3,403
Net decrease in securitized debt obligations	(9,795)	(18,795)
Net decrease in other borrowings ⁽¹⁾	(82)	(1,723)
Maturities of senior notes	(854)	(516)
Issuance of senior notes	2,992	0
Purchases of treasury stock	(41)	(22)
Dividends paid on common stock	(69)	(69)
Net proceeds from issuances of common stock	28	22
Proceeds from share-based payment activities	59	6
Net cash used in financing activities attributable to discontinued operations	0	(19)

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Net cash used in financing activities	(1,658)	(17,713)
Increase (decrease) in cash and cash equivalents	1,109	(3,743)
Cash and cash equivalents at beginning of the period	5,249	8,685
Cash and cash equivalents at end of the period	\$ 6,358	\$ 4,942
Supplemental cash flow information:		
Non-cash items:		
Impact of the net fair value of assets acquired and liabilities assumed for acquisitions	\$ 3	\$ 0
Cumulative effect from adoption of new consolidation accounting standards	0	2,973

(1) Excludes the initial impact from the January 1, 2010 adoption of the new consolidation standards.
See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Capital One Financial Corporation, which was established in 1995, is a diversified financial services holding company headquartered in McLean, Virginia. Capital One Financial Corporation and its subsidiaries (the Company) offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. Our principal subsidiaries include Capital One Bank (USA), National Association (COBNA) and Capital One, National Association (CONA). The Company and its subsidiaries are hereafter collectively referred to as we, us or our. CONA and COBNA are hereafter collectively referred to as the Banks. As one of the 10 largest banks in the United States based on deposits, we serve banking customers through branch locations primarily in New York, New Jersey, Texas, Louisiana, Maryland, Virginia and the District of Columbia. In addition to bank lending and depository services, we offer credit and debit card products, mortgage banking and treasury management services. We offer our products outside of the United States principally through operations in the United Kingdom and Canada.

Our principal operations are organized into three primary business segments, which are defined based on the products and services provided, or the type of customer served: Credit Card, Consumer Banking and Commercial Banking.

Basis of Presentation and Use of Estimates

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and should be read in conjunction with the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010 (2010 Form 10-K). Certain financial information that is normally included in annual financial statements prepared in conformity with U.S. GAAP, but is not required for interim reporting purposes, has been condensed or omitted. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our interim unaudited financial statements have been reflected.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. Interim period results may not be indicative of results for the full year.

Principles of Consolidation

The consolidated financial statements include the accounts of Capital One Financial Corporation and all other entities in which we have a controlling financial interest. All significant intercompany accounts and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation.

Significant Accounting Policies

We provide a summary of our significant accounting policies in our 2010 Form 10-K under Notes to Consolidated Financial Statements Note 1 Summary of Significant Accounting Policies. Below we describe accounting standards that we adopted in 2011 and recently issued accounting standards that we have not yet adopted.

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Accounting Standards Adopted in 2011

Receivables: A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring

In April 2011, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting guidance for financing receivables, which includes loans, to clarify when a restructuring, such as a loan modification, is considered a troubled debt restructuring (TDR). This amendment provides clarification on determining whether a debtor is experiencing financial difficulties and whether a concession has been granted to the debtor for purposes of determining if a loan modification constitutes a TDR. The amended guidance is effective for interim and annual periods beginning on or after June 15, 2011 and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption, with early adoption permitted. The adoption of this amended accounting guidance in the third quarter of 2011 resulted in a net increase in loan modifications considered to be TDRs of \$56 million for consumer loans and \$77 million for commercial loans. The allowance for credit losses associated with these loans was \$22 million as of September 30, 2011.

Fair Value Measurements and Disclosures Improving Disclosures about Fair Value Measurements

In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The guidance, which amended previous disclosure requirements for fair value measurements, requires new disclosures for significant transfers of financial assets and liabilities into and out of Level 1 and Level 2 of the fair value hierarchy, and requires that information on purchases, sales, issuances and settlements in the rollforward of Level 3 activity be presented on a gross basis rather than on a net basis. The amended guidance also provides several clarifications with respect to disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring instruments classified as either Level 2 or Level 3. We adopted the requirement for gross presentation in the Level 3 rollforward on January 1, 2011. The remaining provisions of the guidance were effective for us on January 1, 2010. Our adoption of the updated guidance did not affect our financial condition, results of operations or liquidity since it amends only the disclosure requirements for fair value measurements.

Recently Issued but Not Yet Adopted Accounting Standards

Testing Goodwill for Impairment

In September 2011, the FASB issued guidance that is intended to simplify goodwill impairment testing by providing entities with the option to first assess qualitatively whether it is necessary to perform the two-step quantitative analysis currently required. If an entity chooses to perform a qualitative assessment and determines that it is more likely than not that the fair value of a reporting period is less than its carrying amount, the quantitative two-step goodwill impairment test is required. Otherwise, goodwill is deemed to be not impaired and no further evaluation analysis would be necessary. The amended goodwill impairment guidance does not affect the manner in which a company estimates fair value. The amended guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We are considering early adoption for our annual goodwill impairment testing scheduled to be performed in the fourth quarter of 2011. We had \$13.6 billion in goodwill as of September 30, 2011, the value of which will not be affected by the adoption of this standard.

Presentation of Comprehensive Income

In June 2011, the FASB issued new accounting guidance that revises the manner in which comprehensive income is required to be presented in financial statements. The new guidance will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

consecutive statements. The guidance eliminates the option to present components of other comprehensive income in the statement of changes in stockholders' equity. It does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified from other comprehensive income to net income. The guidance requires retrospective application and is effective for interim and annual periods beginning on or after December 15, 2011. We intend to adopt the guidance in the first quarter of 2012. Our adoption of the guidance will have no effect on our financial condition, results of operations or liquidity since it impacts presentation only.

Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)

In May 2011, the FASB issued amended guidance on fair value that is intended to provide a converged fair value framework for U.S. GAAP and IFRS. The amended guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. While the amended guidance continues to define fair value as an exit price, it changes some fair value measurement principles and expands the existing disclosure requirements for fair value measurements. The amended guidance is effective for public entities for interim and annual periods beginning on or after December 15, 2011, with early adoption prohibited. The new guidance requires prospective application and disclosure in the period of adoption of the change, if any, in valuation techniques and related inputs resulting from application of the amendments and quantification of the total effect, if practicable. We intend to adopt the amended guidance in the first quarter of 2012, and are currently assessing the impact that the adoption will have on our consolidated financial statements.

Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreements

In April 2011, the FASB issued an amendment to the guidance for transfers and servicing with regard to repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This amendment removes the criterion related to collateral maintenance from the transferor's assessment of effective control. It focuses the assessment of effective control on the transferor's rights and obligations with respect to the transferred financial assets and not whether the transferor has the practical ability to perform in accordance with those rights or obligations. As a result of this amendment, we do not expect that repurchase agreements will qualify for derecognition from the transferor's financial statements and will be treated as secured borrowings. The amendment is effective prospectively for transactions or modification of existing transactions that occur on or after the first interim or annual period beginning on or after December 15, 2011. We intend to adopt the amended guidance on January 1, 2012. We do not expect that the adoption will have a material impact on our consolidated financial statements.

NOTE 2 ACQUISITIONS

We regularly explore opportunities to enter into strategic partnership agreements or acquire financial services companies and businesses to expand our distribution channels and grow our customer base. We may structure these transactions with both an initial payment and later contingent payments tied to future financial performance. In some partnership agreements, we may enter into collaborative risk-sharing arrangements that provide for revenue and loss sharing.

Accounting for Acquisitions

We account for acquisitions in accordance with the accounting guidance for business combinations. Under the guidance for business combinations, the accounting differs depending on whether the acquired set of activities

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

and assets meets the definition of a business. A business is considered to be an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing economic benefits directly to investors or other owners, members, or participants. If the acquired set of activities and assets meets the definition of a business, the transaction is accounted for as a business combination. Otherwise, it is accounted for as an asset acquisition.

In a business combination, identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree are recorded at fair value as of the acquisition date, with limited exceptions. Transaction costs and costs to restructure the acquired company are generally expensed as incurred. Goodwill is recognized as the excess of the acquisition price over the estimated fair value of the net assets acquired. The operating results of the acquired business are reflected in our consolidated financial statements subsequent to the date of the merger or acquisition. In an asset acquisition, the assets acquired are recorded at the purchase price plus any transaction costs incurred. Goodwill is not recognized in an asset acquisition.

Accounting for Partnership Agreements

Our partnership agreements primarily relate to alliances with third parties to provide lending and other services to co-branded and private label credit card customers. We evaluate the specific terms of each agreement to determine whether it meets the definition of a collaborative arrangement and how revenue generated from third parties, costs incurred and transactions between participants in the partnership agreement should be accounted for and reported in our consolidated financial statements. A collaborative arrangement is a contractual arrangement that involves a joint operating activity involving two or more parties that are both active participants in the activity and exposed to significant risks and rewards dependent on the economic success of the activity.

If the agreement involves payments between participants under a revenue or loss sharing arrangement, we must determine whether to report revenue or loss amounts on a gross basis or on a net basis after taking into consideration payments due to or due from participants. We evaluate the contractual provisions of each transaction and applicable accounting guidance in determining the manner in which to report the impact of revenue and loss sharing amounts in our consolidated balance sheet and the related impact on our allowance for loan and lease losses. Our consolidated net income is the same regardless of whether we record revenue or expense amounts on a gross or net basis.

2011 Acquisitions

Hudson's Bay Company Credit Card Portfolio

On January 7, 2011, in a cash transaction, we acquired the credit card portfolio of Hudson's Bay Company (HBC), a Canadian operation, from GE Capital Retail Finance. The acquisition and partnership with HBC significantly expands our credit card customer base in Canada, tripling the number of customer accounts, and provide an additional distribution channel. The acquisition included outstanding credit card loan receivables with a fair value of approximately \$1.4 billion, and a transfer of approximately 400 employees directly involved in managing the HBC portfolio.

We accounted for the acquisition as a business combination. Accordingly, we recorded the assets acquired, including identifiable intangible assets, and liabilities assumed at their respective fair values as of the acquisition date and consolidated with our results. In connection with the acquisition, we recorded goodwill of \$3 million representing the amount by which the purchase price exceeded the fair value of the net assets acquired. We also recognized a purchased credit card relationship intangible asset of \$11 million at acquisition and a contract-based intangible asset of \$70 million. Because the acquisition was considered to be a taxable transaction, the goodwill

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is deductible for tax purposes. The goodwill was assigned to the International Card reporting unit of our Credit Card segment, and the acquired loan portfolio is reflected in the operations of our International Card business.

Kohl's Credit Card Portfolio

In August 2010, we entered into a private-label credit card partnership agreement with Kohl's Department Stores (Kohl's). In connection with the partnership agreement, effective April 1, 2011, we acquired Kohl's existing private-label credit card loan portfolio from JPMorgan Chase & Co. The existing portfolio, which consists of more than 20 million Kohl's customer accounts, had an outstanding principal and interest balance of approximately \$3.7 billion at acquisition. The partnership agreement has an initial seven-year term and an automatic one-year renewal thereafter. We accounted for the purchase as an asset acquisition.

Under the terms of the partnership agreement and in conjunction with the acquisition, we began issuing Kohl's branded private-label credit cards to new and existing Kohl's customers on April 1, 2011. Risk management decisions are jointly managed by Kohl's and us, but we retain final authority over risk management decisions. Kohl's has primary responsibility for handling customer service functions and advertising and marketing related to credit card customers.

We share a fixed percentage of revenues, consisting of finance charges and late fees, with Kohl's, and Kohl's is required to reimburse us for a fixed percentage of credit losses incurred. Revenues and losses related to the Kohl's credit card program are reported on a net basis in our consolidated financial statements. The revenue sharing amounts earned by Kohl's are reflected as an offset against our revenues in our consolidated statements of income. The loss sharing amounts from Kohl's are reflected as a reduction in our provision for loan and lease losses in our consolidated statements of income. We also report the related allowance for loan and lease losses attributable to the Kohl's portfolio in our consolidated balance sheets net of the loss sharing amount due from Kohl's.

Interest income was reduced by \$206 million and \$421 million in the third quarter and first nine months of 2011, respectively, for amounts earned by Kohl's. Loss sharing amounts attributable to Kohl's reduced charge-offs by \$39 million and \$80 million in the third quarter and first nine months of 2011, respectively. In addition, the expected reimbursement from Kohl's netted in our allowance for loan and lease losses was approximately \$156 million as of September 30, 2011. The reduction in the provision for loan and lease losses attributable to Kohl's was \$236 million for the first nine months of 2011.

NOTE 3 DISCONTINUED OPERATIONS

Shutdown of Mortgage Origination Operations of Wholesale Mortgage Banking Unit

In the third quarter of 2007, we closed the mortgage origination operations of our wholesale mortgage banking unit, acquired by us in December 2006 as part of the North Fork acquisition. The results of the mortgage origination operations and wholesale banking unit have been accounted for as a discontinued operation and therefore not included in our results from continuing operations for the three and nine months ended September 30, 2011 and 2010. We have no significant continuing involvement in these operations.

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The following table summarizes the results from discontinued operations related to the closure of our wholesale mortgage banking unit:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net interest expense	\$ 0	\$ 0	\$ 0	\$ (1)
Non-interest expense	(81)	(23)	(159)	(468)
Loss from discontinued operations before taxes	(81)	(23)	(159)	(469)
Income tax benefit	29	8	57	166
Loss from discontinued operations, net of taxes	\$ (52)	\$ (15)	\$ (102)	\$ (303)

The loss from discontinued operations includes an expense of \$75 million (\$53 million net of tax) and \$147 million (\$104 million net of tax) in the third quarter and first nine months of 2011, respectively, primarily attributable to provisions for mortgage loan repurchase losses related to representations and warranties provided on loans previously sold to third parties by the wholesale banking unit. We recorded a provision for mortgage loan repurchase losses of \$433 million (\$308 million net of tax) in discontinued operations in the first nine months of 2010; however, we did not recognize a provision in discontinued operations in the third quarter of 2010.

The discontinued mortgage origination operations of our wholesale home loan banking unit had remaining assets of \$305 million and \$362 million as of September 30, 2011 and December 31, 2010, respectively, which consisted primarily of income tax receivables. Liabilities totaled \$665 million and \$585 million as of September 30, 2011 and December 31, 2010, respectively, consisting primarily of reserves for representations and warranties on loans previously sold to third parties.

NOTE 4 INVESTMENT SECURITIES

Our investment securities portfolio, which had a fair value of \$38.4 billion and \$41.5 billion, as of September 30, 2011 and December 31, 2010, respectively, consists of U.S. Treasury and U.S. agency debt obligations; agency and non-agency residential and commercial mortgage-backed securities; other asset-backed securities collateralized primarily by credit card loans, auto loans, student loans, auto dealer floor plan inventory loans and leases, equipment loans, and other; municipal securities and limited Community Reinvestment Act (CRA) equity securities. Our investment securities portfolio continues to be heavily concentrated in securities that generally have lower credit risk and high credit ratings, such as securities issued and guaranteed by the U.S. Treasury and government sponsored enterprises or agencies. Our investments in U.S. Treasury and agency securities, based on fair value, represented approximately 69% of our total investment securities portfolio as of September 30, 2011, compared with 70% as of December 31, 2010.

Table of Contents**CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Securities Amortized Cost and Fair Value**

All of our investment securities were classified as available-for-sale as of September 30, 2011, and are reported in our consolidated balance sheet at fair value. The following tables present the amortized cost, fair values and corresponding gross unrealized gains (losses), by major security type, for our investment securities as of September 30, 2011 and December 31, 2010. The gross unrealized gains (losses) related to our available-for-sale securities are recorded, net of tax, as a component of accumulated other comprehensive income (AOCI):

(Dollars in millions)	Amortized Cost	Total Gross Unrealized Gains	September 30, 2011		Total Gross Unrealized Losses	Fair Value
			Gross Unrealized Losses-OTTI ⁽¹⁾	Gross Unrealized Losses-Other ⁽²⁾		
Securities available-for-sale:						
U.S. Treasury debt obligations	\$ 115	\$ 10	\$ 0	\$ 0	\$ 0	\$ 125
U.S. Agency debt obligations ⁽³⁾	166	9	0	0	0	175
Residential mortgage-backed securities (RMBS):						
Agency ⁽⁴⁾	25,139	633	0	(25)	(25)	25,747
Non-agency	1,405	2	(126)	(8)	(134)	1,273
Total RMBS	26,544	635	(126)	(33)	(159)	27,020
Commercial mortgage-backed securities (CMBS):						
Agency ⁽⁴⁾	418	11	0	0	0	429
Non-agency	400	1	0	(3)	(3)	398
Total CMBS	818	12	0	(3)	(3)	827
Asset-backed securities (ABS ⁽⁵⁾)	9,691	55	0	(12)	(12)	9,734
Other ⁽⁶⁾	467	55	0	(3)	(3)	519
Total securities available-for-sale	\$ 37,801	\$ 776	\$ (126)	\$ (51)	\$ (177)	\$ 38,400

(Dollars in millions)	Amortized Cost	Total Gross Unrealized Gains	December 31, 2010		Total Gross Unrealized Losses	Fair Value
			Gross Unrealized Losses-OTTI ⁽¹⁾	Gross Unrealized Losses-Other ⁽²⁾		
Securities available-for-sale:						
U.S. Treasury debt obligations	\$ 373	\$ 13	\$ 0	\$ 0	\$ 0	\$ 386
U.S. Agency debt obligations ⁽³⁾	301	13	0	0	0	314
Residential mortgage-backed securities (RMBS):						
Agency ⁽⁴⁾	27,980	667	0	(143)	(143)	28,504
Non-agency	1,826	1	(105)	(22)	(127)	1,700
Total RMBS	29,806	668	(105)	(165)	(270)	30,204
Commercial mortgage-backed securities (CMBS):						
Agency ⁽⁴⁾	44	1	0	0	0	45

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Non-agency	0	0	0	0	0	0
Total CMBS	44	1	0	0	0	45
Asset-backed securities (ABS ⁽⁵⁾)	9,901	69	0	(4)	(4)	9,966
Other ⁽⁶⁾	563	66	0	(7)	(7)	622
Total securities available-for-sale	\$ 40,988	\$ 830	\$ (105)	\$ (176)	\$ (281)	\$ 41,537

(1) Represents the amount of cumulative non-credit other-than-temporary impairment (OTTI) losses recorded in AOCI. These losses are included in total gross unrealized losses.

(2) Represents the amount of cumulative gross unrealized losses on securities for which we have not recognized OTTI.

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- (3) Consists of debt securities issued by Fannie Mae and Freddie Mac, which had amortized cost of \$165 million and \$200 million as of September 30, 2011 and December 31, 2010, respectively, and fair value of \$174 million and \$213 million as of September 30, 2011 and December 31, 2010, respectively.
- (4) Consists of mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae, which had amortized cost of \$12.9 billion, \$8.4 billion and \$4.3 billion, respectively, and fair value of \$13.2 billion, \$8.6 billion and \$4.4 billion, respectively, as of September 30, 2011. The book value of Fannie Mae, Freddie Mac and Ginnie Mae investments exceeded 10% of our stockholders' equity as of September 30, 2011.
- (5) Consists of securities collateralized by credit card loans, auto dealer and floor plan inventory loans and leases, student loans, auto loans, equipment loans and other. The distribution among these asset types was approximately 73% credit card loans, 11% auto dealer floor plan inventory loans and leases, 7% auto loans, 5% student loans, 2% equipment loans, and 2% of other loans as of September 30, 2011. In comparison, the distribution was approximately 78% credit card loans, 6% auto dealer floor plan inventory loans and leases, 7% auto loans, 7% student loans, 3% equipment loans and less than 1% of home equity lines of credit as of December 31, 2010. Approximately 89% of the securities in our asset-backed security portfolio were rated AAA or its equivalent as of September 30, 2011, compared with 90% as of December 31, 2010.
- (6) Consists of municipal securities and equity investments related primarily to CRA activities.

Securities Available for Sale in a Gross Unrealized Loss Position

The table below provides, by major security type, information about our available-for-sale securities in a gross unrealized loss position and the length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2011 and December 31, 2010:

(Dollars in millions)	Less than 12 Months		September 30, 2011		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities available-for-sale:						
RMBS:						
Agency ⁽¹⁾	4,519	(23)	385	(2)	4,904	(25)
Non-agency	156	(7)	1,067	(127)	1,223	(134)
Total RMBS	4,675	(30)	1,452	(129)	6,127	(159)
CMBS:						
Agency ⁽¹⁾	50	0	0	0	50	0
Non-agency	292	(3)	0	0	292	(3)
Total CMBS	342	(3)	0	0	342	(3)
Total ABS	1,794	(9)	86	(3)	1,880	(12)
Other	86	(1)	62	(2)	148	(3)
Total securities available-for-sale in a gross unrealized loss position	\$ 6,897	\$ (43)	\$ 1,600	\$ (134)	\$ 8,497	\$ (177)

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(Dollars in millions)	Less than 12 Months		December 31, 2010 12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities available-for-sale:						
RMBS:						
Agency ⁽¹⁾	6,571	(141)	456	(2)	7,027	(143)
Non-agency	45	0	1,566	(127)	1,611	(127)
Total RMBS	6,616	(141)	2,022	(129)	8,638	(270)
CMBS:						
Agency ⁽¹⁾	0	0	0	0	0	0
Non-agency	0	0	0	0	0	0
Total CMBS	0	0	0	0	0	0
Total ABS	1,411	(2)	33	(2)	1,444	(4)
Other	300	(1)	80	(6)	380	(7)
Total securities available-for-sale in a gross unrealized loss position	\$ 8,327	\$ (144)	\$ 2,135	\$ (137)	\$ 10,462	\$ (281)

⁽¹⁾ Consists of mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

The gross unrealized losses on our available-for-sale securities of \$177 million as of September 30, 2011 relate to approximately 320 individual securities. Our investments in non-agency residential MBS, non-agency commercial MBS and non-agency asset-backed securities accounted for \$149 million, or 84%, of total gross unrealized losses as of September 30, 2011. Of the \$177 million gross unrealized losses as of September 30, 2011, \$134 million related to securities that had been in a loss position for more than 12 months. As discussed in more detail below, we conduct periodic reviews of all securities with unrealized losses to assess whether the impairment is other-than-temporary. Based on our assessments, we have recorded OTTI for a portion of our non-agency residential MBS, which is discussed in more detail later in this footnote.

Maturities and Yields of Securities Available-for-Sale

The following table summarizes the remaining scheduled contractual maturities, assuming no prepayments, of our investment securities as of September 30, 2011:

(Dollars in millions)	September 30, 2011	
	Amortized Cost	Fair Value
Due in 1 year or less	\$ 2,651	\$ 2,661
Due after 1 year through 5 years	6,856	6,909
Due after 5 years through 10 years	1,613	1,646
Due after 10 years ⁽¹⁾	26,681	27,184
Total	\$ 37,801	\$ 38,400

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⁽¹⁾ Investments with no stated maturities, which consist of equity securities, are included with contractual maturities due after 10 years. Because borrowers may have the right to call or prepay certain obligations, the expected maturities of our securities are likely to differ from the scheduled contractual maturities presented above. The table below

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summarizes, by major security type, the expected maturities and the weighted average yields of our investment securities as of September 30, 2011. Actual calls or prepayment rates may differ from our estimates, which may cause the actual maturities of our investment securities to differ from the expected maturities presented below.

(Dollars in millions)	Due in 1 Year or Less		Due > 1 Year through 5 Years		September 30, 2011 Due > 5 Years through 10 Years		Due > 10 Years		Total	
	Amount	Average Yield ⁽¹⁾	Amount	Average Yield ⁽¹⁾	Amount	Average Yield ⁽¹⁾	Amount	Average Yield ⁽¹⁾	Amount	Average Yield ⁽¹⁾
Fair value of securities available-for-sale:										
U.S. Treasury debt obligations	\$ 0	0%	\$ 125	4.27%	\$ 0	0%	\$ 0	0%	\$ 125	4.27%
U.S. Agency debt obligations ⁽²⁾	66	4.40	109	4.59	0	0	0	0	175	4.52
RMBS:										
Agency ⁽³⁾	956	4.96	23,368	4.21	1,423	4.23	0	0	25,747	4.24
Non-agency	187	5.07	1,056	5.83	26	5.70	4	6.58	1,273	5.72
Total RMBS	1,143	4.98	24,424	4.29	1,449	4.26	4	6.58	27,020	4.32
CMBS:										
Agency ⁽³⁾	0	0	197	2.63	157	3.13	75	2.25	429	2.74
Non-agency	0	0	134	3.19	264	3.90	0	0	398	3.66
Total CMBS	0	0	331	2.87	421	3.62	75	2.25	827	3.19
Total ABS	2,727	2.17	6,454	1.92	553	3.34	0	0	9,734	2.07
Other ⁽⁴⁾	301	2.04	51	4.02	2	4.86	165	1.16	519	2.06
Total securities available for sale	\$ 4,237	2.95%	\$ 31,494	3.78%	\$ 2,425	3.94%	\$ 244	1.70%	\$ 38,400	3.69%
Amortized cost of securities available-for-sale										
	\$ 4,217		\$ 30,985		\$ 2,407		\$ 192		\$ 37,801	

(1) Yields are calculated based on the amortized cost of the securities.

(2) Consists of debt securities issued by Fannie Mae and Freddie Mac.

(3) Consists of mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

(4) Yields of tax-exempt securities are calculated on a fully taxable-equivalent (FTE) basis.

Other-Than-Temporary Impairment

We evaluate all securities in an unrealized loss position at least quarterly, and more often as market conditions require, to assess whether the impairment is other-than-temporary. Our OTTI assessment is a subjective process requiring the use of judgments and assumptions. Accordingly, we consider a number of qualitative and quantitative criteria in our assessment, including the extent and duration of the impairment; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings and the failure of the issuer to make scheduled interest or principal payments; the value of underlying collateral; our intent and ability to hold the security; and current market conditions.

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We assess, measure and recognize OTTI in accordance with the accounting guidance for recognition and presentation of OTTI. Under this guidance, if we determine that impairment on our debt securities is other-than-temporary and we have made the decision to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we recognize the entire portion of the impairment in earnings. If we have not made a decision to sell the security and we do not expect that we will be required to sell the security prior to recovery of the amortized cost basis, we recognize only the credit component of OTTI in earnings. The remaining unrealized loss due to factors other than credit, or the non-credit component, is recorded

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in AOCI. We determine the credit component based on the difference between the security's amortized cost basis and the present value of its expected future cash flows, discounted based on the purchase yield. The non-credit component represents the difference between the security's fair value and the present value of expected future cash flows.

The following table summarizes other-than-temporary impairment losses on debt securities recognized in earnings for the three and nine months ended September 30, 2011 and 2010:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Total OTTI losses	\$ 33	\$ 39	\$ 83	\$ 116
Less: Non-credit component of OTTI losses recorded in OCI	(27)	(34)	(68)	(54)
Net OTTI losses recognized in earnings	\$ 6	\$ 5	\$ 15	\$ 62

As indicated in the table above, we recorded credit related losses in earnings totaling \$6 million and \$5 million for the three months ended September 30, 2011 and 2010, respectively, and \$15 million and \$62 million for the nine months ended September 30, 2011 and 2010, respectively. The cumulative non-credit related portion of OTTI on these securities recorded in AOCI totaled \$126 million and \$105 million as of September 30, 2011 and December 31, 2010, respectively. We estimate the portion of loss attributable to credit using a discounted cash flow model, and we estimate the expected cash flows from the underlying collateral using industry-standard third party modeling tools. These tools take into consideration security specific delinquencies, product specific delinquency roll rates and expected severities. Key assumptions used in estimating the expected cash flows include default rates, loss severity and prepayment rates. Assumptions used can vary widely based on the collateral underlying the securities and are influenced by factors such as collateral type, loan interest rate, geographical location of the borrower, and other borrower characteristics.

We believe the gross unrealized losses related to all other securities of \$51 million as of September 30, 2011 are attributable to changes in market interest rates and asset spreads. Therefore, we currently do not expect to incur credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses and it is not more likely than not that we will be required to sell these securities prior to recovery of the amortized cost. Accordingly, we have concluded that the impairment on these securities as of September 30, 2011 is not other-than-temporary.

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The table below presents activity for the three and nine months ended September 30, 2011 and 2010, related to the credit component of OTTI recognized in earnings on investment debt securities for which a portion of the OTTI loss, the non-credit component, was recorded in AOCI:

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Beginning balance	\$ 56	\$ 41	\$ 49	\$ 32
Additions for the credit component of OTTI on debt securities for which OTTI losses were not previously recognized	0	3	3	10 ⁽²⁾
Additions for the credit component of OTTI on debt securities for which OTTI losses were previously recognized	6	2	12	16
Reductions related to debt securities for which the credit component previously recorded in AOCI was recognized in earnings because of our intent to sell the securities and for securities sold during the period ⁽¹⁾	(1)	0	(3)	(12)
Ending balance	\$ 61	\$ 46	\$ 61	\$ 46

⁽¹⁾ For the three and nine months ended September 30, 2011, there were no OTTI losses recognized in earnings on securities for which no portion of the OTTI losses remained in AOCI. For the nine months ended September 30, 2010, we recognized \$36 million, on securities for which no portion of the OTTI losses remained in AOCI.

⁽²⁾ Includes \$4 million of OTTI losses recognized in earnings in the first quarter of 2010 on negative amortization bonds classified as held to maturity.

AOCI, Net of Taxes, Related to Securities Available for Sale

The table below presents the changes in AOCI, net of taxes, related to our available-for-sale securities. The net unrealized gains (losses) represent the fair value adjustments recorded on available-for-sale securities, net of tax, during the period. The net reclassification adjustment for net realized losses (gains) represents the amount of those fair value adjustments, net of tax, that were recognized in earnings due to the sale of an available-for-sale security or the recognition of an other-than-temporary impairment loss.

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Beginning balance AOCI related to securities available for sale, net of tax ⁽¹⁾	\$ 478	\$ 674	\$ 369	\$ 186
Net unrealized gains (losses), net of tax ⁽²⁾	41	(77)	150	437
Net realized losses (gains) reclassified from AOCI into earnings, net of tax ⁽³⁾	(121)	(11)	(121)	(37)
Ending balance AOCI related to securities available for sale, net of tax	\$ 398	\$ 586	\$ 398	\$ 586

⁽¹⁾ Net of tax benefit (expense) of \$(263) million and \$(371) million for the three months ended September 30, 2011 and 2010, respectively, and \$(203) million and \$(102) million for the nine months ended September 30, 2011 and 2010, respectively.

⁽²⁾

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Net of tax benefit (expense) of \$(23) million and \$42 million for the three months ended September 30, 2011 and 2010, respectively, and \$(83) million and \$(241) million for the nine months ended September 30, 2011 and 2010, respectively.

⁽³⁾ Net of tax (benefit) expense of \$67 million and \$6 million for the three months ended September 30, 2011 and 2010, respectively, and \$67 million and \$20 million for the nine months ended September 30, 2011 and 2010, respectively.

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Realized Gains and Losses on Securities Available for Sale

The following table presents the gross realized gains and losses on the sale and redemption of available-for-sale securities recognized in earnings for the three and nine months ended September 30, 2011 and 2010. The gross realized investment losses presented below exclude credit losses recognized in earnings attributable to OTTI. We also present the proceeds from the sale of available-for-sale investment securities for the periods presented. We sold approximately \$6.4 billion of investment securities, consisting predominantly of agency MBS, during the third quarter of 2011. We recorded a gain of \$239 million on the sale of these securities.

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Gross realized investment gains	\$ 239	\$ 27	\$ 253	\$ 135
Gross realized investment losses	0	(1)	(3)	(1)
Net realized gains	\$ 239	\$ 26	\$ 250	\$ 134
Total proceeds from sales	\$ 6,409	\$ 2,417	\$ 8,979	\$ 11,478

Securities Pledged

As part of our liquidity management strategy, we pledge securities to secure borrowings from the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank. We also pledge securities to secure trust and public deposits and for other purposes as required or permitted by law. We pledged securities with a fair value of \$8.9 billion and \$10.0 billion as of September 30, 2011 and December 31, 2010, respectively. We pledged \$352 million and \$229 million of cash collateral as of September 30, 2011 and December 31, 2010, respectively. The cash collateral related to securities borrowed was \$9 million as of September 30, 2011, with the remainder related to derivative counterparties. All of the cash collateral pledged as of December 31, 2010 related to derivative counterparties.

Table of Contents**CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****NOTE 5 LOANS****Loan Portfolio Composition**

Our total loan portfolio consists of loans we own and loans underlying our securitization trusts. The table below presents the composition of our held-for-investment loan portfolio, including restricted loans for securitization investors, as of September 30, 2011 and December 31, 2010. Our loan portfolio consists of credit card, consumer banking and commercial banking loans. Credit card loans consist of domestic and international loans as well as installment loans. Consumer banking loans consist of automobile, home, and retail banking loans. Commercial banking loans consist of commercial and multifamily real estate, middle market, specialty lending and small-ticket commercial real estate loans.

(Dollars in millions)	September 30, 2011	December 31, 2010
Credit Card business:		
Domestic credit card loans	\$ 51,510	\$ 49,979
International credit card loans	8,210	7,513
Total credit card loans	59,720	57,492
Domestic installment loans	2,310	3,870
International installment loans	0	9
Total installment loans	2,310	3,879
Total credit card	62,030	61,371
Consumer Banking business:		
Automobile	20,422	17,867
Home loans	10,916	12,103
Other retail	4,014	4,413
Total consumer banking	35,352	34,383
Commercial Banking business:		
Commercial and multifamily real estate ⁽¹⁾	14,389	13,396
Middle market	11,924	10,484
Specialty lending	4,221	4,020
Total commercial lending	30,534	27,900
Small-ticket commercial real estate	1,571	1,842
Total commercial banking	32,105	29,742
Other:		

Other loans		465	451
Total loans		\$ 129,952	\$ 125,947

⁽¹⁾ Includes construction loans and land development loans totaling \$2.2 billion as of September 30, 2011 and \$2.4 billion as of December 31, 2010.

Credit Quality

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan

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portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of commercial loans.

Delinquent and Nonperforming Loans

The entire balance of a loan is considered contractually delinquent if the minimum required payment is not received by the first statement cycle date equal to or following the due date specified on the customer's billing statement. Delinquency is reported on loans that are 30 or more days past due. Interest and fees continue to accrue on past due loans until the date the loan is placed on nonaccrual status, if applicable. We generally place loans on nonaccrual status when we believe the collectability of interest and principal is not reasonably assured.

Nonperforming loans generally include loans that have been placed on nonaccrual status and certain restructured loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty. We do not report loans held for sale as nonperforming. Our policies for classifying loans as nonperforming, by loan category, are as follows:

Credit card loans: As permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council (FFIEC), our policy is generally to exempt credit card loans from being classified as nonperforming as these loans are generally charged-off in the period the account becomes 180 days past due. Consistent with industry conventions, we generally continue to accrue interest and fees on delinquent credit card loans until the loans are charged-off. When we do not expect full payment of billed finance charges and fees, we reduce the balance of the credit card loan by the estimated uncollectible portion of any billed finance charges and fees and exclude this amount from revenue. Installment loans are included in our credit card segment and classified as nonperforming when the loan is 120 days past due.

Consumer banking loans: We classify other non-credit card consumer loans as nonperforming at the earlier of the date when we determine that the collectability of interest or principal on the loan is not reasonably assured or in the period in which the loan becomes 90 days past due for automobile, home loans and unsecured small business revolving lines of credit and 120 days past due for all other non-credit card consumer loans.

Commercial banking loans: We classify commercial loans as nonperforming when we determine that the collectability of interest or principal on the loan is not reasonably assured.

Modified loans and troubled debt restructurings: Modified loans, including TDRs, that are current at the time of the restructuring remain on accrual status if there is demonstrated performance prior to the restructuring and continued performance under the modified terms is expected. Otherwise, the modified loan is classified as nonperforming and placed on nonaccrual status until the borrower demonstrates a sustained period of performance over several payment cycles, generally six months of consecutive payments, under the modified terms of the loan.

Purchased credit-impaired (PCI) loans: PCI loans primarily include loans acquired from Chevy Chase Bank, which we recorded at fair value at acquisition. Because the initial fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans, our subsequent accounting for PCI loans differs from the accounting for non-PCI loans. We, therefore, separately track and report PCI loans and exclude these loans from our delinquency and nonperforming loan statistics.

Interest and fees accrued but not collected at the date a loan is placed on nonaccrual status are reversed against earnings. In addition, the amortization of net deferred loan fees is suspended. Interest and fee income is subsequently recognized only upon the receipt of cash payments.

However, if there is doubt regarding the

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ultimate collectability of loan principal, all cash received is applied against the principal balance of the loan. Nonaccrual loans are generally returned to accrual status when all principal and interest is current and repayment of the remaining contractual principal and interest is reasonably assured or when the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

The following table summarizes the payment status of loans in our total loan portfolio, including an aging of delinquent loans, loans 90 days or more past due continuing to accrue interest and loans classified as nonperforming. We present information below on the credit performance of our loan portfolio, by major loan category, including key metrics that we use in tracking changes in the credit quality of each of our loan portfolios. The delinquency aging includes all past due loans, both performing and nonperforming, as of September 30, 2011 and December 31, 2010.

Loans 90 days or more past due totaled approximately \$2.0 billion and \$2.2 billion as of September 30, 2011 and December 31, 2010, respectively. Loans classified as nonperforming totaled \$1.2 billion as of both September 30, 2011 and December 31, 2010.

(Dollars in millions)	September 30, 2011								
	Current	30-59 Days	60-89 Days	> 90 Days	Total Delinquent Loans	PCI Loans	Total Loans	> 90 Days and Accruing ⁽¹⁾	Nonperforming Loans ⁽¹⁾
Credit card:									
Domestic credit card and installment loans	\$ 51,858	\$ 612	\$ 435	\$ 915	\$ 1,962	\$ 0	\$ 53,820	\$ 915	\$ 0
International credit card and installment loans	7,771	141	104	194	439	0	8,210	194	0
Total credit card	59,629	753	539	1,109	2,401	0	62,030	1,109	0
Consumer Banking:									
Auto	18,979	919	376	92	1,387	56	20,422	0	92
Home loans	6,137	75	41	381	497	4,282	10,916	0	495
Retail banking	3,884	29	13	43	85	45	4,014	2	79
Total consumer banking	29,000	1,023	430	516	1,969	4,383	35,352	2	666
Commercial Banking:									
Commercial and multifamily real estate	13,895	46	68	219	333	161	14,389	32	287
Middle market	11,518	8	1	67	76	330	11,924	5	116
Specialty lending	4,180	17	6	18	41	0	4,221	3	35
Total commercial lending	29,593	71	75	304	450	491	30,534	40	438
Small-ticket commercial real estate	1,508	39	6	18	63	0	1,571	0	21
Total commercial banking	31,101	110	81	322	513	491	32,105	40	459
Other:									
Other loans	402	18	5	40	63	0	465	0	47
Total	\$ 120,132	\$ 1,904	\$ 1,055	\$ 1,987	\$ 4,946	\$ 4,874	\$ 129,952	\$ 1,151	\$ 1,172

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% of Total loans	92.4%	1.5%	0.8%	1.5%	3.8%	3.8%	100.0%	0.9%	0.9%
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(Dollars in millions)	December 31, 2010								
	Current	30-59 Days	60-89 Days	> 90 Days	Total Delinquent Loans	PCI Loans	Total Loans	> 90 Days and Accruing ⁽¹⁾	Nonperforming Loans ⁽¹⁾
Credit card:									
Domestic credit card and installment loans	\$ 51,649	\$ 558	\$ 466	\$ 1,176	\$ 2,200	\$ 0	\$ 53,849	\$ 1,176	\$ 0
International credit card and installment loans	7,090	132	97	203	432	0	7,522	203	0
Total credit card	58,739	690	563	1,379	2,632	0	61,371	1,379	0
Consumer Banking:									
Auto	16,414	952	402	99	1,453	0	17,867	0	99
Home loans	6,707	65	44	395	504	4,892	12,103	0	486
Retail banking	4,218	31	22	40	93	102	4,413	5	91
Total consumer banking	27,339	1,048	468	534	2,050	4,994	34,383	5	676
Commercial Banking:									
Commercial and multifamily real estate	12,816	118	31	153	302	278	13,396	14	276
Middle market	10,113	34	5	50	89	282	10,484	0	133
Specialty lending	3,962	25	7	26	58	0	4,020	0	48
Total commercial lending	26,891	177	43	229	449	560	27,900	14	457
Small-ticket commercial real estate	1,711	74	24	33	131	0	1,842	0	38
Total commercial banking	28,602	251	67	262	580	560	29,742	14	495
Other:									
Other loans	382	19	5	45	69	0	451	0	54
Total	\$ 115,062	\$ 2,008	\$ 1,103	\$ 2,220	\$ 5,331	\$ 5,554	\$ 125,947	\$ 1,398	\$ 1,225
% of Total loans	91.4%	1.6%	0.9%	1.7%	4.2%	4.4%	100.0%	1.1%	1.0%

⁽¹⁾ Purchased credit-impaired loans are excluded from loans reported as 90 days or more past due and still accruing interest and nonperforming loans.

Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine are uncollectible, net of recovered amounts. We exclude accrued and unpaid finance charges and fees and fraud losses from charge-offs. Charge-offs are recorded as a reduction to the allowance for loan and lease losses and subsequent recoveries of previously charged-off amounts are credited to the allowance for loan and lease losses. Costs incurred to recover charged-off loans are recorded as collection expense and included in our consolidated statements of income as a component of other non-interest expense. Our charge-off time frame for loans, which varies based on the loan type, is presented below.

Credit card loans: We generally charge-off credit card loans when the account is 180 days past due from the statement cycle date. Credit card loans in bankruptcy are charged-off within 30 days of receipt of a complete bankruptcy notification from the bankruptcy court, except for U.K. credit card loans, which are charged-off within 60 days. Credit card loans of deceased account holders are charged-off within 60 days of receipt of notification.

Consumer banking loans: We generally charge-off consumer loans at the earlier of the date when the account is a specified number of days past due or upon repossession of the underlying collateral. Our charge-off time frame is 180 days for mortgage loans and unsecured small business lines of credit and 120

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

days for auto and other non-credit card consumer loans. We calculate the charge-off amount for mortgage loans based on the difference between our recorded investment in the loan and the fair value of the underlying property and estimated selling costs as of the date of the charge-off. We update our home value estimates on a regular basis and recognize additional charge-offs for declines in home values below our initial fair value and selling cost estimate at the date mortgage loans are charged-off. Consumer loans in bankruptcy, except for auto and mortgage loans, generally are charged-off within 40 days of receipt of notification from the bankruptcy court. Auto and home loans in bankruptcy are charged-off in the period that the loan is both 60 days or more past due and 60 days or more past the bankruptcy notification date or in the period the loan becomes 120 days past due for auto loans and 180 days past due for mortgage loans regardless of the bankruptcy notification date. Consumer loans of deceased account holders are charged-off within 60 days of receipt of notification.

Commercial banking loans: We charge-off commercial loans in the period we determine that the unpaid principal loan amounts are uncollectible.

Purchased credit-impaired loans: We do not record charge-offs on PCI loans that are performing in accordance with or better than our expectations as of the date of acquisition, as the fair values of these loans already reflect a credit component. We record charge-offs on purchased credit-impaired loans only if actual losses exceed estimated losses incorporated into the fair value recorded at acquisition.

Table of Contents**CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Credit Card**

Our credit card loan portfolio is generally highly diversified across millions of accounts and multiple geographies without significant individual exposures. We, therefore, generally manage credit risk on a portfolio basis. The risk in our credit card portfolio is correlated with broad economic trends, such as unemployment rates, gross domestic product (GDP) growth, and home values, as well as customer liquidity, which can have a material effect on credit performance. The primary factors we assess in monitoring the credit quality and risk of our credit card portfolio are delinquency and charge-off trends, including an analysis of the migration of loans between delinquency categories over time. The table below displays the geographic profile of our credit card loan portfolio and delinquency statistics as of September 30, 2011 and December 31, 2010. We also present comparative net charge-offs for the three and nine months ended September 30, 2011 and 2010.

Credit Card: Risk Profile by Geographic Region and Delinquency Status

(Dollars in millions)	September 30, 2011		December 31, 2010	
	Amount	% of Total ⁽¹⁾	Amount	% of Total ⁽¹⁾
Domestic card and installment loans:				
California	\$ 6,128	9.9%	\$ 6,242	10.2%
Texas	3,572	5.7	3,633	5.9
New York	3,658	5.9	3,599	5.8
Florida	3,201	5.2	3,298	5.4
Illinois	2,524	4.1	2,403	3.9
Pennsylvania	2,422	3.9	2,389	3.9
Ohio	2,168	3.5	2,109	3.4
New Jersey	2,045	3.3	1,971	3.2
Michigan	1,754	2.8	1,716	2.8
Other	26,348	42.5	26,489	43.2
Total domestic card and installment loans	53,820	86.8%	53,849	87.7%
International card and installment loans:				
United Kingdom	3,879	6.2	4,102	6.7
Canada	4,331	7.0	3,420	5.6
Total international card and installment loans	8,210	13.2	7,522	12.3%
Total credit card	\$ 62,030	100.0%	\$ 61,371	100.0%
Selected credit metrics:				
30+ day delinquencies ⁽²⁾	\$ 2,401	3.87%	\$ 2,632	4.29%
90+ day delinquencies ⁽²⁾	1,109	1.79	1,379	2.25

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs:								
Domestic	\$ 527	3.92%	\$ 1,112	8.23%	\$ 1,969	4.94%	\$ 3,940	9.43%
International	134	6.15	139	7.60	414	6.31	468	8.28

Total ⁽³⁾	\$ 661	4.23%	\$ 1,251	8.16%	\$ 2,383	5.13%	\$ 4,408	9.30%
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⁽¹⁾ Percentages by geographic region within the domestic and international credit card portfolios are calculated based on the total held for investment credit card and installment loans as of the end of the reported period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

- (2) Delinquency rates calculated by dividing delinquent credit card and installment loans by the total balance of credit card and installment loans held for investment as of the end of the reported period. The balance of credit card loans includes accrued finance charges and fees, net of the estimated uncollectible finance charge and fee reserve.
- (3) Calculated by dividing annualized net charge-offs by average credit card loans held for investment during the three and nine months ended September 30, 2011 and 2010.

The 30+ day delinquency rate for our credit card loan portfolio decreased to 3.87% as of September 30, 2011, from 4.29% as of December 31, 2010, reflecting strong underlying credit improvement trends. The September 30, 2011 30+ day delinquency rate for Domestic Card reflects the impact of a revision we made in the third quarter of 2011 in the way we estimate recoveries in determining the uncollectible amount of finance charges and fees, which resulted in an increase of 11 basis points as of September 30, 2011. For International Card, the change did not have a significant impact on the 30+ day delinquency rate as of September 30, 2011.

Table of Contents**CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Consumer Banking**

Our consumer banking loan portfolio consists of auto, home loan and retail banking loans. Similar to our credit card loan portfolio, the risk in our consumer banking loan portfolio is correlated with broad economic trends, such as unemployment rates, GDP growth, and home values, as well as customer liquidity, which can have a material effect on credit performance. Delinquency, nonperforming loans and charge-off trends are key factors we assess in monitoring the credit quality and risk of our consumer banking loan portfolio. The table below displays the geographic profile of our consumer banking loan portfolio, including PCI loans acquired from Chevy Chase Bank. We also present the delinquency and nonperforming loan rates of our consumer banking loan portfolio, excluding PCI loans as of September 30, 2011 and December 31, 2010, and net charge-offs for the three and nine months ended September 30, 2011 and 2010.

Consumer Banking: Risk Profile by Geographic Region, Delinquency Status and Performing Status

(Dollars in millions)	September 30, 2011					
	Non-PCI Loans		PCI Loans		Total	
	Loans	% of Total ⁽¹⁾	Loans	% of Total ⁽¹⁾	Loans	% of Total ⁽¹⁾
Auto:						
Texas	\$ 3,727	10.6%	\$ 0	0.0%	\$ 3,727	10.6%
California	1,620	4.6	0	0.0	1,620	4.6
Louisiana	1,380	3.9	0	0.0	1,380	3.9
Florida	1,118	3.2	0	0.0	1,118	3.2
Georgia	1,066	3.0	0	0.0	1,066	3.0
New York	929	2.6	0	0.0	929	2.6
Illinois	925	2.6	0	0.0	925	2.6
Other	9,601	27.1	56	0.2	9,657	27.3
Total auto	\$ 20,366	57.6%	\$ 56	0.2%	\$ 20,422	57.8%
Home loans:						
New York	\$ 1,799	5.1%	\$ 279	0.8%	\$ 2,078	5.9%
California	822	2.3	1,283	3.6	2,105	5.9
Louisiana	1,711	4.8	2	0.0	1,713	4.8
Maryland	275	0.8	570	1.6	845	2.4
Virginia	191	0.5	551	1.6	742	2.1
New Jersey	354	1.0	261	0.7	615	1.7
Other	1,482	4.3	1,336	3.7	2,818	8.0
Total home loans	\$ 6,634	18.8%	\$ 4,282	12.0%	\$ 10,916	30.8%
Retail banking:						
Louisiana	\$ 1,583	4.5%	\$ 0	0.0%	\$ 1,583	4.5%
Texas	965	2.7	0	0.0	965	2.7
New York	897	2.5	0	0.0	897	2.5
New Jersey	298	0.8	0	0.0	298	0.8
Maryland	57	0.2	23	0.1	80	0.3
Virginia	39	0.1	14	0.1	53	0.2
Other	130	0.4	8	0.0	138	0.4

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Total retail banking	\$ 3,969	11.2%	\$ 45	0.2%	\$ 4,014	11.4%
Total consumer banking	\$ 30,969	87.6%	\$ 4,383	12.4%	\$ 35,352	100.0%

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(Dollars in millions)	September 30, 2011							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Credit performance:⁽²⁾								
30+ day delinquencies	\$ 1,387	6.79%	\$ 497	4.55%	\$ 85	2.12%	\$ 1,969	5.57%
90+ day delinquencies	92	0.45	381	3.49	43	1.07	516	1.46
Nonperforming loans	92	0.45	495	4.54	79	1.97	666	1.88

(Dollars in millions)	December 31, 2010							
	Non-PCI Loans			PCI Loans			Total	
	Loans	% of Total ⁽¹⁾	Loans	% of Total ⁽¹⁾	Loans	% of Total ⁽¹⁾	Loans	% of Total ⁽¹⁾
Auto:								
Texas	\$ 3,161	9.2%	\$ 0	0.0%	\$ 3,161	9.2%		
California	1,412	4.1	0	0.0	1,412	4.1		
Louisiana	1,334	3.9	0	0.0	1,334	3.9		
Florida	954	2.8	0	0.0	954	2.8		
Georgia	908	2.6	0	0.0	908	2.6		
New York	894	2.6	0	0.0	894	2.6		
Illinois	843	2.5	0	0.0	843	2.5		
Other	8,361	24.3	0	0.0	8,361	24.3		
Total auto	\$ 17,867	52.0%	\$ 0	0.0%	\$ 17,867	52.0%		
Home loan:								
New York	\$ 2,069	6.0%	\$ 311	0.9%	\$ 2,380	6.9%		
California	959	2.8	1,380	4.0	2,339	6.8		
Louisiana	1,776	5.2	2	0.0	1,778	5.2		
Maryland	281	0.8	605	1.8	886	2.6		
Virginia	200	0.6	591	1.7	791	2.3		
New Jersey	423	1.2	278	0.8	701	2.0		
Other	1,503	4.4	1,725	5.0	3,228	9.4		
Total home loans	\$ 7,211	21.0%	\$ 4,892	14.2%	\$ 12,103	35.2%		
Retail banking:								
Louisiana	\$ 1,754	5.1%	\$ 0	0.0%	\$ 1,754	5.1%		
Texas	1,125	3.3	0	0.0	1,125	3.3		
New York	909	2.6	0	0.0	909	2.6		
New Jersey	357	1.0	0	0.0	357	1.0		
Maryland	58	0.2	31	0.1	89	0.3		
Virginia	35	0.1	17	0.1	52	0.2		
Other	73	0.2	54	0.1	127	0.3		
Total retail banking	\$ 4,311	12.5%	\$ 102	0.3%	\$ 4,413	12.8%		
Total consumer banking	\$ 29,389	85.5%	\$ 4,994	14.5%	\$ 34,383	100.0%		

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(Dollars in millions)	December 31, 2010							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Credit performance:⁽²⁾								
30+ day delinquencies	\$ 1,453	8.13%	\$ 504	4.16%	\$ 93	2.11%	\$ 2,050	5.96%
90+ day delinquencies	99	0.55	395	3.27	40	0.91	534	1.54
Nonperforming loans	99	0.55	486	4.01	91	2.07	676	1.97

(Dollars in millions)	Three Months Ended September 30, 2011							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs ⁽³⁾	\$ 83	1.69%	\$ 15	0.53%	\$ 17	1.67%	\$ 115	1.32%

(Dollars in millions)	Three Months Ended September 30, 2010							
	Auto		Home Loans		Retail Banking		Total Consumer Banking	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs ⁽³⁾	\$ 118	2.71%	\$ 13	0.41%	\$ 26	2.20%	\$ 157	1.79%

(Dollars in millions)	Nine Months Ended September 30, 2011							
	Auto		Home Loans		Retail Banking		Total Consumer Banking	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs ⁽³⁾	\$ 224	1.58%	\$ 53	0.61%	\$ 59	1.91%	\$ 336	1.30%

(Dollars in millions)	Nine Months Ended September 30, 2010							
	Auto		Home Loans		Retail Banking		Total Consumer Banking	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs ⁽³⁾	\$ 340	2.59%	\$ 65	0.62%	\$ 78	2.14%	\$ 483	1.77%

(1) Percentages by geographic region are calculated based on the total held-for-investment consumer banking loans as of the end of the reported period.

(2) Credit performance statistics exclude PCI loans, which were recorded at fair value at acquisition. Although PCI loans may be contractually delinquent, we separately track these loans and do not include them in our delinquency and nonperforming loan statistics as the fair value recorded at acquisition included an estimate of credit losses expected to be realized over the remaining lives of the loans.

(3) Calculated by dividing annualized net charge-offs by average loans held for investment for the three and nine months ended September 30, 2011 and 2010.

Home Loan

Our home loan portfolio consists of both first-lien and second-lien residential mortgage loans. In evaluating the credit quality and risk of our home loans portfolio, we continually monitor a variety of mortgage loan characteristics that may affect the default experience on our overall home loans portfolio, such as vintage, geographic concentrations, lien priority and product type. Certain loan concentrations have experienced higher delinquency rates as a result of the significant decline in home prices since the home price peak in 2006 and rise

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in unemployment. These loan concentrations include loans originated during 2008, 2007 and 2006 in an environment of decreasing home sales, broadly declining home prices and more relaxed underwriting standards and loans on properties in Arizona, California, Florida and Nevada, which have experienced the most severe decline in home prices. The following table presents the distribution of our home loans portfolio as of September 30, 2011 and December 31, 2010 based on selected key risk characteristics.

Home Loans: Risk Profile by Vintage, Geography, Lien Priority and Interest Rate Type

(Dollars in millions)	Non-PCI Loans		September 30, 2011 PCI Loans		Total Home Loans	
	Amount	% of Total ⁽¹⁾	Amount	% of Total ⁽¹⁾	Amount	% of Total ⁽¹⁾
Origination year:						
< = 2005	\$ 4,294	39.3%	\$ 1,592	14.6%	\$ 5,886	53.9%
2006	753	6.9	981	9.0	1,734	15.9
2007	565	5.2	1,324	12.1	1,889	17.3
2008	273	2.5	310	2.8	583	5.3
2009	237	2.2	21	0.2	258	2.4
2010	295	2.7	45	0.4	340	3.1
2011	217	2.0	9	0.1	226	2.1
Total	\$ 6,634	60.8%	\$ 4,282	39.2%	\$ 10,916	100.0%
Geographic concentration: ⁽²⁾						
New York	\$ 1,799	16.5%	\$ 279	2.6%	\$ 2,078	19.1%
California	822	7.5	1,283	11.8	2,105	19.3
Louisiana	1,711	15.7	2	0.0	1,713	15.7
Maryland	275	2.5	570	5.2	845	7.7
Virginia	191	1.8	551	5.0	742	6.8
New Jersey	354	3.2	261	2.4	615	5.6
Texas	478	4.4	30	0.3	508	4.7
Florida	123	1.1	261	2.4	384	3.5
District of Columbia	63	0.6	145	1.3	208	1.9
Washington	63	0.6	101	0.9	164	1.5
Connecticut	85	0.8	78	0.7	163	1.5
Other	670	6.1	721	6.6	1,391	12.7
Total	\$ 6,634	60.8%	\$ 4,282	39.2%	\$ 10,916	100.0%
Lien type:						
1 st lien	\$ 5,495	50.3%	\$ 3,789	34.7%	\$ 9,284	85.0%
2 nd lien	1,139	10.5	493	4.5	1,632	15.0
Total	\$ 6,634	60.8%	\$ 4,282	39.2%	\$ 10,916	100.0%
Interest rate type:						
Fixed rate	\$ 2,856	26.2%	\$ 91	0.8%	\$ 2,947	27.0%
Adjustable rate	3,778	34.6	4,191	38.4	7,969	73.0

Total	\$ 6,634	60.8%	\$ 4,282	39.2%	\$ 10,916	100.0%
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(Dollars in millions)	Non-PCI Loans		December 31, 2010 PCI Loans		Total Home Loans	
	Amount	% of Total ⁽¹⁾	Amount	% of Total ⁽¹⁾	Amount	% of Total ⁽¹⁾
Origination year:						
< = 2005	\$ 4,801	39.7%	\$ 1,852	15.3%	\$ 6,653	55.0%
2006	848	7.0	1,133	9.3	1,981	16.3
2007	609	5.0	1,527	12.6	2,136	17.6
2008	305	2.5	371	3.1	676	5.6
2009	288	2.4	9	0.1	297	2.5
2010	360	3.0	0	0.0	360	3.0
Total	\$ 7,211	59.6%	\$ 4,892	40.4%	\$ 12,103	100.0%
Geographic concentration:⁽²⁾						
New York	\$ 2,069	17.1%	\$ 311	2.6%	\$ 2,380	19.7%
California	959	7.9	1,380	11.4	2,339	19.3
Louisiana	1,776	14.7	2	0.0	1,778	14.7
Maryland	281	2.3	605	5.0	886	7.3
Virginia	200	1.7	591	4.9	791	6.6
New Jersey	423	3.5	278	2.3	701	5.8
Texas	491	4.1	32	0.3	523	4.4
Florida	139	1.1	290	2.4	429	3.5
District of Columbia	77	0.6	149	1.2	226	1.8
Connecticut	110	0.9	85	0.7	195	1.6
Other	686	5.7	1,169	9.6	1,855	15.3
Total	\$ 7,211	59.6%	\$ 4,892	40.4%	\$ 12,103	100.0%
Lien type:						
1 st lien	\$ 6,015	49.7%	\$ 4,303	35.5%	\$ 10,318	85.2%
2 nd lien	1,196	9.9	589	4.9	1,785	14.8
Total	\$ 7,211	59.6%	\$ 4,892	40.4%	\$ 12,103	100.0%
Interest rate type:						
Fixed rate	\$ 3,548	29.3%	\$ 182	1.5%	\$ 3,730	30.8%
Adjustable rate	3,663	30.3	4,710	38.9	8,373	69.2
Total	\$ 7,211	59.6%	\$ 4,892	40.4%	\$ 12,103	100.0%

⁽¹⁾ Percentages within each risk category calculated based on total held for investment home loans.

⁽²⁾ Represents the top ten states in which we have the highest concentration of home loans.

Commercial Banking

We evaluate the credit risk of commercial loans individually and use a risk-rating system to determine the credit quality of our commercial loans. We assign internal risk grades to loans based on relevant information about the ability of borrowers to service their debt. In determining the risk rating of a particular loan, among the factors considered are the borrower's current financial condition, historical credit performance,

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projected future credit performance, prospects for support from financially responsible guarantors, the estimated realizable value of any collateral and current economic trends. The ratings scale based on our internal risk-rating system is as follows:

Noncriticized: Loans that have not been designated as criticized, frequently referred to as *pass* loans.

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Criticized performing: Loans in which the financial condition of the obligor is stressed, affecting earnings, cash flows or collateral values. The borrower currently has adequate capacity to meet near-term obligations; however, the stress, left unabated, may result in deterioration of the repayment prospects at some future date.

Criticized nonperforming: Loans that are not adequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. Loans classified as criticized nonperforming have a well-defined weakness, or weaknesses, which jeopardize the repayment of the debt. These loans are characterized by the distinct possibility that we will sustain a credit loss if the deficiencies are not corrected.

We use our internal risk-rating system for regulatory reporting, determining the frequency of review of the credit exposures and evaluation and determination of the allowance for commercial loans. Loans of \$1 million or more designated as criticized performing and criticized nonperforming are reviewed quarterly by management for further deterioration or improvement to determine if they are appropriately classified/graded and whether impairment exists. All other loans greater than \$1 million are specifically reviewed at least annually to determine the appropriate loan grading. In addition, during the renewal process of any loan, as well if a loan becomes past due, we evaluate the risk rating.

The following table presents the geographic distribution and internal risk ratings of our commercial loan portfolio as of September 30, 2011 and December 31, 2010.

Commercial Banking: Risk Profile by Geographic Region and Internal Risk Rating⁽¹⁾

(Dollars in millions)	September 30, 2011									
	Commercial & Multifamily		Middle Market		Specialty Lending		Small-ticket Commercial		Total Commercial	
	Real Estate	% of Total ⁽²⁾	Middle Market	% of Total ⁽²⁾	Specialty Lending	% of Total ⁽²⁾	Real Estate	% of Total ⁽²⁾	Total Commercial	% of Total ⁽²⁾
Geographic concentration:⁽³⁾										
Non-PCI loans:										
Northeast	\$ 11,450	79.6%	\$ 3,565	29.9%	\$ 1,590	37.7%	\$ 974	62.0%	\$ 17,579	54.8%
Mid-Atlantic	913	6.4	544	4.5	191	4.5	62	3.9	1,710	5.3
South	1,531	10.6	6,876	57.7	756	17.9	95	6.1	9,258	28.8
Other	334	2.3	609	5.1	1,684	39.9	440	28.0	3,067	9.6
Total non-PCI loans	14,228	98.9	11,594	97.2	4,221	100.0	1,571	100.0	31,614	98.5
PCI loans	161	1.1	330	2.8	0	0.0	0	0.0	491	1.5
Total	\$ 14,389	100.0%	\$ 11,924	100.0%	\$ 4,221	100.0%	\$ 1,571	100.0%	\$ 32,105	100.0%
Internal risk rating:⁽⁴⁾										
Non-PCI loans:										
Noncriticized	\$ 12,842	89.3%	\$ 10,893	91.3%	\$ 4,132	97.9%	\$ 1,507	96.0%	\$ 29,374	91.6%
Criticized performing	1,100	7.6	584	4.9	54	1.3	43	2.7	1,781	5.5
Criticized nonperforming	286	2.0	117	1.0	35	0.8	21	1.3	459	1.4
Total non-PCI loans	14,228	98.9	11,594	97.2	4,221	100.0	1,571	100.0	31,614	98.5
PCI loans:										
Noncriticized	\$ 126	0.9%	\$ 317	2.7%	\$ 0	0.0%	\$ 0	0.0%	\$ 443	1.4%
Criticized performing	35	0.2	13	0.1	0	0.0	0	0.0	48	0.1

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Total PCI loans	161	1.1	330	2.8	0	0.0	0	0.0	491	1.5
Total	\$ 14,389	100.0%	\$ 11,924	100.0%	\$ 4,221	100.0%	\$ 1,571	100.0%	\$ 32,105	100.0%

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(Dollars in millions)	December 31, 2010									
	Commercial & Multifamily		Middle Market		Specialty Lending		Small-ticket Commercial		Total Commercial	
	Real Estate	% of Total ⁽²⁾		% of Total ⁽²⁾		% of Total ⁽²⁾	Real Estate	% of Total ⁽²⁾		% of Total ⁽²⁾
Geographic concentration:⁽³⁾										
Non-PCI loans:										
Northeast	\$ 10,849	81.0%	\$ 3,240	30.9%	\$ 1,548	38.5%	\$ 1,137	61.7%	\$ 16,774	56.4%
Mid-Atlantic	720	5.4	960	9.2	185	4.6	71	3.9	1,936	6.5
South	1,315	9.8	5,191	49.5	733	18.2	119	6.5	7,358	24.7
Other	234	1.8	811	7.7	1,554	38.7	515	27.9	3,114	10.5
Total non-PCI loans	13,118	98.0	10,202	97.3	4,020	100.0	1,842	100.0	29,182	98.1
PCI loans	278	2.0	282	2.7	0	0.0	0	0.0	560	1.9
Total	\$ 13,396	100.0%	\$ 10,484	100.0%	\$ 4,020	100.0%	\$ 1,842	100.0%	\$ 29,742	100.0%
Internal risk rating:⁽⁴⁾										
Non-PCI loans:										
Noncriticized	\$ 11,611	86.7%	\$ 9,445	90.1%	\$ 3,897	96.9%	\$ 1,710	92.8%	\$ 26,663	89.6%
Criticized performing	1,231	9.2	624	6.0	75	1.9	95	5.2	2,025	6.8
Criticized nonperforming	276	2.1	133	1.2	48	1.2	37	2.0	494	1.7
Total non-PCI loans	13,118	98.0	10,202	97.3	4,020	100.0	1,842	100.0	29,182	98.1
PCI loans:										
Noncriticized	\$ 186	1.3%	\$ 235	2.3%	\$ 0	0.0%	\$ 0	0.0%	\$ 421	1.4%
Criticized performing	92	0.7	47	0.4	0	0.0	0	0.0	139	0.5
Total PCI loans	278	2.0	282	2.7	0	0.0	0	0.0	560	1.9
Total	\$ 13,396	100.0%	\$ 10,484	100.0%	\$ 4,020	100.0%	\$ 1,842	100.0%	\$ 29,742	100.0%

(1) Amounts based on total loans as of September 30, 2011 and December 31, 2010.

(2) Percentages calculated based on total held for investment commercial loans in each respective loan category as of the end of the reported period.

(3) Northeast consists of CT, ME, MA, NH, NJ, NY, PA and VT. Mid-Atlantic consists of DE, DC, MD, VA and WV. South consists of AL, AR, FL, GA, KY, LA, MS, MO, NC, SC, TN and TX.

(4) Criticized exposures correspond to the Special Mention, Substandard and Doubtful asset categories defined by banking regulatory authorities.

Impaired Loans and Troubled Debt Restructurings

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due from the borrower in accordance with the original contractual terms of the loan. Loans with insignificant delays or insignificant shortfalls in the amount of payments expected to be collected are not considered to be impaired. Income recognition on impaired loans is consistent with that of nonaccrual loans discussed above under Delinquent and Nonperforming Loans.

Loans defined as individually impaired, based on applicable accounting guidance, include larger balance nonperforming loans and TDR loans. Our policies for reporting loans as individually impaired, by loan category, are as follows:

Credit card loans: Credit card loans, including installment loans, that have been modified in a troubled debt restructuring are accounted for and reported as individually impaired.

Consumer banking loans: Consumer banking loans that have been modified in a troubled debt restructuring are accounted for and reported as individually impaired.

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Commercial banking loans: Commercial banking loans classified as nonperforming or that have been modified in a troubled debt restructuring are reported as impaired.

Purchased credit-impaired loans: We track and report PCI loans separately from other impaired loans.

We do not report nonperforming consumer loans that have not been modified in a TDR as individually impaired, as we collectively evaluate these smaller-balance homogenous loans for impairment in accordance with applicable accounting guidance. Held for sale loans are also not reported as impaired, as these loans are recorded at lower of cost or fair value.

All individually impaired loans are evaluated for an asset-specific allowance. Once a loan is modified in a TDR, the loan is generally considered impaired until maturity regardless of whether the borrower performs under the modified terms. Although the loan may be returned to accrual status if the criteria above under *Delinquent and Nonperforming Loans* are met, the loan would continue to be evaluated for an asset-specific allowance for loan losses and we would continue to report the loan as impaired.

We generally measure impairment and the related asset-specific allowance for individually impaired loans based on the difference between the recorded investment of the loan and present value of the loans' expected future cash flows, discounted at the effective original interest rate of the loan at the time of modification or the loan's observable market price. If the loan is collateral dependent, we measure impairment based upon the fair value of the underlying collateral, which we determine based on the current fair value of the collateral less estimated selling costs, instead of discounted cash flows. Loans are identified as collateral dependent if we believe that collateral is the sole source of repayment.

If the fair value of the loan is less than the recorded investment, we recognize impairment by establishing an allowance for the loan or by adjusting an allowance for the impaired loan.

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The following table presents information about our impaired loans, excluding purchased credit-impaired loans, which are reported separately and discussed below:

(Dollars in millions)	September 30, 2011							
	With an Allowance	Without an Allowance	Total Recorded Investment	Related Allowance	Net Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Income Recognized
Credit card and Installment loans:								
Domestic card and installment loans	\$ 728	\$ 0	\$ 728	\$ 263	\$ 465	\$ 710	\$ 743	\$ 57
International card and installment loans	187	0	187	102	85	176	147	5
Total credit card and installment loans ⁽¹⁾	915	0	915	365	550	886	890	62
Consumer banking:								
Auto	44	0	44	6	38	44	17	2
Home loans	101	0	101	10	91	101	73	3
Retail banking	56	19	75	10	65	81	46	1
Total consumer banking	201	19	220	26	194	226	136	6
Commercial banking:								
Commercial and multifamily real estate	262	206	468	60	408	540	405	6
Middle market	73	98	171	9	162	200	131	1
Specialty lending	10	9	19	3	16	25	20	0
Total commercial lending	345	313	658	72	586	765	556	7
Small-ticket commercial real estate	13	12	25	1	24	35	94	0
Total commercial banking	358	325	683	73	610	800	650	7
Other:								
Other loans	0	1	1	0	1	1	1	0
Total	\$ 1,474	\$ 345	\$ 1,819	\$ 464	\$ 1,355	\$ 1,913	\$ 1,677	\$ 75

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(Dollars in millions)	December 31, 2010							
	With an Allowance	Without an Allowance	Total Recorded Investment	Related Allowance	Net Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Income Recognized
Credit card and installment loans:								
Domestic card and installment loans	\$ 753	\$ 0	\$ 753	\$ 253	\$ 500	\$ 739	\$ 644	\$ 76
International card and installment loans	160	0	160	133	27	154	128	0
Total credit card and installment loans ⁽¹⁾	913	0	913	386	527	893	772	76
Consumer banking:								
Auto	0	0	0	0	0	0	0	0
Home loans	57	0	57	1	56	57	28	1
Retail banking	23	17	40	1	39	51	46	1
Total consumer banking	80	17	97	2	95	108	74	2
Commercial banking:								
Commercial and multifamily real estate	40	283	323	6	317	436	385	4
Middle market	25	95	120	7	113	156	109	1
Specialty lending	1	20	21	0	21	22	35	0
Total commercial lending	66	398	464	13	451	614	529	5
Small-ticket commercial real estate	16	20	36	2	34	73	41	1
Total commercial banking	82	418	500	15	485	687	570	6
Other:								
Other loans	0	0	0	0	0	0	0	0
Total	\$ 1,075	\$ 435	\$ 1,510	\$ 403	\$ 1,107	\$ 1,688	\$ 1,416	\$ 84

⁽¹⁾ Credit Card and Installment loans include finance charges and fees.

TDR loans accounted for \$1.5 billion and \$1.1 billion of impaired loans as of September 30, 2011 and December 31, 2010, respectively. Consumer TDR loans classified as performing totaled \$1.1 billion and \$983 million, respectively, as of September 30, 2011 and December 31, 2010. Commercial TDR loans classified as performing totaled \$379 million, and \$162 million, respectively, as of September 30, 2011 and December 31.

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As part of our loan modifications to borrowers experiencing financial difficulty, we may provide multiple concessions to minimize our economic loss and improve long-term loan performance and collectability. The following tables present the types, amounts and financial effects of loans modified and accounted for as troubled debt restructurings during the period:

(Dollars in millions)	Three Months Ended September 30, 2011						
		Reduced Interest Rate		Term Extension		Balance Reduction	
	Total Loans Modified ⁽¹⁾	% of TDR activity ⁽²⁾⁽⁸⁾	Average Rate Reduction ⁽³⁾	% of TDR Activity ⁽⁴⁾⁽⁸⁾	Average Term Extension (Months) ⁽⁵⁾	% of TDR Activity ⁽⁶⁾⁽⁸⁾	Gross Balance Reduction ⁽⁷⁾
Credit card:							
Domestic	\$ 79	100%	10.39%	0%	0	0%	\$ 0
International	67	100	22.01	0	0	0	0
Total credit card	146	100	15.72	0	0	0	0
Consumer banking:							
Auto	21	66	1.39	100	10	0	0
Home loans	19	45	2.01	63	115	13	0