TYSON FOODS INC
Form 10-Q
February 05, 2016
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
For the quarterly period ended January 2, 2016
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
001-14704
(Commission File Number)

TYSON FOODS, INC.
(Exact name of registrant as specified in its charter)

Delaware	71-0225165
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2200 West Don Tyson Parkway, Springdale, Arkansas	72762-6999
(Address of principal executive offices)	(Zip Code)

(479) 290-4000
(Registrant’s telephone number, including area code)
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant 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 x 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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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 x
Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of January 2, 2016.

Class	Outstanding Shares
Class A Common Stock, $0.10 Par Value (Class A stock)	293,093,548
Class B Common Stock, $0.10 Par Value (Class B stock)	70,010,805

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PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
TYSON FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF INCOME
(In millions, except per share data)
(Unaudited)

	Three Months Ended	
	January 2, 2016	December 27, 2014
Sales	$9,152	$10,817
Cost of Sales	7,951	9,861
Gross Profit	1,201	956
Selling, General and Administrative	425	447
Operating Income	776	509
Other (Income) Expense:		
Interest income	(2)	(2)
Interest expense	67	77
Other, net	(1)	(1)
Total Other (Income) Expense	64	74
Income before Income Taxes	712	435
Income Tax Expense	251	125
Net Income	461	310
Less: Net Income Attributable to Noncontrolling Interests	—	1
Net Income Attributable to Tyson	$461	$309
Weighted Average Shares Outstanding:		
Class A Basic	325	336
Class B Basic	70	70
Diluted	400	416
Net Income Per Share Attributable to Tyson:		
Class A Basic	$1.18	$0.77
Class B Basic	$1.09	$0.71
Diluted	$1.15	$0.74
Dividends Declared Per Share:		
Class A	$0.200	$0.125
Class B	$0.180	$0.113

See accompanying Notes to Consolidated Condensed Financial Statements.

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TYSON FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)
(Unaudited)

	Three Months Ended	
	January 2, 2016	December 27, 2014
Net Income	$461	$310
Other Comprehensive Income (Loss), Net of Taxes:		
Derivatives accounted for as cash flow hedges	—	1
Investments	(1)	9
Currency translation	(5)	6
Postretirement benefits	(2)	7
Total Other Comprehensive Income (Loss), Net of Taxes	(8)	23
Comprehensive Income	453	333
Less: Comprehensive Income Attributable to Noncontrolling Interests	—	1
Comprehensive Income Attributable to Tyson	$453	$332

See accompanying Notes to Consolidated Condensed Financial Statements.

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TYSON FOODS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(In millions, except share and per share data)
(Unaudited)

	January 2, 2016	October 3, 2015
Assets		
Current Assets:		
Cash and cash equivalents	$1,187	$688
Accounts receivable, net	1,514	1,620
Inventories	2,818	2,878
Other current assets	158	195
Total Current Assets	5,677	5,381
Net Property, Plant and Equipment	5,184	5,176
Goodwill	6,669	6,667
Intangible Assets, net	5,145	5,168
Other Assets	615	612
Total Assets	$23,290	$23,004
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current debt	$717	$715
Accounts payable	1,781	1,662
Other current liabilities	1,170	1,158
Total Current Liabilities	3,668	3,535
Long-Term Debt	5,988	6,010
Deferred Income Taxes	2,514	2,449
Other Liabilities	1,343	1,304
Commitments and Contingencies (Note 16)		
Shareholders' Equity:		
Common stock ($0.10 par value):		
Class A-authorized 900 million shares, issued 346 million shares	35	35
Convertible Class B-authorized 900 million shares, issued 70 million shares	7	7
Capital in excess of par value	4,293	4,307
Retained earnings	7,203	6,813
Accumulated other comprehensive loss	(98)	(90)
Treasury stock, at cost – 53 million shares at January 2, 2016, and 47 million shares at October 3, 2015	(1,678)	(1,381)
Total Tyson Shareholders' Equity	9,762	9,691
Noncontrolling Interests	15	15
Total Shareholders' Equity	9,777	9,706
Total Liabilities and Shareholders' Equity	$23,290	$23,004

See accompanying Notes to Consolidated Condensed Financial Statements.

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TYSON FOODS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended	
	January 2, 2016	December 27, 2014
Cash Flows From Operating Activities:		
Net income	$461	$310
Depreciation and amortization	172	175
Deferred income taxes	69	11
Other, net	(1)	6
Net changes in operating assets and liabilities	394	310
Cash Provided by Operating Activities	1,095	812
Cash Flows From Investing Activities:		
Additions to property, plant and equipment	(188)	(231)
Purchases of marketable securities	(12)	(10)
Proceeds from sale of marketable securities	10	7
Proceeds from sale of businesses	—	142
Other, net	(1)	3
Cash Used for Investing Activities	(191)	(89)
Cash Flows From Financing Activities:		
Payments on debt	(20)	(668)
Purchases of Tyson Class A common stock	(387)	(91)
Dividends	(54)	(37)
Stock options exercised	34	16
Other, net	23	5
Cash Used for Financing Activities	(404)	(775)
Effect of Exchange Rate Changes on Cash	(1)	(5)
Increase (Decrease) in Cash and Cash Equivalents	499	(57)
Cash and Cash Equivalents at Beginning of Year	688	438
Cash and Cash Equivalents at End of Period	$1,187	$381

See accompanying Notes to Consolidated Condensed Financial Statements.

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TYSON FOODS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1: ACCOUNTING POLICIES

Basis of Presentation

The consolidated condensed financial statements are unaudited and have been prepared by Tyson Foods, Inc. (“Tyson,” “the Company,” “we,” “us” or “our”). Certain information and accounting policies and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations of the United States Securities and Exchange Commission. Although we believe the disclosures contained herein are adequate to make the information presented not misleading, these consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended October 3, 2015. Preparation of consolidated condensed financial statements requires us to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated condensed financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

We believe the accompanying consolidated condensed financial statements contain all adjustments, which are of a normal recurring nature, necessary to state fairly our financial position as of January 2, 2016, and the results of operations for the three months ended January 2, 2016, and December 27, 2014. Results of operations and cash flows for the periods presented are not necessarily indicative of results to be expected for the full year.

Consolidation

The consolidated condensed financial statements include the accounts of all wholly-owned subsidiaries, as well as majority-owned subsidiaries over which we exercise control and, when applicable, entities for which we have a controlling financial interest or variable interest entities for which we are the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Recently Issued Accounting Pronouncements

In January 2016, the Financial Accounting Standards Board ("FASB") issued guidance that requires most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. The guidance also impacts financial liabilities under the fair value option and the presentation and disclosure requirements on the classification and measurement of financial instruments. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

In November 2015, the FASB issued guidance to simplify the presentation of deferred income taxes. The new guidance requires that deferred tax liabilities and assets be classified as non-current in the balance sheet. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2016, our fiscal 2018, and may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

In July 2015, the FASB issued guidance which requires management to evaluate inventory at the lower of cost and net realizable value. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2016, our fiscal 2018. Early adoption is permitted and the prospective transition method should be applied. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

In April 2015, the FASB issued guidance on the recognition of fees paid by a customer for cloud computing arrangements. The new guidance clarifies that if a cloud computing arrangement includes a software license, the customer should account for the software license consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2015, our fiscal 2017. The Company is currently evaluating the impact this

guidance will have on our consolidated financial statements.
In April 2015, the FASB issued guidance which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2015, our fiscal 2017. Early adoption is permitted. This new guidance is not expected to have a material impact on our consolidated financial statements.

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In February 2015, the FASB issued guidance changing the analysis procedures that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The new guidance affects the following areas: (1) limited partnerships and similar legal entities, (2) evaluating fees paid to a decision maker or a service provider as a variable interest, (3) the effect of fee arrangements on the primary beneficiary determination, (4) the effect of related parties on the primary beneficiary determination, and (5) certain investment funds. This guidance is effective for annual reporting periods and interim periods within those annual reporting periods, beginning after December 15, 2015, our fiscal 2017. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

In May 2014, the FASB issued guidance changing the criteria for recognizing revenue. The guidance provides for a single five-step model to be applied to all revenue contracts with customers. The standard also requires additional financial statement disclosures that will enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows relating to customer contracts. Companies have an option to use either a retrospective approach or cumulative effect adjustment approach to implement the standard. This guidance is effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017, our fiscal 2019. Early adoption is permitted for fiscal years beginning after December 15, 2016. The Company is currently evaluating the impact this guidance will have on our consolidated financial statements.

NOTE 2: DISPOSITIONS

In fiscal 2015, we sold the Brazil and Mexico chicken production operations, which were included in Other within our segment reporting, to JBS SA ("JBS") for a combined $575 million in cash, which was subject to certain adjustments.

We completed the sale of the Brazil operation in the first quarter of fiscal 2015 and received net proceeds of $148 million including working capital, net debt adjustments and cash transferred. The sale did not result in a significant gain or loss as the carrying value of the Brazil operation approximated the sales proceeds at the time of sale.

We completed the sale of the Mexico operation in the fourth quarter of fiscal 2015 and received net proceeds of approximately $374 million including working capital, net debt adjustments and cash transferred. As a result of the sale, we recorded a pre-tax gain of
$161 million, in the fourth quarter of fiscal 2015, which was reflected in Cost of Sales in our Consolidated Condensed Statements of Income.

To better align our overall production capacity with current cattle supplies, we ceased beef operations at our Denison, Iowa plant in fiscal 2015. As a result, we recorded $12 million in closure and impairment charges during the fourth quarter of fiscal 2015. These charges impacted the Beef segment’s operating income and were reflected in Cost of Sales in our Consolidated Condensed Statements of Income.

In the fourth quarter of fiscal 2015, we recorded a $59 million impairment and other related charges associated with a Prepared Foods project designed to optimize the combined Tyson and Hillshire Brands network capacity and to enhance manufacturing efficiencies for the future. As a result of this project, we expect to close our Chicago, Illinois hospitality plant and our Jefferson, Wisconsin plant in the back half of fiscal 2016. These charges were reflected in the Prepared Foods segment’s operating income in the fourth quarter of fiscal 2015, of which $49 million was included in the Consolidated Condensed Statements of Income in Cost of Sales and $10 million was included in the Consolidated Condensed Statements of Income in Selling, General and Administrative.

Additionally, in the third quarter of fiscal 2015, as part of our ongoing efforts to increase efficiencies in our Chicken business, we closed our Buena Vista, Georgia plant. The closure costs did not have a significant impact on the Company's operating results.

NOTE 3: INVENTORIES

Processed products, livestock and supplies and other are valued at the lower of cost or market. Cost includes purchased raw materials, live purchase costs, growout costs (primarily feed, grower pay and catch and haul costs), labor and manufacturing and production overhead, which are related to the purchase and production of inventories.

At January 2, 2016, 61% of the cost of inventories was determined by the first-in, first-out ("FIFO") method as compared to 63% at October 3, 2015. The remaining cost of inventories for both years is determined by the weighted-average method.

The following table reflects the major components of inventory (in millions):

	January 2, 2016	October 3, 2015
Processed products	$1,501	$1,631
Livestock	905	831
Supplies and other	412	416
Total inventory	$2,818	$2,878

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NOTE 4: PROPERTY, PLANT AND EQUIPMENT

The major categories of property, plant and equipment and accumulated depreciation are as follows (in millions):

	January 2, 2016	October 3, 2015
Land	$125	$122
Buildings and leasehold improvements	3,599	3,581
Machinery and equipment	6,575	6,452
Land improvements and other	287	286
Buildings and equipment under construction	355	375
	10,941	10,816
Less accumulated depreciation	5,757	5,640
Net property, plant and equipment	$5,184	$5,176

NOTE 5: OTHER CURRENT LIABILITIES

Other current liabilities are as follows (in millions):

	January 2, 2016	October 3, 2015
Accrued salaries, wages and benefits	$354	$478
Accrued marketing, advertising and promotion expense	204	192
Other	612	488
Total other current liabilities	$1,170	$1,158

NOTE 6: DEBT

The major components of debt are as follows (in millions):

	January 2, 2016	October 3, 2015
Revolving credit facility	$—	$—
Senior notes:		
6.60% Senior notes due April 2016	638	638
7.00% Notes due May 2018	120	120
2.65% Notes due August 2019	1,000	1,000
4.10% Notes due September 2020	285	285
4.50% Senior notes due June 2022	1,000	1,000
3.95% Notes due August 2024	1,250	1,250
7.00% Notes due January 2028	18	18
6.13% Notes due November 2032	163	163
4.88% Notes due August 2034	500	500
5.15% Notes due August 2044	500	500
Discount on senior notes	(9)	(10)
Term loans:		
3-year tranche B (1.44% at 1/2/2016)	500	500
5-year tranche B (1.88% at 1/2/2016)	552	552
Amortizing notes - tangible equity units (see Note 7: Equity)	123	140
Other	65	69
Total debt	6,705	6,725
Less current debt	717	715
Total long-term debt	$5,988	$6,010

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Revolving Credit Facility

We have a $1.25 billion revolving credit facility that supports short-term funding needs and letters of credit. The facility will mature and the commitments thereunder will terminate in September 2019. After reducing for the amount borrowed and outstanding letters of credit issued under this facility, the amount available for borrowing at January 2, 2016, was $1,244 million. At January 2, 2016, we had outstanding letters of credit issued under this facility totaling $6 million, none of which were drawn upon. We had an additional $93 million of bilateral letters of credit issued separately from the revolving credit facility, none of which were drawn upon. Our letters of credit are issued primarily in support of leasing obligations and workers' compensation insurance programs.

The revolving credit facility is unsecured and is fully guaranteed by Tyson Fresh Meats, Inc. (TFM Parent), our wholly owned subsidiary, until such date TFM Parent is released from all of its guarantees of other material indebtedness. If in the future any of our other subsidiaries shall guarantee any of our material indebtedness, such subsidiary shall also be required to guarantee the indebtedness, obligations and liabilities under this facility.

Debt Covenants

Our revolving credit and term loan facilities contain affirmative and negative covenants that, among other things, may limit or restrict our ability to: create liens and encumbrances; incur debt; merge, dissolve, liquidate or consolidate; make acquisitions and investments; dispose of or transfer assets; change the nature of our business; engage in certain transactions with affiliates; and enter into hedging transactions, in each case, subject to certain qualifications and exceptions. In addition, we are required to maintain minimum interest expense coverage and maximum debt-to-capitalization ratios.

Our senior notes also contain affirmative and negative covenants that, among other things, may limit or restrict our ability to: create liens; engage in certain sale/leaseback transactions; and engage in certain consolidations, mergers and sales of assets.

We were in compliance with all debt covenants at January 2, 2016.

NOTE 7: EQUITY

Share Repurchases

As of January 2, 2016, 13.5 million shares remained available for repurchases under our share repurchase program. On February 4, 2016, our Board of Directors approved an increase of 50 million shares authorized for repurchase under our share repurchase program. The share repurchase program has no fixed or scheduled termination date and the timing and extent to which we repurchase shares will depend upon, among other things, our working capital needs, markets, industry conditions, liquidity targets, limitations under our debt obligations and regulatory requirements. In addition to the share repurchase program, we purchase shares on the open market to fund certain obligations under our equity compensation plans.

A summary of share repurchases of our Class A stock is as follows (in millions):

	Three Months Ended			
	January 2, 2016		December 27, 2014	
	Shares	Dollars	Shares	Dollars
Shares repurchased:				
Under share repurchase program	7.6	$357	2.0	$81
To fund certain obligations under equity compensation plans	0.7	30	0.2	10
Total share repurchases	8.3	$387	2.2	$91

Subsequent to January 2, 2016, through February 4, 2016, we repurchased $221 million, or approximately 4.3 million shares, of our common stock under our share repurchase program.

Tangible Equity Units

In fiscal 2014, we completed the public issuance of 30 million 4.75% tangible equity units (TEUs). Total proceeds, net of underwriting discounts and other expenses, were $1,454 million. Each TEU, which has a stated amount of $50, is comprised of a prepaid stock purchase contract and a senior amortizing note due July 15, 2017. We allocated the proceeds from the issuance of the TEUs to equity and debt based on the relative fair values of the respective components of each TEU. The fair value of the prepaid stock purchase contracts, which was $1,295 million, is recorded in Capital in Excess of Par Value, net of issuance costs. The fair value of the senior amortizing notes, which was $205 million, was recorded in debt. Issuance costs associated with the TEU debt were recorded as deferred financing costs in the Consolidated Condensed Balance Sheets in Other Assets and are amortized over the term of the instrument to July 15, 2017.

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The aggregate values assigned upon issuance of each component of the TEU's, based on the relative fair value of the respective components of each TEU, were as follows (in millions, except price per TEU):

	Equity Component	Debt Component	Total
Price per TEU	$43.17	$6.83	$50.00
Gross proceeds	1,295	205	1,500
Issuance cost	(40)	(6)	(46)
Net proceeds	$1,255	$199	$1,454

Each senior amortizing note has an initial principal amount of $6.83 and bears interest at 1.5% per annum. On each January 15, April 15, July 15 and October 15, we will pay equal quarterly cash installments of $0.59 per amortizing note, which cash payment in the aggregate (principal and interest) is equivalent to 4.75% per year with respect to the $50 stated amount per TEU. Each installment constitutes a payment of interest and partial repayment of principal.

Unless settled earlier at the holder's or the Company's option, each purchase contract will automatically settle on July 15, 2017, subject to postponement in certain limited circumstances. We will deliver between a minimum of 31.9 million shares and a maximum of 39.8 million shares of our Class A stock, subject to adjustment, based upon the Applicable Market Value (as defined below) of our Class A stock as described below:

- If the Applicable Market Value is equal to or greater than the conversion price of $47.06 per share, we will deliver 1.0624 shares of Class A stock per purchase contract, or a minimum of 31.9 million Class A shares.
- If the Applicable Market Value is greater than the reference price of $37.65 but less than the conversion price of $47.06 per share, we will deliver a number of shares per purchase contract equal to $50, divided by the Applicable Market Value.
- If the Applicable Market Value is less than or equal to the reference price of $37.65 per share, we will deliver 1.3282 shares of Class A stock per purchase contract, or a maximum of 39.8 million Class A shares.

The "Applicable Market Value" means the average of the closing prices of our Class A stock on each of the 20 consecutive trading days beginning on, and including, the 23rd scheduled trading day immediately preceding July 15, 2017.

On December 15, 2015, we paid our quarterly dividend to shareholders of record at December 1, 2015, equal to $0.15 per share on our Class A stock. The amount of the distribution exceeded the $0.075 per share dividend threshold amount. Consequently, the settlement rates, reference price and conversion price were adjusted and are reflected above.

The TEUs have a dilutive effect on our earnings per share. The 31.9 million minimum shares to be issued are included in the calculation of Class A Basic weighted average shares. The approximate 8 million share difference between the minimum shares and the 39.8 million maximum shares are potentially dilutive securities, and accordingly, are included in our diluted earnings per share on a pro rata basis to the extent the Applicable Market Value is higher than the reference price but is less than the conversion price at period end.

NOTE 8: INCOME TAXES

The effective tax rate was 35.2% and 28.8% for the first quarter of fiscal 2016 and 2015, respectively. The effective tax rates for the first quarter of fiscal 2016 and fiscal 2015 were impacted by such items as the domestic production deduction, state income taxes and losses in foreign jurisdictions for which no benefit is recognized. In addition, the first quarter of fiscal 2015 was impacted by changes in tax reserves resulting from the expiration of statutes of limitations, which reduced the effective tax rate by 6.5%.

Unrecognized tax benefits were $304 million and $306 million at January 2, 2016, and October 3, 2015, respectively. We estimate that during the next twelve months it is reasonably possible that unrecognized tax benefits could decrease by as much as $15 million primarily due to expiration of statutes of limitations in various jurisdictions.

NOTE 9: OTHER INCOME AND CHARGES

During the first quarter of fiscal 2016, we recorded $2 million of equity earnings in joint ventures and $1 million in net foreign currency exchange losses, which were recorded in the Consolidated Condensed Statements of Income in Other, net.

During the first quarter of fiscal 2015, we recorded $1 million of equity earnings in joint ventures, which were recorded in the Consolidated Condensed Statements of Income in Other, net.

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NOTE 10: EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share (in millions, except per share data):

	Three Months Ended	
	January 2, 2016	December 27, 2014
Numerator:		
Net income	$461	$310
Less: Net income attributable to noncontrolling interests	—	1
Net income attributable to Tyson	461	309
Less dividends declared:		
Class A	58	38
Class B	13	8
Undistributed earnings	$390	$263
Class A undistributed earnings	$327	$221
Class B undistributed earnings	63	42
Total undistributed earnings	$390	$263
Denominator:		
Denominator for basic earnings per share:		
Class A weighted average shares	325	336
Class B weighted average shares, and shares under the if-converted method for diluted earnings per share	70	70
Effect of dilutive securities:		
Stock options, restricted stock and performance units	5	5
Tangible equity units	—	5
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	400	416
Net income per share attributable to Tyson:		
Class A basic	$1.18	$0.77
Class B basic	$1.09	$0.71
Diluted	$1.15	$0.74

Approximately 2 million and 6 million of our stock-based compensation shares were antidilutive for the three months ended January 2, 2016, and December 27, 2014, respectively. These shares were not included in the diluted earnings per share calculation.

We have two classes of capital stock, Class A stock and Class B stock. Cash dividends cannot be paid to holders of Class B stock unless they are simultaneously paid to holders of Class A stock. The per share amount of cash dividends paid to holders of Class B stock cannot exceed 90% of the cash dividends paid to holders of Class A stock.

We allocate undistributed earnings based upon a 1 to 0.9 ratio per share to Class A stock and Class B stock, respectively. We allocate undistributed earnings based on this ratio due to historical dividend patterns, voting control of Class B shareholders and contractual limitations of dividends to Class B stock.

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NOTE 11: DERIVATIVE FINANCIAL INSTRUMENTS

Our business operations give rise to certain market risk exposures mostly due to changes in commodity prices, foreign currency exchange rates and interest rates. We manage a portion of these risks through the use of derivative financial instruments to reduce our exposure to commodity price risk, foreign currency risk and interest rate risk. Our risk management programs are periodically reviewed by our Board of Directors' Audit Committee. These programs are monitored by senior management and may be revised as market conditions dictate. Our current risk management programs utilize industry-standard models that take into account the implicit cost of hedging. Risks associated with our market risks and those created by derivative instruments and the fair values are strictly monitored, using value-at-risk and stress tests. Credit risks associated with our derivative contracts are not significant as we minimize counterparty concentrations, utilize margin accounts or letters of credit, and deal with credit-worthy counterparties. Additionally, our derivative contracts are mostly short-term in duration and we generally do not make use of credit-risk-related contingent features. No significant concentrations of credit risk existed at January 2, 2016.

We had the following aggregated outstanding notional amounts related to our derivative financial instruments (in millions, except soy meal tons):

	Metric	January 2, 2016	October 3, 2015
Commodity:			
Corn	Bushels	37	18
Soy meal	Tons	392,300	284,900
Live cattle	Pounds	106	102
Lean hogs	Pounds	87	166
Foreign currency	United States dollar	$27	$42

We recognize all derivative instruments as either assets or liabilities at fair value in the Consolidated Condensed Balance Sheets, with the exception of normal purchases and normal sales expected to result in physical delivery. For those derivative instruments that are designated and qualify as hedging instruments, we designate the hedging instrument based upon the exposure being hedged (i.e., cash flow hedge or fair value hedge). We designate certain forward contracts as follows:

- Cash Flow Hedges – include certain commodity forward and option contracts of forecasted purchases (i.e., grains) and certain foreign exchange forward contracts.
- Fair Value Hedges – include certain commodity forward contracts of firm commitments (i.e., livestock).

Cash Flow Hedges

Derivative instruments are designated as hedges against changes in the amount of future cash flows related to procurement of certain commodities utilized in our production processes. For the derivative instruments we designate and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses representing hedge ineffectiveness are recognized in earnings in the current period. Ineffectiveness related to our cash flow hedges was not significant for the three months ended January 2, 2016, and December 27, 2014. As of January 2, 2016, the net amounts expected to be reclassified into earnings within the next 12 months are pretax losses of $2 million. During the three months ended January 2, 2016, and December 27, 2014, we did not reclassify significant pretax gains/losses into earnings as a result of the discontinuance of cash flow hedges.

The following table sets forth the pretax impact of cash flow hedge derivative instruments on the Consolidated Condensed Statements of Income (in millions):

	Gain (Loss) Recognized in OCI On Derivatives Three Months Ended		Consolidated Condensed Statements of Income Classification	Gain (Loss) Reclassified from OCI to Earnings Three Months Ended	
	January 2, 2016	December 27, 2014		January 2, 2016	December 27, 2014

Cash flow hedge – derivatives designated as hedging instruments:					
Commodity contracts	$(2)	$—	Cost of sales	$(1)	$(3)
Foreign exchange contracts	—	—	Other income/expense	—	—
Total	$(2)	$—		$(1)	$(3)

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Fair Value Hedges

We designate certain derivative contracts as fair value hedges of firm commitments to purchase livestock for slaughter. Our objective of these hedges is to minimize the risk of changes in fair value created by fluctuations in commodity prices associated with fixed price livestock firm commitments. For these derivative instruments we designate and qualify as a fair value hedge, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in earnings in the same period. We include the gain or loss on the hedged items (i.e., livestock purchase firm commitments) in the same line item, Cost of Sales, as the offsetting gain or loss on the related livestock forward position.

		in millions	
	Consolidated Condensed	Three Months Ended	
	Statements of Income Classification	January 2, 2016	December 27, 2014
Gain (Loss) on forwards	Cost of sales	$33	$(40)
Gain (Loss) on purchase contract	Cost of sales	(33)	40

Ineffectiveness related to our fair value hedges was not significant for the three months ended January 2, 2016, and December 27, 2014.

Undesignated Positions

In addition to our designated positions, we also hold derivative contracts for which we do not apply hedge accounting. These include certain derivative instruments related to commodities price risk, including grains, livestock, energy and foreign currency risk. We mark these positions to fair value through earnings at each reporting date.

The following table sets forth the pretax impact of the undesignated derivative instruments in the Consolidated Condensed Statements of Income (in millions):

	Consolidated Condensed Statements of Income Classification	Gain (Loss) Recognized in Earnings	
		Three Months Ended	
		January 2, 2016	December 27, 2014
Derivatives not designated as hedging instruments:			
Commodity contracts	Sales	$9	$(1)
Commodity contracts	Cost of sales	(15)	(26)
Foreign exchange contracts	Other income/expense	—	(2)
Total		$(6)	$(29)

The fair value of all outstanding derivative instruments in the Consolidated Condensed Balance Sheets are included in Note 12: Fair Value Measurements.

NOTE 12: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy contains three levels as follows:

Level 1 — Unadjusted quoted prices available in active markets for the identical assets or liabilities at the measurement date.

Level 2 — Other observable inputs available at the measurement date, other than quoted prices included in Level 1, either directly or indirectly, including:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs derived principally from or corroborated by other observable market data.

Level 3 — Unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value hierarchy requires the use of observable market data when available. In instances where the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

The following tables set forth by level within the fair value hierarchy our financial assets and liabilities accounted for at fair value on a recurring basis according to the valuation techniques we used to determine their fair values (in millions):

January 2, 2016	Level 1	Level 2	Level 3	Netting (a)	Total
Assets:					
Derivative financial instruments:					
Designated as hedges	$—	$21	$—	$(5)	$16
Undesignated	—	19	—	(13)	6
Available-for-sale securities:					
Current	—	1	1	—	2
Non-current	—	36	58	—	94
Deferred compensation assets	8	226	—	—	234
Total assets	$8	$303	$59	$(18)	$352
Liabilities:					
Derivative financial instruments:					
Designated as hedges	$—	$9	$—	$(9)	$—
Undesignated	—	43	—	(38)	5
Total liabilities	$—	$52	$—	$(47)	$5

October 3, 2015	Level 1	Level 2	Level 3	Netting (a)	Total
Assets:					
Derivative financial instruments:					
Designated as hedges	$—	$52	$—	$(35)	$17
Undesignated	—	9	—	(9)	—
Available-for-sale securities:					
Current	—	1	1	—	2
Non-current	—	33	60	—	93
Deferred compensation assets	9	222	—	—	231
Total assets	$9	$317	$61	$(44)	$343
Liabilities:					
Derivative financial instruments:					
Designated as hedges	$—	$2	$—	$(2)	$—
Undesignated	—	49	—	(47)	2
Total liabilities	$—	$51	$—	$(49)	$2

(a) Our derivative assets and liabilities are presented in our Consolidated Condensed Balance Sheets on a net basis. We net derivative assets and liabilities, including cash collateral, when a legally enforceable master netting arrangement exists between the counterparty to a derivative contract and us. At January 2, 2016, and October 3, 2015, we had posted with various counterparties $29 million and $5 million, respectively, of cash collateral related to our commodity derivatives and held no cash collateral.

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The following table provides a reconciliation between the beginning and ending balance of debt securities measured at fair value on a recurring basis in the table above that used significant unobservable inputs (Level 3) (in millions):

	Three Months Ended	
	January 2, 2016	December 27, 2014
Balance at beginning of year	$61	$67
Total realized and unrealized gains (losses):		
Included in earnings	—	—
Included in other comprehensive income (loss)	—	—
Purchases	4	4
Issuances	—	—
Settlements	(6)	(6)
Balance at end of period	$59	$65
Total gains (losses) for the three-month period included in earnings attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at end of period	$—	$—

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:
Derivative Assets and Liabilities: Our derivative financial instruments primarily include exchange-traded and over-the-counter contracts which are further described in Note 11: Derivative Financial Instruments. We record our derivative financial instruments at fair value using quoted market prices adjusted for credit and non-performance risk and internal models that use as their basis readily observable market inputs including current and forward market prices. We classify these instruments in Level 2 when quoted market prices can be corroborated utilizing observable current and forward commodity market prices on active exchanges or observable market transactions.
Available-for-Sale Securities: Our investments in marketable debt securities are classified as available-for-sale and are reported at fair value based on pricing models and quoted market prices adjusted for credit and non-performance risk. Short-term investments with maturities of less than 12 months are included in Other current assets in the Consolidated Condensed Balance Sheets and primarily include certificates of deposit and commercial paper. All other marketable debt securities are included in Other Assets in the Consolidated Condensed Balance Sheets and have maturities ranging up to 35 years. We classify our investments in U.S. government, U.S. agency, certificates of deposit and commercial paper debt securities as Level 2 as fair value is generally estimated using discounted cash flow models that are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other readily available relevant economic measures. We classify certain corporate, asset-backed and other debt securities as Level 3 as there is limited activity or less observable inputs into valuation models, including current interest rates and estimated prepayment, default and recovery rates on the underlying portfolio or structured investment vehicle. Significant changes to assumptions or unobservable inputs in the valuation of our Level 3 instruments would not have a significant impact to our consolidated condensed financial statements.
The following table sets forth our available-for-sale securities' amortized cost basis, fair value and unrealized gain (loss) by significant investment category (in millions):

	January 2, 2016			October 3, 2015		
	Amortized Cost Basis	Fair Value	Unrealized Gain (Loss)	Amortized Cost Basis	Fair Value	Unrealized Gain (Loss)
Available-for-sale securities:						
Debt securities:						
U.S. treasury and agency	$37	$37	$—	$33	$34	$1
Corporate and asset-backed	58	59	1	60	61	1

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Unrealized holding gains (losses), net of tax, are excluded from earnings and reported in OCI until the security is settled or sold. On a quarterly basis, we evaluate whether losses related to our available-for-sale securities are temporary in nature. Losses on equity securities are recognized in earnings if the decline in value is judged to be other than temporary. If losses related to our debt securities are determined to be other than temporary, the loss would be recognized in earnings if we intend, or more likely than not will be required, to sell the security prior to recovery. For debt securities in which we have the intent and ability to hold until maturity, losses determined to be other than temporary would remain in OCI, other than expected credit losses which are recognized in earnings. We consider many factors in determining whether a loss is temporary, including the length of time and extent to which the fair value has been below cost, the financial condition and near-term prospects of the issuer and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. We recognized no other than temporary impairment in earnings for the three months ended January 2, 2016, and December 27, 2014. No other than temporary losses were deferred in OCI as of January 2, 2016, and October 3, 2015.

Deferred Compensation Assets: We maintain non-qualified deferred compensation plans for certain executives and other highly compensated employees. Investments are maintained within a trust and include money market funds, mutual funds and life insurance policies. The cash surrender value of the life insurance policies is invested primarily in mutual funds. The investments are recorded at fair value based on quoted market prices and are included in Other Assets in the Consolidated Condensed Balance Sheets. We classify the investments which have observable market prices in active markets in Level 1 as these are generally publicly-traded mutual funds. The remaining deferred compensation assets are classified in Level 2, as fair value can be corroborated based on observable market data. Realized and unrealized gains (losses) on deferred compensation are included in earnings.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

In addition to assets and liabilities that are recorded at fair value on a recurring basis, we record assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. We did not have any significant measurements of assets or liabilities at fair value on a nonrecurring basis subsequent to their initial recognition during the three months ended January 2, 2016, and December 27, 2014.

Other Financial Instruments

Fair value of our debt is principally estimated using Level 2 inputs based on quoted prices for those or similar instruments. Fair value and carrying value for our debt are as follows (in millions):

	January 2, 2016		October 3, 2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Total debt	$6,851	$6,705	$6,900	$6,725

NOTE 13: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The components of the net periodic cost for the pension and postretirement benefit plans for the three months ended January 2, 2016, and December 27, 2014, are as follows (in millions):

	Pension Plans	
	Three Months Ended	
	January 2, 2016	December 27, 2014
Service cost	$4	$4
Interest cost	20	21
Expected return on plan assets	(17)	(25)
Amortization of:		
Net actuarial loss	1	1
Settlement (gain) loss (a)	(12)	8
Net periodic cost (credit)	$(4)	$9

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	Postretirement Benefit Plans Three Months Ended	
	January 2, 2016	December 27, 2014
Service cost	$—	$1
Interest cost	1	2
Amortization of:		
Prior service credit	(4)	—
Net periodic cost (credit)	$(3)	$3

(a) We made lump-sum settlement payments using plan assets, of $265 million and $18 million during the first quarter of fiscal 2016 and 2015, respectively, to certain deferred vested participants within our qualified pension plans.

We contributed $32 million and $3 million to our pension plans for the three months ended January 2, 2016, and December 27, 2014, respectively. We expect to contribute an additional $31 million during the remainder of fiscal 2016. The amount of contributions made to pension plans in any year is dependent upon a number of factors including minimum funding requirements in the jurisdictions in which we operate. As a result, the actual funding in fiscal 2016 may differ from the current estimate.

NOTE 14: OTHER COMPREHENSIVE INCOME (LOSS)

The before and after tax changes in the components of other comprehensive income (loss) are as follows (in millions):

	Three Months Ended					
	January 2, 2016			December 27, 2014		
	Before Tax	Tax	After Tax	Before Tax	Tax	After Tax
Derivatives accounted for as cash flow hedges:						
(Gain) loss reclassified to cost of sales	$1	$ —	$ 1	$ 3	$(2)	$1
Unrealized gain (loss)	(2)	1	(1)	—	—	—
Investments:						
(Gain) loss reclassified to other income/expense	—	—	—	—	—	—
Unrealized gain (loss)	(1)	—	(1)	15	(6)	9
Currency translation:						
Translation loss reclassified to cost of sales (a)	—	—				

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, 2011	December 31, 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 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

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
(Dollars in millions)	**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%**

	September 30, 2011	**December 31, 2010**	**Change**
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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Table 7.2: International Card Business Results

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	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%**

Selected period-end data:	September 30, 2011	December 31, 2010	Change
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.

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Table 8: Consumer Banking Business Results

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	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%**
	$88.26661	$88.26661	$88.26661	$88.26661	$88.26661	$88.26661

	September 30,	December 31,	
Selected period-end data:	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)**

(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.

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Table 9: Commercial Banking Business Results

	6666666	6666666	6666666	6666666	6666666	6666666
	Three Months Ended September 30,			**Nine Months Ended September 30,**		
(Dollars in millions)	**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**

	6666666	6666666	6666666	6666666	6666666	6666666
		December 31,				
Selected period-end data:	**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)**			

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.

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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

	September 30, 2011		December 31, 2010	
(Dollars in millions)	**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)

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

	September 30, 2011		December 31, 2010	
(Dollars in millions)	**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

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.

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Table 12: 30+ Day Delinquencies

	September 30, 2011				December 31, 2010			
	30+ Day Performing		30+ Day Total		30+ Day Performing		30+ Day Total	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	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.

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Table 13: Aging of 30+ Day Delinquent Loans

(Dollars in millions)	September 30, 2011 Amount	September 30, 2011 % of Total Loans[(1)]	December 31, 2010 Amount	December 31, 2010 % 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 Amount	September 30, 2011 % of Total Loans	December 31, 2010 Amount	December 31, 2010 % 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%

(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.

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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)

	September 30, 2011(3)		December 31, 2010	
(Dollars in millions)	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%

(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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
(Dollars in millions)	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

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

(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.

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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.

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Table 18: Allowance for Loan and Lease Losses Activity

(Dollars in millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 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

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

	September 30, 2011		December 31, 2010	
(Dollars in millions)	**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

(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.

(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

	Unpaid Principal Balance		**Original Unpaid Principal Balance**				
(Dollars in billions)	**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.

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Table 21: Open Pipeline All Vintages (all entities)[1]

(Dollars in millions)	GSEs	Insured Securitizations	Uninsured Securitizations 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 Securitizations & 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 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 September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Full Year 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 September 30, 2011	Reserve Liability December 31, 2010	Loans Sold 2005 to 2008[1]
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.

- 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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LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity Management

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

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)

	September 30, 2011			December 31, 2010		
(Dollars in millions)	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

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.

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 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		
	Excluding ING Direct Swaps[(1)]	**Including ING Direct Swaps**	**December 31, 2010**
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, 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;

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;

- 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.

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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

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.

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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.

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Item 1. Financial Statements

CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions, except per share-related data)	**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

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.

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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

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 Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total 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)

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.

CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
(Dollars in millions)	**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)

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 or 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.

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	**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.

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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):

	September 30, 2011					
(Dollars in millions)	Amortized Cost	Total Gross Unrealized Gains	Gross Unrealized Losses-OTTI(1)	Gross Unrealized Losses-Other(2)	Total Gross Unrealized Losses	Fair Value
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

	December 31, 2010					
(Dollars in millions)	Amortized Cost	Total Gross Unrealized Gains	Gross Unrealized Losses-OTTI(1)	Gross Unrealized Losses-Other(2)	Total Gross Unrealized Losses	Fair Value
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

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:

	September 30, 2011					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in millions)	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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	December 31, 2010					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in millions)	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:

	September 30, 2011	
(Dollars in millions)	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**

(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.

	September 30, 2011									
	Due in 1 Year or Less		Due > 1 Year through 5 Years		Due > 5 Years through 10 Years		Due > 10 Years		Total	
(Dollars in millions)	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.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	**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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	**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)

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	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.

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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.

	September 30, 2011								
(Dollars in millions)	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

% 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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(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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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.

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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

	September 30, 2011		December 31, 2010	
(Dollars in millions)	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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
(Dollars in millions)	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%

[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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(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.

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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

	September 30, 2011					
	Non-PCI Loans		PCI Loans		Total	
(Dollars in millions)	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

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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	September 30, 2011							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
(Dollars in millions)	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**

	December 31, 2010					
	Non-PCI Loans		PCI Loans		Total	
(Dollars in millions)	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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	December 31, 2010							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
(Dollars in millions)	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

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

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

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

	Nine Months Ended September 30, 2010							
	Auto		Home Loans		Retail Banking		Total Consumer Banking	
(Dollars in millions)	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

	September 30, 2011					
	Non-PCI Loans		PCI Loans		Total Home Loans	
(Dollars in millions)	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:						
1st lien	$ 5,495	50.3%	$ 3,789	34.7%	$ 9,284	85.0%
2nd 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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	December 31, 2010					
	Non-PCI Loans		PCI Loans		Total Home Loans	
(Dollars in millions)	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:						
1st lien	$ 6,015	49.7%	$ 4,303	35.5%	$ 10,318	85.2%
2nd 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, 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)]

	September 30, 2011									
(Dollars in millions)	Commercial & Multifamily Real Estate	% of Total[(2)]	Middle Market	% of Total[(2)]	Specialty Lending	% of Total[(2)]	Small-ticket Commercial 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.%	$ 4,221	100.%	$ 1,571	100.%	$ 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

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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions)	December 31, 2010 Commercial & Multifamily Real Estate	% of Total(2)	Middle Market	% of Total(2)	Specialty Lending	% of Total(2)	Small-ticket Commercial Real Estate	% of Total(2)	Total Commercial	% 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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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:

	September 30, 2011							
(Dollars in millions)	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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	December 31, 2010							
(Dollars in millions)	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:

	Three Months Ended September 30, 2011						
		Reduced Interest Rate		Term Extension		Balance Reduction	
(Dollars in millions)	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
Retail banking	21	9	1.51	80	15	0	0
Total consumer banking	61	39	1.63	82	44	4	0
Commercial banking:							
Commercial and multifamily real estate	37	46	1.03	100	13	29	3
Middle market	54	13	0.43	72	15	2	0
Specialty lending	2	48	1.19	98	38	38	1
Total commercial lending	93	27	0.69	83	15	14	4
Small-ticket commercial real estate	0	0	0.00	100	3	0	0
Total commercial banking	93	27	0.69	84	15	13	4
Total	300	65%	9.89%	43%	27	5%	$ 4

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(Dollars in millions)	Nine Months Ended September 30, 2011						
	Total Loans Modified (1)	Reduced Interest Rate		Term Extension		Balance Reduction	
		% of TDR Activity(2)	Average Rate Reduction(3)	% of TDR Activity(4)	Average Term Extension (Months)(5)	% of TDR Activity(6)	Gross Balance Reduction(7)
Credit card:							
Domestic	$ 249	100%	10.51%	0%	0	0%	$ 0
International	194	100	22.84	0	0	0	0
Total credit card	443	100	15.93	0	0	0	0
Consumer banking:							
Auto	53	61	1.39	100	9	0	0
Home loans	49	48	2.10	76	88	8	0
Retail banking	58	8	0.83	81	19	0	0
Total consumer banking	160	38	1.42	86	37	2	0
Commercial banking:							
Commercial and multifamily real estate	161	37	2.79	96	13	7	3
Middle market	95	19	0.83	72	15	1	0
Specialty lending	10	29	0.60	83	36	8	1
Total commercial lending	266	31	2.01	87	15	5	4
Small-ticket commercial real estate	4	0	0.00	100	3	0	0
Total commercial banking	270	30	2.01	87	15	5	4
Total	$ 873	67%	9.95%	43%	23	2%	$ 4

(1) Represents total loans modified and accounted for as a TDR during the period. Paydowns, charge-offs and any other changes in the loan carrying value subsequent to the loan entering TDR status are not reflected.
(2) Percentage of loans modified and accounted for as a TDR during the period that were granted a reduced interest rate.
(3) Weighted average interest rate reduction for those loans that received an interest rate concession.
(4) Percentage of loans modified and accounted for as a TDR during the period that were granted a maturity date extension.
(5) Weighted average change in maturity date for those loans that received a maturity date extension.
(6) Percentage of loans modified and accounted for as a TDR during the period that were granted forgiveness or forbearance of a portion of their balance.
(7) Total amount of forgiven or forborne balances.
(8) Due to multiple concessions granted to some troubled borrowers, percentages may total more than 100% for certain loan types.

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TDR Subsequent Payment Defaults of Completed TDR Modifications

The following table represents the type, number and amount of loans accounted for as TDRs that experienced a payment default during the period and had completed a modification event in the twelve months prior to the payment default. A payment default occurs if the loan is either 90 days or more delinquent or the loan has been charged-off as of the end of the period presented.

	September 30, 2011			
	Three Months Ended		Nine Months Ended	
(Dollars in millions)	Number of Contracts	Amount	Number of Contracts	Amount
Credit Card:				
Domestic	8,721	$ 22	25,235	$ 71
International[1]	11,733	44	34,330	137
Total Credit Card	20,454	66	59,565	208
Consumer banking:				
Auto	110	1	130	2
Home Loans	27	2	60	7
Retail banking	63	2	188	4
Total consumer banking	200	5	378	13
Commercial banking:				
Commercial and multifamily real estate	9	12	13	35
Middle market	0	0	3	3
Specialty Lending	5	2	6	2
Total commercial lending	14	14	22	40
Small-ticket commercial real estate	1	1	1	0
Total commercial banking	15	15	23	40
Other:				
Other Loans	0	0	0	0
Total	20,669	$ 86	59,966	$ 261

[1] The regulatory regime in the United Kingdom (U.K.) requires U.K. credit card businesses to accept payment plan proposals even when the proposed payments are less than the contractual minimum amount. As a result, loans entering long-term TDR payment programs in the U.K. typically continue to age and ultimately charge-off even when fully in compliance with the TDR program terms.

Purchased Credit-Impaired Loans

In connection with the acquisition of Chevy Chase Bank on February 27, 2009, we acquired loans with a contractual outstanding unpaid principal and interest balance at acquisition of $15.4 billion. We recorded these loans on our consolidated balance sheet at estimated fair value at the date of acquisition of $9.0 billion. We concluded that the substantial majority of the loans we acquired from Chevy Chase Bank were PCI loans. PCI loans are acquired loans with evidence of credit quality deterioration since origination for which it is probable at the date of purchase that we will be unable to collect all contractually required payments. The Chevy Chase Bank loans that we concluded were credit impaired had a contractual outstanding unpaid principal and interest balance at acquisition of $12.0 billion

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

and an estimated fair value of $6.3 billion. These loans consisted of Chevy Chase Bank s entire portfolio of option-adjustable rate mortgage loans, hybrid adjustable-rate mortgage loans and construction-to-permanent mortgage loans. We also concluded that Chevy Chase Bank s portfolio of commercial loans, auto loans, fixed-mortgage loans, home equity loans and other consumer loans included segments of PCI loans.

Initial Fair Value and Accretable Yield of Acquired Loans

At acquisition, we estimated the cash flows we expected to collect on these loans. Under the accounting guidance for PCI loans, the difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. This difference is neither accreted into income nor recorded on our consolidated balance sheet. The excess of cash flows expected to be collected over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan, or pool of loans, using the effective yield method. The table below displays the contractually required principal and interest, cash flows expected to be collected and fair value at acquisition related to the Chevy Chase Bank loans we acquired. The table also displays the nonaccretable difference and the accretable yield at acquisition.

	At Acquisition on February 27, 2009		
(Dollars in millions)	Total Acquired Loans	Purchased Credit-Impaired Loans	Non-Impaired Loans
Contractually outstanding principal and interest at acquisition	$ 15,387	$ 12,039	$ 3,348
Less: Nonaccretable difference (expected principal losses of $2,207 and foregone interest of $1,820)[1]	(4,027)	(3,851)	(176)
Cash flows expected to be collected at acquisition[2]	11,360	8,188	3,172
Less: Accretable yield	(2,360)	(1,861)	(499)
Fair value of loans acquired[3]	$ 9,000	$ 6,327	$ 2,673

(1) Expected principal losses and foregone interest on purchased credit-impaired loans at acquisition totaled $2.1 billion and $1.8 billion, respectively. Expected principal losses and foregone interest on non-impaired loans at acquisition totaled $154 million and $23 million, respectively.

(2) Represents undiscounted expected principal and interest cash flows at acquisition.

(3) A portion of the loans acquired in connection with the Chevy Chase Bank acquisition was classified as held for sale. These loans, which had an estimated fair value at acquisition of $235 million, are not included in the above tables.

Outstanding Balance and Carrying Value of Acquired Loans

The table below presents the outstanding contractual principal balance and the carrying value of the Chevy Chase Bank acquired loans as of September 30, 2011 and December 31, 2010:

	September 30, 2011			December 31, 2010		
(Dollars in millions)	Total Acquired Loans	Purchased Credit-Impaired Loans	Non-Impaired Loans	Total Acquired Loans	Purchased Credit-Impaired Loans	Non-Impaired Loans
Contractual balance	**$ 6,024**	**$ 4,789**	**$ 1,235**	$ 7,054	$ 5,546	$ 1,508

Carrying value[1]	**4,852**	**3,733**	**1,119**	5,554	4,165	1,389

[1] Includes $22 million and $33 million of cumulative impairment recognized as of September 30, 2011 and December 31, 2010, respectively.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Changes in Accretable Yield of Acquired Loans

Subsequent to acquisition, we are required to periodically evaluate our estimate of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications from nonaccretable yield to accretable. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized in our provision for loan and lease losses, resulting in an increase to the allowance for loan losses We recorded impairment related to certain pool of loans of $9 million in the third quarter of 2011 compared to a reduction in the allowance related to these pools of $1 million in the third quarter of 2010. We reduced the allowance related to this pool of loans by $11 million and $4 million for the nine months ended September 30, 2011 and 2010, respectively. The cumulative impairment recognized on PCI loans totaled $22 million as of September 30, 2011 and $33 million as of December 31, 2010.

The following table presents changes in the accretable yield related to the acquired Chevy Chase Bank loans:

(Dollars in millions)	Total Acquired Loans	Purchased Credit-Impaired Loans	Non-Impaired Loans
Accretable yield as of December 31, 2009	$ 2,067	$ 1,742	$ 325
Accretion recognized in earnings	(405)	(299)	(106)
Reclassifications from nonaccretable difference for loans with improvement in expected cash flows	350	311	39
Accretable yield as of December 31, 2010	$ 2,012	$ 1,754	$ 258
Accretion recognized in earnings	**(335)**	**(285)**	**(50)**
Reclassifications from nonaccretable difference for loans with improving cash flows[1]	**233**	**227**	**6**
Reductions in accretable yield for non-credit related changes in expected cash flows[2]	**(68)**	**(57)**	**(11)**
Accretable yield as of September 30, 2011	**$ 1,842**	**$ 1,639**	**$ 203**

(1) Represents increases in accretable yields for those pools with increases primarily the result of improved credit performance.

(2) Represents changes in accretable yields for those pools with reductions driven primarily by changes in prepayment levels.

Unfunded Lending Commitments

We manage the potential risk in credit commitments by limiting the total amount of arrangements, both by individual customer and in total, by monitoring the size and maturity structure of these portfolios and by applying the same credit standards for all of our credit activities. Unused credit card lines available to our customers totaled $206.3 billion and $161.5 billion as of September 30, 2011 and December 31, 2010, respectively. While these amounts represented the total available unused credit card lines, we have not experienced, and do not anticipate, that all of our customers will access their entire available line at any given point in time.

In addition to available unused credit card lines, we enter into commitments to extend credit that are legally binding conditional agreements having fixed expirations or termination dates and specified interest rates and

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purposes on our commercial loans. Outstanding unfunded commitments to extend credit other than credit card lines totaled approximately $14.9 billion and $13.2 billion as of September 30, 2011 and December 31, 2010, respectively. These commitments may expire without being drawn upon. Therefore, the total commitment amount does not necessarily represent future funding requirements.

We maintain a reserve for unfunded loan commitments and letters of credit to absorb estimated probable losses related to these unfunded credit facilities, which is included in Other liabilities on our consolidated balance sheets. Our reserve for unfunded loan commitments and letters of credit was $53 million and $107 million as of September 30, 2011 and December 31, 2010, respectively. See Note 6 Allowance for Loan and Lease Losses below for additional information.

NOTE 6 ALLOWANCE FOR LOAN AND LEASE LOSSES

We maintain an allowance for loan and lease losses (the allowance) that 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.

In determining the allowance for loan and lease losses, we disaggregate loans in our portfolio with similar credit risk characteristics into portfolio segments. Management performs quarterly analysis of these portfolios to determine if impairment has occurred and to assess the adequacy of the allowance based on historical and current trends and other factors affecting credit losses. We apply documented systematic methodologies to separately calculate the allowance for our consumer loan and commercial loan portfolio and for loans within each of these portfolios that we identify as individually impaired. Our allowance for loan and lease losses consists of three components that are allocated to cover the estimated probable losses in each loan portfolio based on the results of our detailed review and loan impairment assessment process: (1) a formula-based component for loans collectively evaluated for impairment; (2) an asset-specific component for individually impaired loans; and (3) a component related to purchased credit-impaired loans that have experienced significant decreases in expected cash flows subsequent to acquisition. See Note 1 Summary of Significant Accounting Policies of our 2010 Form 10-K for a description of the methodologies and policies for determining our allowance for loan and lease losses for each of our loan portfolio segments.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Allowance for Loan and Lease Losses Activity

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 included. The table below summarizes changes in the allowance for loan and lease losses, by portfolio segment, and our unfunded lending commitment reserve during the three and nine months ended September 30, 2011:

	Three Months Ended September 30, 2011									
	Consumer									
(Dollars in millions)	Credit Card	Auto	Home Loan	Retail Banking	Total Consumer	Commercial	Other[1]	Total Allowance	Unfunded Lending Commitments Reserve	Combined Allowance & Unfunded Reserve
Balance as of June 30, 2011	$ 3,093	$ 322	$ 90	$ 186	$ 598	$ 730	$ 67	$ 4,488	$ 64	$ 4,552
Provision for loan and lease losses[2]	512	119	18	0	137	(1)	(15)	633	(11)	622
Charge-offs[2]	(967)	(129)	(20)	(23)	(172)	(35)	(9)	(1,183)	0	(1,183)
Recoveries	306	46	5	6	57	6	2	371	0	371
Net charge-offs	(661)	(83)	(15)	(17)	(115)	(29)	(7)	(812)	0	(812)
Other changes[3]	(29)	0	0	0	0	0	0	(29)	0	(29)
Balance as of September 30, 2011[2]	$ 2,915	$ 358	$ 93	$ 169	$ 620	$ 700	$ 45	$ 4,280	$ 53	$ 4,333

	Nine Months Ended September 30, 2011									
	Consumer									
(Dollars in millions)	Credit Card	Auto	Home Loan	Retail Banking	Total Consumer	Commercial	Other[1]	Total Allowance	Unfunded Lending Commitments Reserve	Combined Allowance & Unfunded Reserve
Balance as of December 31, 2010	$ 4,041	$ 353	$ 112	$ 210	$ 675	$ 826	$ 86	$ 5,628	$ 107	$ 5,735
Provision for loan and lease losses[2]	1,270	229	34	18	281	0	2	1,553	(54)	1,499
Charge-offs[2]	(3,362)	(372)	(74)	(78)	(524)	(152)	(47)	(4,085)	0	(4,085)
Recoveries	979	148	21	19	188	26	4	1,197	0	1,197
Net charge-offs	(2,383)	(224)	(53)	(59)	(336)	(126)	(43)	(2,888)	0	(2,888)
Other changes[3]	(13)	0	0	0	0	0	0	(13)	0	(13)
Balance as of September 30, 2011[2]	$ 2,915	$ 358	$ 93	$ 169	$ 620	$ 700	$ 45	$ 4,280	$ 53	$ 4,333

(1) Other consists of our discontinued GreenPoint mortgage operations loan portfolio and our community redevelopment loan portfolio.
(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. 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 exchange translation adjustments of $29 million and $13 million for the three and nine months ended September 30, 2011, respectively.

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Components of Allowance for Loan and Lease Losses by Impairment Methodology

The table below presents the components of our allowance for loan and lease losses, by loan category and impairment methodology, and the recorded investment of the related loans as of September 30, 2011 and December 31, 2010:

	September 30, 2011							
(Dollars in millions)	Credit Card	Auto	Consumer Home Loan	Retail Banking	Total Consumer	Commercial	Other	Total
Allowance for loan and lease losses by impairment methodology:								
Collectively evaluated for impairment	$ 2,550	$ 352	$ 64	$ 158	$ 574	$ 625	$ 45	$ 3,794
Individually evaluated for impairment	365	6	10	10	26	73	0	464
Purchased credit-impaired loans	0	0	19	1	20	2	0	22
Total allowance for loan and lease losses	$ 2,915	$ 358	$ 93	$ 169	$ 620	$ 700	$ 45	$ 4,280
Held for investment loans by impairment methodology:								
Collectively evaluated for impairment	$ 61,115	$ 20,322	$ 6,533	$ 3,894	$ 30,749	$ 30,932	$ 464	$ 123,260
Individually evaluated for impairment	915	44	101	75	220	682	1	1,818
Purchased credit-impaired loans	0	56	4,282	45	4,383	491	0	4,874
Total held for investment loans	$ 62,030	$ 20,422	$ 10,916	$ 4,014	$ 35,352	$ 32,105	$ 465	$ 129,952
Allowance as a percentage of period end held for investment loans	4.70%	1.75%	0.85%	4.21%	1.75%	2.18%	9.68%	3.29%

	December 31, 2010							
(Dollars in millions)	Credit Card	Auto	Consumer Home Loan	Retail Banking	Total Consumer	Commercial	Other	Total
Allowance for loan and lease losses by impairment methodology:								
Collectively evaluated for impairment	$ 3,655	$ 353	$ 81	$ 209	$ 643	$ 808	$ 86	$ 5,192
Individually evaluated for impairment	386	0	1	1	2	15	0	403
Purchased credit-impaired loans	0	0	30	0	30	3	0	33
Total allowance for loan and lease losses	$ 4,041	$ 353	$ 112	$ 210	$ 675	$ 826	$ 86	$ 5,628
Held for investment loans by impairment methodology:								
Collectively evaluated for impairment	$ 60,458	$ 17,867	$ 7,154	$ 4,271	$ 29,292	$ 28,682	$ 451	$ 118,883
Individually evaluated for impairment	913	0	57	40	97	500	0	1,510
Purchased credit impaired loans	0	0	4,892	102	4,994	560	0	5,554
Total held for investment loans	$ 61,371	$ 17,867	$ 12,103	$ 4,413	$ 34,383	$ 29,742	$ 451	$ 125,947

Allowance as a percentage of period end held for investment loans	6.58%	1.98%	0.93%	4.76%	1.96%	2.78%	19.07%	4.47%

NOTE 7 VARIABLE INTEREST ENTITIES AND SECURITIZATIONS

In the normal course of business, we enter into various types of transactions with entities that are considered to be variable interest entities (VIEs). Historically, our primary involvement with VIEs related to our securitization transactions in which we transferred assets from our balance sheet to securitization trusts. These

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securitization trusts typically meet the definition of a VIE. We generally securitized credit card loans, auto loans, home loans and installment loans, which provided a source of funding for us and as a means of transferring a certain portion of the economic risk of the loans or debt securities to third parties.

Under revised consolidation accounting guidance that became effective on January 1, 2010, the entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and is required to consolidate the VIE. As a result of this guidance, the vast majority of the VIEs in which we are involved have been consolidated in our financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Summary of Consolidated and Unconsolidated VIEs

The table below presents a summary of VIEs, aggregated based on VIEs with similar characteristics, in which we had continuing involvement or held a variable interest as of September 30, 2011 and December 31, 2010. We separately present information for consolidated and unconsolidated VIEs.

For consolidated VIEs, we present the carrying amount of assets and liabilities reflected on our consolidated balance sheets. The assets of consolidated VIEs primarily consist of cash and loans, which we report on our consolidated balance sheets under restricted cash for securitization investors and restricted loans for securitization investors, respectively. The assets of a particular VIE are the primary source of funds to settle its obligations. The creditors of the VIEs typically do not have recourse to the general credit of our company. The liabilities primarily consist of debt securities issued by the VIEs, which we report under securitized debt obligations. For unconsolidated VIEs, we present the carrying amount of assets and liabilities reflected on our consolidated balance sheets and our maximum exposure to loss. Our maximum exposure to loss is estimated based on the unlikely event that all of the assets in the VIEs became worthless and we were required to meet our maximum remaining funding obligations.

	September 30, 2011				
	Consolidated		Unconsolidated		
(Dollars in millions)	Carrying Amount of Assets	Carrying Amount of Liabilities	Carrying Amount of Assets	Carrying Amount of Liabilities	Maximum Exposure to Loss[3]
Securitization-related VIEs:					
Credit card loan securitizations[4]	**$ 47,808**	**$ 17,942**	**$ 0**	**$ 0**	**$ 0**
Auto loan securitizations[4]	**119**	**99**	**0**	**0**	**0**
Mortgage loan securitizations	**0**	**0**	**154**[1]	**32**[2]	**267**
Other asset securitizations[4]	**37**	**37**	**0**	**0**	**0**
Total securitization related VIEs	**47,964**	**18,078**	**154**	**32**	**267**
Other VIEs:					
Affordable housing entities	**0**	**0**	**1,902**	**259**	**1,902**
Entities that provide capital to low-income and rural communities	**251**	**0**	**6**	**3**	**6**
Other	**1**	**0**	**146**	**0**	**146**
Total Other VIEs	**252**	**0**	**2,054**	**262**	**2,054**
Total VIEs	**$ 48,216**	**$ 18,078**	**$ 2,208**	**$ 294**	**$ 2,321**

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	December 31, 2010				
	Consolidated		Unconsolidated		
(Dollars in millions)	Carrying Amount of Assets	Carrying Amount of Liabilities	Carrying Amount of Assets	Carrying Amount of Liabilities	Maximum Exposure to Loss[3]
Securitization-related VIEs:					
Credit card loan securitizations[4]	$ 53,694	$ 25,622	$ 0	$ 0	$ 0
Auto loan securitizations[4]	1,784	1,518	0	0	0
Mortgage loan securitizations	0	0	174[1]	37[2]	297
Other asset securitizations[4]	198	64	0	0	0
Total securitization related VIEs	55,676	27,204	174	37	297
Other VIEs:					
Affordable housing entities	0	0	1,681	304	1,681
Entities that provide capital to low-income and rural communities	230	0	6	3	6
Other	0	0	174	0	174
Total Other VIEs	230	0	1,861	307	1,861
Total VIEs	$ 55,906	$ 27,204	$ 2,035	$ 344	$ 2,158

(1) The carrying amount of assets of unconsolidated securitization-related VIEs consists of retained interests and letters of credit related to manufactured housing securitizations. Mortgage servicing rights related to unconsolidated VIEs are reported on our consolidated balance sheets under goodwill and other intangible assets. See Note 8 Goodwill and Other Intangible Assets for additional information on our mortgage servicing rights. Other retained interests are reported on our consolidated balance sheets under accounts receivable from securitizations.

(2) The carrying amount of liabilities of unconsolidated securitization-related VIEs consists of obligations to fund negative amortization bonds associated with the securitization of option-adjustable rate mortgage loans (option-ARMs) and obligations on certain swap agreements associated with the securitization of manufactured housing loans.

(3) The maximum exposure to loss represents the amount of loss we would incur in the unlikely event that all our assets in the VIE become worthless and we were required to meet our maximum remaining funding obligations.

(4) Represents the gross assets and liabilities owned by the VIE which included seller s interest and retained and repurchased noted held by other related parties.

Securitization-Related VIEs

We historically have securitized credit card loans, auto loans, home loans and installment loans. In a securitization transaction, assets from our balance sheet are transferred to a trust, which typically meets the definition of a VIE. The trust then issues various forms of interests in those assets to investors. We typically receive cash proceeds and/or other interests in the securitization trust for the assets we transfer. If the transfer of the assets to an unconsolidated securitization trust qualifies as a sale, we remove the assets from our consolidated balance sheet and recognize a gain or loss on the transfer. Alternatively, if the transfer does not qualify as a sale but instead is considered a secured borrowing or the transfer of assets is to a consolidated VIE, the assets remain on our consolidated financial statements and we record an offsetting liability for the proceeds received. We did not execute any new securitizations during the third quarter of 2011; however, we have continuing involvement in the securitization trusts.

Our continuing involvement in the majority of our securitization transactions consists primarily of holding certain retained interests and acting as the primary servicer. We also may be required to repurchase receivables from the trust if the outstanding balance of the receivables falls to a level where the cost exceeds the benefits of

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servicing such receivables. We also may have exposure associated with contractual obligations to repurchase previously transferred loans due to breaches of representations and warranties. See Note 15 Commitments, Contingencies and Guarantees for information related to reserves we have established for our potential mortgage representation and warranty exposure.

The table below presents the securitization-related VIEs in which we had continuing involvement as of September 30, 2011 and December 31, 2010:

	September 30, 2011					
	Non-Mortgage			**Mortgage**		
(Dollars in millions)	**Credit Card**	**Auto Loan**	**Other Loan**	**Option ARM**	**GreenPoint HELOCs**	**GreenPoint Manufactured Housing**
Securities held by third-party investors	**$ 17,001**	**$ 94**	**$ 25**	**$ 3,233**	**$ 221**	**$ 1,281**
Receivables in the trust	**46,844**	**98**	**37**	**3,342**	**221**	**1,287**
Cash balance of spread or reserve accounts	**17**	**12**	**0**	**8**	**0**	**175**
Retained interests	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Servicing retained	**Yes**	**Yes**	**Yes**	**Yes[1]**	**Yes[1]**	**No[3]**
Amortization event[4]	**No**	**No**	**No**	**No**	**Yes[2]**	**No**

	December 31, 2010					
	Non-Mortgage			**Mortgage**		
(Dollars in millions)	**Credit Card**	**Auto Loan**	**Other Loan**	**Option ARM**	**GreenPoint HELOCs**	**GreenPoint Manufactured Housing**
Securities held by third-party investors	$ 25,415	$ 1,453	$ 48	$ 3,690	$ 284	$ 1,386
Receivables in the trust	52,355	1,528	191	3,813	284	1,393
Cash balance of spread or reserve accounts	77	147	0	8	0	183
Retained interests	Yes	Yes	Yes	Yes	Yes	Yes
Servicing retained	Yes	Yes	Yes	Yes[1]	Yes[1]	No[3]
Amortization event[4]	No	No	No	No	Yes[2]	No

(1) We continue to service some of the outstanding balance of securitized mortgage receivables.

(2) See information below regarding on-going involvement in the GreenPoint Home Equity Line of Credit (HELOC) securitizations.

(3) The manufactured housing securitizations are serviced by a third party. For two of the deals, that third party works in the capacity of subservicer with Capital One being the Master Servicer.

(4) Amortization events vary according to each specific trust agreement but generally are triggered by declines in performance or credit metrics such as charge-off rates or delinquency rates below certain predetermined thresholds. Generally, the occurrence of an amortization event changes the sequencing and amount of trust related cash flows to the benefit of senior noteholders.

Non-Mortgage Securitizations

As of September 30, 2011 and December 31, 2010, we were deemed to be the primary beneficiary of all of our non-mortgage securitization trusts. Accordingly, all of these trusts have been consolidated in our financial statements. For additional information on our principal involvement with non-mortgage securitization trusts and the impact of the consolidation of these trusts on our financial statements, see Note 1 Summary of Significant Accounting Policies and Note 7 Variable Interest Entities and Securitizations of our 2010 Form 10-K.

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Mortgage Securitizations

Option-ARM Loans

We had previously securitized option-ARM loans by transferring the mortgage loans to securitization trusts that issued mortgage-backed securities to investors. The outstanding balance of debt securities held by third-party investors related to our mortgage securitization trusts was $3.2 billion as of September 30, 2011 and $3.7 billion as of December 31, 2010.

We continue to service some of the outstanding balance of securitized mortgage receivables. We also retain rights to future cash flows arising from the receivables, the most significant being certificated interest-only bonds issued by the trusts, certain of which we sold during the first quarter of 2010. We generally estimate the fair value of these retained interests based on the estimated present value of expected future cash flows from securitized and sold receivables, using our best estimates of the key assumptions, which include credit losses, prepayment speeds and discount rates commensurate with the risks involved. We do not consolidate these trusts because we do not have the right to receive benefits that could potentially be significant nor the obligation to absorb losses that could potentially be significant to the trusts.

In connection with the securitization of certain option-ARM loans, a third party is obligated to advance a portion of any negative amortization resulting from monthly payments that are less than the interest accrued for that payment period. We have an agreement in place with the third party that mirrors this advance requirement. The amount advanced is tracked through mortgage-backed securities retained as part of the securitization transaction. As the borrowers make principal payments, these securities receive their net pro rata portion of those payments in cash, and advances of negative amortization are refunded accordingly. As advances occur, we record an asset in the form of negative amortization bonds, which are classified as trading securities. We have also entered into certain derivative contracts related to the securitization activities. These are classified as free standing derivatives, with fair value adjustments recorded in non-interest income. See Note 10 Derivative Instruments and Hedging Activities for further details on these derivatives.

GreenPoint Mortgage HELOCs

Our discontinued wholesale mortgage banking unit, GreenPoint, previously sold home equity lines of credit in whole loan sales and subsequently acquired a residual interest in certain trusts which securitized some of those loans. As the residual interest holder, GreenPoint is required to fund advances on the home equity lines of credit when certain performance triggers are met due to deterioration in asset performance. We had funded $27 million in advances as of September 30, 2011, all of which was expensed as funded. Our unfunded commitment related to these residual interests was $11 million as of September 30, 2011. We have not consolidated these trusts because the residual certificates did not provide the obligation to absorb losses or the right to receive benefits that could potentially be significant to the trusts.

GreenPoint Mortgage Manufactured Housing

We retain the primary obligation for certain provisions of corporate guarantees, recourse sales and clean-up calls related to the discontinued manufactured housing operations of GreenPoint Credit LLC (GPC) which was sold to a third party in 2004. Although we are the primary obligor, recourse obligations related to former GPC whole loan sales, commitments to exercise mandatory clean-up calls on certain GPC securitization transactions and servicing were transferred to a third party in the sale transaction. We do not consolidate the trusts used for the securitization of manufactured housing loans because we do not have the power to direct the activities that most significantly impact the economic performance of the trusts since we no longer service the loans.

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We were required to fund letters of credit in 2004 to cover losses, and are obligated to fund future amounts under swap agreements for certain transactions. We have the right to receive any funds remaining in the letters of credit after the securities are released. The amount available under the letters of credit was $175 million and $183 million as of September 30, 2011 and December 31, 2010, respectively. The fair value of the expected residual balances on the funded letters of credit was $36 million and $35 million as of September 30, 2011 and December 31, 2010, respectively, and is included in other assets on the consolidated balance sheet. Our maximum exposure under the swap agreements was $24 million and $27 million as of September 30, 2011 and December 31, 2010, respectively. The value of our obligations under these swaps, which is included in other liabilities on our consolidated balance sheets, was $15 million as of September 30, 2011 and $18 million as of December 31, 2010.

The unpaid principal balance of manufactured housing securitization transactions where we are the residual interest holder was $1.3 billion and $1.4 billion as of September 30, 2011 and December 31, 2010, respectively. In the event the third party does not fulfill on its obligations to exercise the clean-up calls on certain transactions, the obligation reverts to us and we would assume approximately $420 million of loans receivable upon our execution of the clean-up call with the requirement to absorb any losses on the loans receivable. There have been no instances of non-performance to date by the third party.

We monitor the underlying assets for trends in delinquencies and related losses and reviews the purchaser s financial strength as well as servicing performance. These factors are considered in assessing the adequacy of the liabilities established for these obligations and the valuations of the assets.

Retained Interests in Unconsolidated Securitizations

Accounts Receivable from Securitizations

Retained interests in unconsolidated securitizations are included in accounts receivable from securitizations on our consolidated balance sheets. These retained interests consist of interest-only strips, retained tranches, cash collateral accounts, cash reserve accounts and unpaid interest and fees on the third-party investors portion of the transferred principal receivables.

The following table provides details of accounts receivable from securitizations as of September 30, 2011 and December 31, 2010:

(Dollars in millions)	September 30, 2011	December 31, 2010
Interest-only strip classified as trading	**$ 64**	$ 75
Retained interests classified as trading:		
Retained notes	**29**	34
Cash collateral	**8**	8
Investor accrued interest receivable	**0**	0
Total retained interests classified as trading	**37**	42
Other retained interests	**0**	3
Total accounts receivable from securitizations	**$ 101**	$ 120

We may retain tranches in certain of the securitization transactions which are considered to be higher investment grade securities and subject to lower risk of loss. Those retained tranches are classified as available-for-sale securities, and changes in the estimated fair value are recorded in other comprehensive income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The components of the net gains (losses) recognized as a result of changes in the fair value of retained interests are presented below:

(Dollars in millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010[(1)]	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010[(1)]
Interest only strip valuation changes	**$ (4)**	$ 6	**$ (11)**	(19)
Fair value adjustments related to spread accounts	**13**	0	**38**	6
Fair value adjustments related to retained subordinated notes	**0**	(11)	**1**	(16)
Total income statement impact	**$ 9**	(5)	**$ 28**	(29)

(1) 2010 includes both mortgage related amounts representing valuation changes of mortgage interest only strips, spread accounts, and retained interests held at December 31, 2010 and non-mortgage related amounts representing the one installment loan securitization that remained off-balance sheet through September 15, 2010.

The changes in the fair value of retained interests are primarily driven by rate assumption changes and volume fluctuations. All of these retained residual interests are subject to loss in the event assumptions used to determine the estimated fair value do not prevail, or if borrowers default on the related securitized receivables and our retained subordinated tranches are used to repay investors. See the table below for key assumptions and sensitivities for retained interest valuations.

Key Assumptions and Sensitivities for Retained Interest Valuations

The key assumptions used in determining the fair value of the interest-only strip and other retained residual interests include the weighted average ranges for principal payment rates, lives of receivables and discount rates, all of which are included in the following table. The principal repayment rate assumptions were determined using actual and forecast trust principal payment rates based on the collateral. The lives of receivables were determined as the number of months necessary to repay the investors given the principal payment rate assumptions. The discount rates were determined using primarily trust specific statistics and forward rate curves, and were reflective of what market participants would use in a similar valuation. Additionally, accrued interest receivable, cash reserve and spread accounts were discounted over the estimated life of the assets.

If these assumptions are not met, or if they change, the interest-only strip, retained interests and related servicing and securitizations income would be affected. The following adverse changes to the key assumptions and estimates are hypothetical and should be used with caution. As the figures indicate, any change in fair value based on a 10% or 20% variation in assumptions cannot be extrapolated because the relationship of a change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the interest-only strip is calculated independently from any change in another assumption. However, changes in one factor may result in changes in other factors, which might magnify or counteract the sensitivities.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

For the periods ending September 30, 2011 and December 31, 2010, the assumptions and sensitivities shown below included all off-balance sheet securitizations:

(Dollars in millions)	September 30, 2011	December 31, 2010
Interest-only strip and retained interests	**$ 118[1]**	$ 136[1]
Weighted average life for receivables (months)	**66**	60
Principal repayment rate (weighted average rate)	**13.8 - 17.1%**	16.3 18.1%
Impact on fair value of 10% adverse change	**$ 9**	$ 2
Impact on fair value of 20% adverse change	**(5)**	(6)
Discount rate (weighted average rate)	**25.0 - 42.2%**	25.2 42.2%
Impact on fair value of 10% adverse change	**$ (7)**	$ (7)
Impact on fair value of 20% adverse change	**(13)**	(14)

(1) Does not include liquidity swap related to the negative amortization bonds of $17 million as of September 30, 2011 and $19 million at December 31, 2010.

Static pool credit losses were calculated by summing the actual and projected future credit losses and dividing them by the original balance of each pool of assets. Due to the short-term revolving nature of the loan receivables, the weighted average percentage of static pool credit losses was not considered materially different from the assumed charge-off rates used to determine the fair value of the retained interests.

We act as a servicing agent and receive contractual servicing fees of between 0.375% and 1% of the investor principal outstanding, based upon the type of assets serviced. For off-balance sheet securitizations, we generally did not record material servicing assets or liabilities for these rights since the contractual servicing fee approximates market rates.

Cash Flows Related to the Unconsolidated Securitizations

The following provides the details of the cash flows related to securitization transactions that qualified as off-balance sheet for the three and nine months ended September 30, 2011 and 2010:

(Dollars in millions)	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Servicing fees received	**$ 7**	8	**22**	$ 25
Cash flows received on retained interests[1]	**11**	43	**36**	137

(1) Includes all cash receipts of excess spread and other payments (excluding servicing fees) from the program.

Supplemental Loan Information

The table below displays the unpaid principal balance of off-balance sheet single-family residential loans we serviced as of September 30, 2011 and December 31, 2010. We also display the unpaid principal balance of loans past due 90 days or more as of September 30, 2011 and December 31, 2010. Net credit losses associated with these loans totaled $31 million and $120 million for the nine months ended September 30, 2011 and 2010, respectively, and $136 million for the year ended December 31, 2010.

(Dollars in millions)	September 30, 2011	December 31, 2010
Total principal amount of loans	**$ 1,263**	$ 1,396
Principal amount of loans past due 90 days or more	**$ 234**	$ 257

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Other VIEs

Affordable Housing Entities

As part of our community reinvestment initiatives, we invest in private investment funds that make equity investments in multi-family affordable housing properties. We receive affordable housing tax credits for these investments. The activities of these entities are financed with a combination of invested equity capital and debt. For those investment funds considered to be VIEs, we are not required to consolidate if we do not have the power to direct the activities that most significantly impact the economic performance of those entities. We record our interests in these unconsolidated VIEs in loans held for investment, other assets and other liabilities. Our interests consisted of assets of approximately $1.9 billion and $1.7 billion as of September 30, 2011 and December 31, 2010, respectively. Our maximum exposure to these entities is limited to our variable interests in the entities and is $1.9 billion as of September 30, 2011. The creditors of the VIEs have no recourse to our general credit and we do not provide additional financial or other support during the period that we were not previously contractually required to provide. The total assets of the unconsolidated VIE investment funds were approximately $7.8 billion and $7.5 billion as of September 30, 2011 and December 31, 2010, respectively.

Entities that Provide Capital to Low-Income and Rural Communities

We hold variable interests in entities (Investor Entities) that invest in community development entities (CDEs) that provide debt financing to businesses and non-profit entities in low-income and rural communities. Investments of the consolidated Investor Entities are also our variable interests. The activities of the Investor Entities are financed with a combination of invested equity capital and debt. The activities of the CDEs are financed solely with invested equity capital. We receive federal and state tax credits for these investments. We consolidate the VIEs in which we have the power to direct the activities that most significantly impact the VIE s economic performance and the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The assets of the VIEs that we consolidated totaled approximately $251 million and $230 million as of September 30, 2011 and December 31, 2010, respectively. The assets of the consolidated VIEs are reflected on our consolidated balance sheets in cash, loans held for investment, interest receivable and other assets. The liabilities are reflected in other liabilities.

The total assets of the VIEs that we held an interest in but were not required to consolidate totaled approximately $6 million as of both September 30, 2011 and December 31, 2010. Our interests in these unconsolidated VIEs are reflected on our consolidated balance sheets in loans held for investment and other assets. Our maximum exposure to these entities is limited to our variable interest of $6 million as of September 30, 2011. The creditors of the VIEs have no recourse to our general credit. We have not provided additional financial or other support during the period that we were not previously contractually required to provide.

Other

We have a variable interest in Capital One Financial Advisors, LLC which we consolidate as we have the power to direct the activities that most significantly impact the VIE s economic performance and the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The assets of the VIEs that we consolidated totaled approximately $1 million and $0 million as of September 30, 2011 and December 31, 2010, respectively. The assets are consolidated in our balance sheet in cash and other assets.

We also have a variable interest in a trust that has a royalty interest in certain oil and gas properties. The activities of the trust are financed solely with debt. The total assets of the trust were $324 million and $395 million as of September 30, 2011 and December 31, 2010, respectively. We were not required to consolidate the trust because we

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

do not have the power to direct the activities of the trust that most significantly impact the trust s economic performance. Our retained interest in the trust, which totaled approximately $146 million and $174 million as of September 30, 2011 and December 31, 2010, respectively, is reflected on our consolidated balance sheets under loans held for investment. Our maximum exposure is limited to our variable interest of $146 million as of September 30, 2011. The creditors of the trust have no recourse to our general credit. We have not provided additional financial or other support during the period that we were not previously contractually required to provide.

NOTE 8 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents the components of goodwill and other intangible assets, including mortgage servicing rights, as of September 30, 2011 and December 31, 2010:

(Dollars in millions)	September 30, 2011	December 31, 2010
Goodwill	**$ 13,593**	$ 13,591
Other intangible assets:		
Core deposit intangibles	**520**	650
Contract intangible[(1)]	**53**	0
Purchased credit card relationship intangibles[(2)]	**56**	42
Lease intangibles	**22**	26
Trust intangibles	**5**	6
Other intangibles	**4**	9
Total other intangible assets	**660**	733
Total goodwill and other intangible assets	**$ 14,253**	$ 14,324
Mortgage servicing rights	**$ 94**	$ 141

(1) Relates to the acquisition of the HBC portfolio in the first quarter of 2011.

(2) Relates to the acquisitions of the Kohl s private-label credit card portfolio in the second quarter of 2011, the existing HBC credit card portfolio in the first quarter of 2011 and the Sony Card portfolio in the third quarter of 2010.

Goodwill

In accordance with accounting guidance, goodwill is not amortized but is tested for impairment at the reporting unit level, which is at the operating segment level or one level below an operating segment. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Goodwill is required to be tested for impairment annually and between annual tests if events or circumstances change, such as adverse changes in the business climate, that would more likely than not reduce the fair value of the reporting unit below its carrying value. Goodwill is assigned to one or more reporting units at the date of acquisition. Our reporting units are Domestic Card, International Card, Auto Finance, other Consumer Banking and Commercial Banking. As of September 30, 2011 and December 31, 2010, goodwill of $13.6 billion was included in the accompanying consolidated balance sheets. There were no events requiring an interim impairment test and there has been no goodwill impairment recorded for the three and nine months ended September 30, 2011.

During the first quarter of 2011, we acquired the credit card portfolio of HBC. 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. Because the acquisition was considered to be a taxable transaction, the goodwill 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. See Note 2 Acquisitions for information regarding the credit card portfolio acquisition.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The following table presents a summary of changes in goodwill, by segment, for the nine months ended September 30, 2011:

(Dollars in millions)	Credit Card	Consumer	Commercial	Total
Balance as of December 31, 2010	$ 4,690	$ 4,583	$ 4,318	$ 13,591
Acquisitions	3	0	0	3
Other adjustments	(1)	0	0	(1)
Balance as of September 30, 2011	$ 4,692	$ 4,583	$ 4,318	$ 13,593

Other Intangible Assets

In connection with prior acquisitions, we recorded intangible assets which consisted of core deposit intangibles, trust intangibles, lease intangibles, and other intangibles, which are subject to amortization. The core deposit and trust intangibles reflect the estimated value of deposit and trust relationships. The lease intangibles reflect the difference between the contractual obligation under current lease contracts and the fair market value of the lease contracts at the acquisition date. The other intangible items relate to customer lists and brokerage relationships.

In connection with the acquisition of the credit card loan portfolios of Sony, HBC and Kohl s, we recognized purchased credit card relationship intangibles, representing the difference between the purchase price and the fair value of the credit card loans acquired. In connection with the January 7, 2011 acquisition of the HBC credit card portfolio, we also recognized a contract-based intangible asset of $70 million. The contract intangible represents the value attributable to future draws on future accounts.

The following table summarizes our intangible assets subject to amortization as of September 30, 2011 and December 31, 2010:

	September 30, 2011				
(Dollars in millions)	Gross Carrying Amount	Accumulated Amortization	Currency Valuation Adjustments	Net Carrying Amount	Remaining Amortization Period
Core deposit intangibles	$ 1,562	$ (1,042)	$ 0	$ 520	6.2 years
Purchased credit card relationship intangibles(1)	77	(20)	(1)	56	5.5 years
Contract intangible(2)	70	(14)	(3)	53	6.3 years
Lease intangibles	54	(32)	0	22	21.0 years
Trust intangibles	11	(6)	0	5	12.2 years
Other intangibles	25	(21)	0	4	2.6 years
Total	$ 1,799	$ (1,135)	$ (4)	$ 660	

	December 31, 2010				
(Dollars in millions)	Gross Carrying Amount	Accumulated Amortization	Currency Valuation Adjustments	Net Carrying Amount	Remaining Amortization Period
Core deposit intangibles	$ 1,562	$ (912)	$ 0	$ 650	7.0 years
Purchased credit card relationship intangibles(1)	47	(5)	0	42	6.1 years
Lease intangibles	54	(28)	0	26	21.7 years

Trust intangibles	11	(5)	0	6	12.9 years
Other intangibles	35	(26)	0	9	3.3 years
Total	$ 1,709	$ (976)	$ 0	$ 733	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(1) Relates to the acquisitions of the existing Kohl s private-label credit card portfolio in the second quarter of 2011, the existing HBC credit card portfolio in the first quarter of 2011 and the existing Sony Card portfolio in the third quarter of 2010.

(2) Relates to the acquisition of the existing HBC credit card portfolio in the first quarter of 2011.

Intangible assets, which are reported in other assets on our consolidated balance sheets, are amortized over their respective estimated useful lives on an accelerated basis using the sum of the year s digits methodology. Intangible amortization expense, which is included in non-interest expense on our consolidated statements of income, totaled $55 million and $54 million for the three months ended September 30, 2011 and 2010, respectively, and $170 million and $166 million for the nine months ended September 30, 2011 and 2010, respectively. The weighted average amortization period for purchase accounting intangibles is 6.6 years as of September 30, 2011.

The following table summarizes the estimated future amortization expense for intangible assets as of September 30, 2011:

(Dollars in millions)	**Estimated Future Amortization Amounts**
2011 (remaining three months)	**$ 52**
2012	**183**
2013	**148**
2014	**113**
2015	**80**
2016	**49**
Thereafter	**35**
Total	**$ 660**

Mortgage Servicing Rights

MSRs are recognized at fair value when mortgage loans are sold or securitized in the secondary market and the right to service these loans is retained for a fee. MSRs are recorded at fair value and changes in fair value are recorded as a component of mortgage servicing and other income. We may enter into derivatives to economically hedge changes in fair value of MSRs. We have no other loss exposure on MSRs in excess of the recorded fair value.

We continue to operate the mortgage servicing business and to report the changes in the fair value of MSRs in continuing operations. To evaluate and measure fair value, the underlying loans are stratified based on certain risk characteristics, including loan type, note rate and investor servicing requirements.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The following table sets forth the changes in the fair value of MSRs during the three and nine months ended September 30, 2011 and 2010:

(Dollars in millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Balance at beginning of period	**$ 130**	$ 137	**$ 141**	$ 240
Originations	**1**	2	**7**	8
Sales	**0**	0	**0**	(42)
Change in fair value, net	**(37)**	(15)	**(54)**	(82)
Balance at end of period	**$ 94**	$ 124	**$ 94**	$ 124
Ratio of mortgage servicing rights to related loans serviced for others	**0.51%**	0.61%	**0.65%**	0.72%
Weighted average service fee	**0.28**	0.28	**0.28**	0.28

MSR fair value adjustments for the three and nine months ended September 30, 2011 included decreases of $3 million and $10 million, respectively, due to run-off, and decreases of $34 million and $44 million, respectively, due to changes in the valuation inputs and assumptions.

MSR fair value adjustments for the three and nine months ended September 30, 2010 included decreases of $2 million and $19 million, respectively, due to run-off and cash collections, and decrease of $13 million and $63 million, respectively, due to changes in the valuation inputs and assumptions.

The significant assumptions used in estimating the fair value of the MSRs as of September 30, 2011 and 2010 were as follows:

	September 30, 2011	September 30, 2010
Weighted average prepayment rate (includes default rate)	**18.53%**	17.59%
Weighted average life (in years)	**4.86**	5.09
Discount rate	**11.72%**	11.71%

The increase in the weighted average prepayment rate and the corresponding decrease in weighted average life, were both driven by an increase in voluntary attrition due to market conditions.

At September 30, 2011, the sensitivities to immediate 10% and 20% increases in the weighted average prepayment rates would decrease the fair value of mortgage servicing rights by $5 million and $10 million, respectively.

At September 30, 2011, the sensitivities to immediate 10% and 20% adverse changes in servicing costs would decrease the fair value of mortgage servicing rights by $9 million and $19 million, respectively.

As of September 30, 2011, our mortgage loan servicing portfolio consisted of mortgage loans with an aggregate unpaid principal balance of $27.9 billion, of which $18.6 billion was serviced for other investors. As of December 31, 2010, our mortgage loan servicing portfolio consisted of mortgage loans with an aggregate unpaid principal balance of $30.8 billion, of which $20.2 billion was serviced for other investors.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

NOTE 9 DEPOSITS AND BORROWINGS

Customer Deposits

Our customer deposits, which have become our largest source of funding for our operations and asset growth, consist of non-interest bearing and interest-bearing deposits, including demand deposits, money market deposits, negotiable order of withdrawal (NOW) accounts, savings accounts and certificates of deposit.

As of September 30, 2011, we had $110.8 billion in interest-bearing deposits, of which $5.2 billion represented large denomination certificates of $100,000 or more. As of December 31, 2010, we had $107.2 billion in interest-bearing deposits, of which $6.5 billion represented large denomination certificates of $100,000 or more.

Borrowings

We also access the capital markets to meet our funding needs through loan securitization transactions and the issuance of senior and subordinated debt. 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 debentures, 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.

In addition to issuance capacity under the shelf registration statement, we have access to other borrowing programs, including advances from the Federal Home Loan Bank (FHLB). Our FHLB membership is secured by our investment in FHLB stock, which totaled $218 million as of September 30, 2011 and $269 million as of December 31, 2010.

Securitized Debt Obligations

We had $17.1 billion and $26.8 billion of securitized debt obligations as of September 30, 2011 and December 31, 2010, respectively, all of which are held by third party investors.

Senior and Subordinated Debt

As of September 30, 2011, we had $11.1 billion of senior and subordinated notes outstanding, including $840 million in fair value hedging losses. As of December 31, 2010, we had $8.7 billion of senior and subordinated notes outstanding, including $578 million in fair value hedging losses. One senior note for $854 million matured during the three months ended September 30, 2011. 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.

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 senior notes we issued in 2011 described above at a redemption price equal to 101% of the aggregate principal amount of these 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 these notes.

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Under a Senior and Subordinated Global Bank Note Program, COBNA has the ability to issue debt securities to both U.S. and non-U.S. lenders and to raise funds in U.S. and foreign currencies. The Senior and Subordinated Global Bank Note Program had $817 million and $820 million outstanding at September 30, 2011 and December 31, 2010, respectively.

See Note 10 Derivative Instruments and Hedging Activities for information about our fair value hedging activities.

Junior Subordinated Debentures

We had $3.6 billion of outstanding junior subordinated debentures as of both September 30, 2011 and December 31, 2010. There were no junior subordinated borrowings that were called or matured during the nine months ended September 30, 2011.

FHLB Advances

We had outstanding FHLB advances, which are secured by our investment securities, residential home loan portfolio, multifamily loans, commercial real estate loans and home equity lines of credit, totaling $1.1 billion as of both September 30, 2011 and December 31, 2010.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Composition of Customer Deposits, Short-term Borrowings and Long-term Debt

The table below summarizes the components of our deposits, short-term borrowings and long-term debt as of September 30, 2011 and December 31, 2010. Our total short-term borrowings consist of federal funds purchased and securities loaned under agreements to repurchase and other short-term borrowings with an original contractual maturity of one year or less. Our long-term debt consists of borrowings with an original contractual maturity of greater than one year. The amounts presented for outstanding borrowings include unamortized debt premiums and discounts, net of fair value hedge accounting adjustments.

(Dollars in millions)	September 30, 2011	December 31, 2010
Deposits:		
Non-interest bearing deposits	**$ 17,541**	$ 15,048
Interest-bearing deposits	**110,777**	107,162
Total deposits	**$ 128,318**	$ 122,210
Short-term borrowings:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	**$ 1,441**	$ 1,517
Other short-term borrowings	**0**	7
Total short-term borrowings	**1,441**	1,524
Long-term debt:		
Securitized debt obligations	**17,120**	26,836[1]
Senior and subordinated notes:		
Unsecured senior debt	**7,112**	4,883
Unsecured subordinated debt	**3,939**	3,767
Total senior and subordinated notes	**11,051**	8,650
Other long-term borrowings:		
Junior subordinated debt	**3,642**	3,642
FHLB advances	**1,061**	1,144
Other long-term borrowings	**4,703**	4,786
Total long-term debt	**32,874**	40,272
Total short-term borrowings and long-term debt	**$ 34,315**	$ 41,796

(1) Includes fair value hedges related to securitized debt of $79 million as of December 31, 2010, which was included on the consolidated balance sheet in Other borrowings.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Components of Interest Expense

The following table displays interest expense attributable to short-term borrowings and long-term debt for the three and nine months ended September 30, 2011 and 2010:

(Dollars in millions)	Three Months Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Short-term borrowings:				
Federal funds purchased and securities loaned or sold under agreements to repurchase	**$ 1**	$ 1	**$ 4**	$ 3
FHLB advances	**1**	0	**1**	0
Total short-term borrowings	**2**	1	**5**	3
Long-term debt:				
Securitized debt obligations	**89**	191	**342**	644
Senior and subordinated notes:				
Unsecured senior debt	**54**	41	**123**	119
Unsecured subordinated debt	**30**	31	**88**	92
Total senior and subordinated notes	**84**	72	**211**	211
Other long-term borrowings:				
Junior subordinated debt	**79**	78	**231**	242
FHLB advances	**2**	4	**9**	17
Other	**2**	2	**6**	3
Other long-term borrowings	**83**	84	**246**	262
Total long-term debt	**256**	347	**799**	1,117
Total short-term borrowings and long-term debt	**$ 258**	$ 348	**$ 804**	$ 1,120

NOTE 10 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Use of Derivatives

We manage our asset/liability position and market risk exposure in accordance with prescribed risk management policies and limits established by our Asset Liability Management Committee and approved by our Board of Directors. Our primary market risk stems from the impact on our earnings and economic value of equity from changes in interest rates, and to a lesser extent, changes in foreign exchange rates. We manage our interest rate sensitivity through several approaches, which include, but are not limited to, changing the maturity and re-pricing characteristics of various balance sheet categories and by entering into interest rate derivatives. Derivatives are also utilized to manage our exposure to changes in foreign exchange rates. Derivative instruments may be privately negotiated contracts, which are often referred to as over-the-counter (OTC) derivatives, or they may be listed and traded on an exchange. We execute our derivative contracts in both the OTC and exchange-traded derivative markets. In addition to interest rate swaps, we use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage our interest rate and foreign currency risk. On a regular basis, we enter into customer-accommodation derivative transactions. We engage in these transactions as a service to our commercial banking customers to facilitate their risk management objectives. We typically offset the market risk exposure to our customer-accommodation derivatives through derivative transactions with other counterparties.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Accounting for Derivatives

We account for derivatives pursuant to the accounting standards for derivatives and hedging. The outstanding notional amount of our derivative contracts totaled $71.9 billion as of September 30, 2011, compared with $50.7 billion as of December 31, 2010. The notional amount provides an indication of the volume of our derivatives activity and is used as the basis on which interest and other payments are determined; however, it is generally not the amount exchanged. Derivatives are recorded at fair value in our consolidated balance sheets. The fair value of a derivative represents our estimate of the amount at which a derivative could be exchanged in an orderly transaction between market participants. We report derivatives in a gain position, or derivative assets, in our consolidated balance sheets as a component of other assets. We report derivatives in a loss position, or derivative liabilities, in our consolidated balance sheets as a component of other liabilities. We report derivative asset and liability amounts on a gross basis based on individual contracts, which does not take into consideration the effects of master counterparty netting agreements or collateral netting. The fair value of derivative assets and derivative liabilities reported in our consolidated balance sheets was $2.1 billion and $926 million, respectively, as of September 30, 2011, compared with $1.3 billion and $636 million, respectively, as of December 31, 2010.

Our derivatives are designated as either qualifying accounting hedges or free-standing derivatives. Free-standing derivatives consist of customer-accommodation derivatives and economic hedges that we enter into for risk management purposes that are not linked to specific assets or liabilities or to forecasted transactions and, therefore, do not qualify for hedge accounting. Qualifying accounting hedges are designated as fair value hedges, cash flow hedges or net investment hedges.

Fair Value Hedges: We designate derivatives as fair value hedges to manage our exposure to changes in the fair value of certain financial assets and liabilities, which fluctuate in value as a result of movements in interest rates. Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings together with offsetting changes in the fair value of the hedged item and any resulting ineffectiveness. Our fair value hedges consist of interest rate swaps that are intended to modify our exposure to interest rate risk on various fixed rate senior notes, subordinated notes, securitization debt, brokered certificates of deposits and U.S. agency investments. These hedges have maturities through 2019 and have the effect of converting some of our fixed rate debt, deposits and investments to variable rate.

Cash Flow Hedges: We designate derivatives as cash flow hedges to manage our exposure to variability in cash flows related to forecasted transactions. Changes in the fair value of derivatives designated as cash flow hedges are recorded as a component of AOCI, to the extent that the hedge relationships are effective, and amounts are reclassified from AOCI to earnings as the forecasted transactions occur. To the extent that any ineffectiveness exists in the hedge relationships, the amounts are recorded in current period earnings. Our cash flow hedges consist of interest rate swaps that are intended to hedge the variability in interest payments on some of our variable rate debt issuances and assets through 2017. These hedges have the effect of converting some of our variable rate debt and assets to a fixed rate. We also have entered into forward foreign currency derivative contracts to hedge our exposure to variability in cash flows related to foreign currency denominated debt.

Net Investment Hedges: We use net investment hedges, primarily forward foreign exchange contracts, to manage the exposure related to our net investments in consolidated foreign operations that have functional currencies other than the U.S. dollar. Changes in the fair value of net investment hedges are recorded in the translation adjustment component of AOCI.

Free-Standing Derivatives: We use free-standing derivatives, or economic hedges, to hedge the risk of changes in the fair value of residential MSRs, mortgage loan origination and purchase commitments and other interests held. We also categorize our customer-accommodation derivatives and the related offsetting contracts as free-standing derivatives. Changes in the fair value of free-standing derivatives are recorded in earnings as a component of other non-interest income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Balance Sheet Presentation

The following table summarizes the fair value and related outstanding notional amounts of derivative instruments reported in our consolidated balance sheets as of September 30, 2011 and December 31, 2010. The fair value amounts are segregated by derivatives that are designated as accounting hedges and those that are not, and are further segregated by type of contract within those two categories.

	September 30, 2011			December 31, 2010		
	Notional or Contractual	Derivatives at Fair Value		Notional or Contractual	Derivatives at Fair Value	
(Dollars in millions)	**Amount**	**Assets[1]**	**Liabilities[1]**	**Amount**	**Assets[1]**	**Liabilities[1]**
Derivatives designated as accounting hedges:						
Interest rate contracts:						
Fair value interest rate contracts	**$ 15,052**	**$ 1,052**	**$ 1**	$ 17,001	$ 747	$ 77
Cash flow interest rate contracts	**6,325**	**79**	**137**	8,585	14	151
Total interest rate contracts	**21,377**	**1,131**	**138**	25,586	761	228
Foreign exchange contracts:						
Cash flow foreign exchange contracts	**4,341**	**279**	**0**	2,266	5	26
Net investment foreign exchange contracts	**0**	**0**	**0**	52	0	1
Total foreign exchange contracts	**4,341**	**279**	**0**	2,318	5	27
Total derivatives designated as accounting hedges	**25,718**	**1,410**	**138**	27,904	766	255
Derivatives not designated as accounting hedges:[1]						
Interest rate contracts covering:						
MSRs	**383**	**18**	**13**	625	3	18
Customer accommodation[2]	**15,232**	**458**	**404**	12,255	282	244
Other interest rate exposures	**28,153**	**35**	**300**	7,579	46	35
Total interest rate contracts	**43,768**	**511**	**717**	20,459	331	297
Foreign exchange contracts	**1,488**	**219**	**66**	1,384	214	67
Other contracts	**957**	**3**	**5**	980	8	17
Total derivatives not designated as accounting hedges	**46,213**	**733**	**788**	22,823	553	381
Total derivatives	**$ 71,931**	**$ 2,143**	**$ 926**	$ 50,727	$ 1,319	$ 636

(1) Derivative asset and liability amounts are presented on a gross basis based on individual contracts and do not reflect the impact of legally enforceable master counterparty netting agreements, collateral received/posted or net credit risk valuation adjustments. We recorded a net cumulative credit risk valuation adjustment related to our derivative positions of $39 million and $20 million as of September 30, 2011 and December 31, 2010, respectively. See Derivative Counterparty Credit Risk below for additional information.

(2) Customer accommodation derivatives include those entered into with our commercial banking customers and those entered into with other counterparties to offset the market risk.

We took several actions 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. 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

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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 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.

During the third quarter of 2011, we discontinued hedge accounting on our only net investment hedge. Therefore, we did not have any net investment hedge outstanding as of September 30, 2011.

Income Statement Presentation and AOCI

The following tables summarize the impact of derivatives and related hedged items on our consolidated statements of income and AOCI.

Fair Value Hedges and Free-Standing Derivatives

The net gains (losses) recognized in earnings related to derivatives in fair value hedging relationships and free-standing derivatives are presented below for the three and nine months ended September 30, 2011 and 2010.

(Dollars in millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Derivatives designated as accounting hedges:				
Fair value interest rate contracts:				
Gain recognized in earnings on derivatives[1]	**$ 339**	$ 231	**$ 380**	$ 757
Loss recognized in earnings on hedged items[1]	**(334)**	(230)	**(372)**	(718)
Net fair value hedge ineffectiveness gain	**5**	1	**8**	39
Derivatives not designated as accounting hedges:				
Interest rate contracts covering:				
MSRs[1]	**6**	(4)	**2**	(17)
Customer accommodation[1]	**5**	6	**15**	14
Other interest rate exposures[1][2]	**(273)**	(1)	**(267)**	5
Total	**(262)**	1	**(250)**	2
Foreign exchange contracts[1]	**6**	(7)	**4**	1
Other contracts[1]	**14**	12	**23**	44
Total gain (loss) on derivatives not designated as accounting hedges	**(242)**	6	**(223)**	47
Net derivatives gain (loss) recognized in earnings	**$ (237)**	$ 7	**$ (215)**	$ 86

(1) Amounts are recorded in our consolidated statements of income in other non-interest income.

(2) Includes $266 million in mark-to-market losses recorded in the third quarter of 2011 on interest-rate swap transactions related to the pending ING Direct acquisition discussed above.

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The derivative losses for the third quarter and first nine months of 2011 were primarily attributable to the $266 million mark-to-market loss recorded in the third quarter of 2011 on the interest-rate swap transactions related to the pending ING Direct acquisition. Because these interest-rate swaps are not designated for hedge accounting, we will continue to record changes in the fair value of these interest-rate swaps in earnings until the swaps are terminated.

Cash Flow and Net Investment Hedges

The table below shows the net gains (losses) related to derivatives designated as cash flow hedges and net investment hedges for the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	**2011**	**2010**	**2011**	**2010**
Gain (loss) recorded in AOCI:[1]				
Cash flow hedges:				
Interest rate contracts	**$ 14**	$ (13)	**$ 35**	$ (28)
Foreign exchange contracts	**(5)**	(1)	**(15)**	1
Subtotal	**9**	(14)	**20**	(27)
Net investment hedges:				
Foreign exchange contracts	**(1)**	(3)	**(2)**	(1)
Net derivative gain (loss) recognized in AOCI	**$ 8**	$ (17)	**$ 18**	$ (28)
Gain (loss) recorded in earnings:				
Cash flow hedges:				
Gain (loss) reclassified from AOCI into earnings:				
Interest rate contracts[2]	**$ (1)**	$ (8)	**$ 1**	$ (46)
Foreign exchange contracts[3]	**(5)**	(1)	**(14)**	1
Subtotal	**(6)**	(9)	**(13)**	(45)
Gain (loss) recognized in earnings due to ineffectiveness:				
Interest rate contracts[3]	**0**	0	**0**	1
Foreign exchange contracts[3]	**0**	0	**0**	0
Subtotal	**0**	0	**0**	1
Net derivative loss recognized in earnings	**$ (6)**	$ (9)	**$ (13)**	$ (44)

(1) Amounts represent the effective portion.
(2) Amounts reclassified are recorded in our consolidated statements of income in interest income, interest expense or other non-interest income.
(3) Amounts reclassified are recorded in our consolidated statements of income in other non-interest income.

We expect to reclassify net after-tax gains of $2 million recorded in AOCI as of September 30, 2011, related to derivatives designated as cash flow hedges to earnings over the next 12 months, which we expect to offset against the cash flows associated with the hedged forecasted transactions. The maximum length of time over which forecasted transactions were hedged was six years as of September 30, 2011. The amount we expect to reclassify into earnings may change as a result of changes in market conditions and ongoing actions taken as part of our overall risk management strategy.

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Credit Default Swaps

We have credit exposure on credit default swap agreements that we entered into to manage our risk of loss on certain manufactured housing securitizations issued by GreenPoint Credit LLC in 2000. Our maximum credit exposure related to these swap agreements totaled $24 million and $27 million as of September 30, 2011 and December 31, 2010, respectively. These agreements are recorded in our consolidated balance sheets as a component of other liabilities. The value of our obligations under these swaps was $15 million as of September 30, 2011 and $18 million as of December 31, 2010. See Note 7 Variable Interest Entities and Securitizations for additional information about our manufactured housing securitization transactions.

Credit Risk-Related Contingency Features

Certain of our derivative contracts include provisions requiring that our debt maintain a credit rating of investment grade or above by each of the major credit rating agencies. In the event of a downgrade of our debt credit rating below investment grade, some of our derivative counterparties would have the right to terminate the derivative contract and close-out the existing positions. Other derivative contracts include provisions that would, in the event of a downgrade of our debt credit rating below investment grade, allow our derivative counterparties to demand immediate and ongoing full overnight collateralization on derivative instruments in a net liability position. Certain of our derivative contracts may allow, in the event of a downgrade of our debt credit rating of any kind, our derivative counterparties to demand additional collateralization on such derivative instruments in a net liability position. The fair value of derivative instruments with credit-risk-related contingent features in a net liability position was $81 million and $66 million as of September 30, 2011 and December 31, 2010, respectively. We were required to post collateral, consisting of a combination of cash and securities, totaling $343 million and $229 million as of September 30, 2011 and December 31, 2010, respectively. If our debt credit rating had fallen below investment grade, we would have been required to post additional collateral of $43 million and $39 million as of September 30, 2011 and December 31, 2010, respectively.

Derivative Counterparty Credit Risk

Derivative instruments contain an element of credit risk that arises from the potential failure of a counterparty to perform according to the contractual terms of the contract. Our exposure to derivative counterparty credit risk at any point in time is represented by the fair value of derivatives in a gain position, or derivative assets, assuming no recoveries of underlying collateral. To mitigate the risk of counterparty default, we maintain collateral agreements with certain derivative counterparties. These agreements typically require both parties to maintain collateral in the event the fair values of derivative financial instruments exceed established thresholds. We received cash collateral from derivatives counterparties totaling $1.1 billion and $668 million as of September 30, 2011 and December 31, 2010, respectively. We posted cash collateral in accounts maintained by derivatives counterparties totaling $343 million and $229 million as of September 30, 2011 and December 31, 2010, respectively.

We record counterparty credit risk valuation adjustments on our derivative assets to properly reflect the credit quality of the counterparty. We consider collateral and legally enforceable master netting agreements that mitigate our credit exposure to each counterparty in determining the counterparty credit risk valuation adjustment, which may be adjusted in future periods due to changes in the fair value of the derivative contract, collateral and creditworthiness of the counterparty. The cumulative counterparty credit risk valuation adjustment recorded on our consolidated balance sheets as a reduction in the derivative asset balance was $41 million and $22 million as of September 30, 2011 and December 31, 2010, respectively. We also adjust the fair value of our derivative liabilities to reflect the impact of our credit quality. We calculate this adjustment by comparing the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

spreads on our credit default swaps to the discount benchmark curve. The cumulative credit risk valuation adjustment related to our credit quality recorded on our consolidated balance sheets as a reduction in the derivative liability balance was $2 million as of both September 30, 2011 and December 31, 2010.

On July 19, 2011, we closed a public offering of shares of our common stock, subject to forward sale agreements that we entered into with certain counterparties acting as forward purchasers. The forward purchasers agreed to borrow and sell to the public, through the underwriters, 40 million shares of our common stock at a price per share of $50.00. After underwriter s discounts and commissions, the net proceeds to the company 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. 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. We have the right to elect net share or cash settlement under the forward sale agreements, rather than physical settlement. Depending on the price of our common stock at the time, we may have credit exposure to the forward purchasers in the event that we are entitled to receive payment from these counterparties should we choose to settle the forward sale agreements other than by physical settlement. Conversely, we may have the obligation to make payment to the forward purchasers if we chose net share or cash settlement. In addition, the forward purchasers have the obligation to deliver cash proceeds to us in exchange for our issuance of common stock at the time of physical settlement. Until the time of settlement, the impact of these potential obligations are not reflected in our financial statements. Neither our counterparties nor our obligations under the forward sale agreements are collateralized. Except under limited circumstances, under the terms of the forward sale agreements we have the right to physical settlement at any time.

We provide additional information on our management of derivative counterparty credit risk in our 2010 Form 10-K Note 11 Derivative Instruments and Hedging Activities.

NOTE 11 STOCKHOLDERS EQUITY

Accumulated Other Comprehensive Income (AOCI)

The following table presents the components of AOCI, net of deferred taxes of $182 million and $143 million, as of September 30, 2011 and December 31, 2010, respectively.

(Dollars in millions)	September 30, 2011	December 31, 2010
AOCI Components:		
Net unrealized gains on securities[1]	**$ 380**	$ 333
Net unrecognized elements of defined benefit plans	**(30)**	(29)
Foreign currency translation adjustments	**(56)**	(36)
Unrealized losses on cash flow hedging instruments and Other	**(21)**	(52)
Other-than-temporary impairment not recognized in earnings on securities	**35**	49
Initial application of measurement date provisions for postretirement benefits other than pensions	**(1)**	(1)
Initial application from adoption of consolidation standards	**(16)**	(16)

Total accumulated other comprehensive income	**$**	**291**	$	248

(1) Includes net unrealized gains (losses) on securities available for sale and retained subordinated notes. Unrealized losses not related to credit on other-than-temporarily impaired securities of $126 million (net of income tax of $81 million) and $105 million (net of income tax of $68 million) was reported in other comprehensive income as of September 30, 2011 and December 31, 2010, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

NOTE 12 EARNINGS PER COMMON SHARE

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

(Dollars and shares in millions, except per share-related data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Earnings:				
Income from continuing operations, net of tax	**$ 865**	$ 818	**$ 2,842**	$ 2,349
Loss from discontinued operations, net of tax	**(52)**	(15)	**(102)**	(303)
Net income	**$ 813**	$ 803	**$ 2,740**	$ 2,046
Shares:				
Weighted-average common shares outstanding	**456**	453	**455**	452
Effect of dilutive securities:[1]				
Stock options	**1**	1	**2**	1
Contingently issuable shares	**1**	0	**2**	0
Restricted stock and units	**2**	3	**2**	3
Dilutive potential common shares	**4**	4	**6**	4
Adjusted weighted-average common shares outstanding	**460**	457	**461**	456
Basic earnings per 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 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

[1] Excluded from the computation of diluted earnings per share was 49 million and 30 million of awards, options or warrants, for the three months ended September 30, 2011 and 2010, respectively, and 22 million and 26 million of awards, options or warrants, for the nine months ended September 30, 2011 and 2010, respectively, because their inclusion would be anti-dilutive.

On July 19, 2011, we closed a public offering of shares of our common stock, subject to forward sale agreements that we entered into with certain counterparties acting as forward purchasers. The forward purchasers agreed to borrow and sell to the public, through the underwriters, 40 million shares of our common stock at a price per share of $50.00. After underwriter s discounts and commissions, the net proceeds to the company 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 agreement.

Prior to any issuance of shares of our common stock upon settlement of the forward sale agreements, the forward sale agreements will be reflected in our diluted earnings per share calculations using the treasury stock method. Under this method, the number of shares of our common stock used in calculating diluted earnings per share is increased by the excess, if any, of the number of shares that would be issued upon physical settlement of the forward sale agreements in whole over the number of shares that could be purchased by us in the market (based on the average market price during the reporting period) using the proceeds receivable upon settlement (based on the adjusted forward sale price at the end of the reporting period).

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NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS

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 accounting guidance for fair value requires that we maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value. The accounting guidance for derivatives also provides for the irrevocable option to elect, on a contract-by-contract basis, to measure certain financial assets and liabilities at fair value at inception of the contract and record any subsequent changes in fair value into earnings. We had not made any material fair value option elections as of September 30, 2011 and December 31, 2010.

Level 1, 2 and 3 Valuation Techniques

Financial instruments are considered Level 1 when the valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The following table displays our assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis as of September 30, 2011 and December 31, 2010:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	September 30, 2011 Fair Value Measurements Using			Assets/ Liabilities
(Dollars in millions)	Level 1	Level 2	Level 3	at Fair Value
Assets				
Securities available for sale:				
U.S. Treasury and other U.S. Agency	**$ 125**	**$ 175**	**$ 0**	**$ 300**
Residential mortgage-backed securities	**0**	**26,829**	**191**	**27,020**
Asset-backed securities	**0**	**9,695**	**39**	**9,734**
Commercial mortgage-backed securities	**0**	**485**	**342**	**827**
Other	**277**	**230**	**12**	**519**
Total securities available for sale	**402**	**37,414**	**584**	**38,400**
Other assets:				
Mortgage servicing rights	**0**	**0**	**94**	**94**
Derivative receivables[(1)(2)]	**3**	**2,075**	**65**	**2,143**
Retained interests in securitization	**0**	**0**	**101**	**101**
Total Assets	**$ 405**	**$ 39,489**	**$ 844**	**$ 40,738**
Liabilities				
Other liabilities:				
Derivative payables[(1)(2)]	**$ 5**	**$ 681**	**$ 240**	**$ 926**
Total Liabilities	**$ 5**	**$ 681**	**$ 240**	**$ 926**

	December 31, 2010 Fair Value Measurements Using			Assets/ Liabilities
(Dollars in millions)	Level 1	Level 2	Level 3	at Fair Value
Assets				
Securities available for sale:				
U.S. Treasury and other U.S. Agency	$ 386	$ 314	$ 0	$ 700
Residential mortgage-backed securities	0	29,626	578	30,204
Asset-backed securities	0	9,953	13	9,966
Commercial mortgage-backed securities	0	45	0	45
Other	293	322	7	622
Total securities available for sale	679	40,260	598	41,537
Other assets:				
Mortgage servicing rights	0	0	141	141

Derivative receivables[(1)(2)]	8	1,265	46	1,319
Retained interests in securitizations	0	0	117	117
Total Assets	$ 687	$ 41,525	$ 902	$ 43,114
Liabilities				
Other liabilities:				
Derivative payables[(1)(2)]	$ 18	$ 575	$ 43	$ 636
Total Liabilities	$ 18	$ 575	$ 43	$ 636

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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

(2) Does not reflect $39 million and $20 million recognized as a net valuation allowance on derivative assets and liabilities for non-performance risk as of September 30, 2011 and December 31, 2010, respectively. Non-performance risk is reflected in other assets/liabilities on the balance sheet and offset through the income statement in other income.

The determination of the classification of financial instruments in Level 2 or Level 3 of the fair value hierarchy is performed at the end of each reporting period. We consider all available information, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs. 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.

During the third quarter of 2011, we did not have material movements between Levels 1 and 2. In connection with the adoption of the new consolidation accounting standards on January 1, 2010, retained interests in securitizations, which were considered a Level 3 security, were reclassified to loans held for investment when the underlying trusts were consolidated.

Level 3 Instruments Only

Financial instruments are considered Level 3 when their values are determined using pricing models, which include comparison of prices from multiple sources, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable or there is significant variability among pricing sources. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The table below presents reconciliation for all assets and liabilities measured and recognized at fair value on a recurring basis using significant unobservable inputs (Level 3).

	Three Months Ended September 30, 2011				
(Dollars in millions)	Securities Available for Sale	Mortgage Servicing Rights	Derivative Receivables(2)	Retained Interests in Securitizations(3)	Derivative Payables(2)
Balance, June 30, 2011	$ 378	$ 130	$ 44	$ 106	$ (42)
Total realized and unrealized gains (losses):					
Included in net income	0	(34)(1)	27	(5)	(24)
Included in other comprehensive income	(10)	0	0	0	0
Purchases	282	0	0	0	0
Sales	(15)	0	0	0	0
Issuances	0	1	3	0	(180)
Settlements	(34)	(3)	(8)	0	5
Transfers in to Level 3(4)	100	0	0	0	0
Transfers out of Level 3(4)	(117)	0	(1)	0	1
Balance, September 30, 2011	$ 584	$ 94	$ 65	$ 101	$ (240)
Total unrealized gains (losses) included in net income related to assets and liabilities still held as of September 30, 2011(5)	$ 0	$ (34)	$ 27	$ (5)	$ (24)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Three Months Ended September 30, 2011					
(Dollars in millions)	U.S. Treasury & Agency	Residential mortgage backed securities	Asset-backed Securities	Commercial mortgage-backed Securities	Other	Total
Securities Available for Sale						
Balance, June 30, 2011	**$ 0**	**$ 357**	**$ 9**	**$ 0**	**$ 12**	**$ 378**
Total realized and unrealized gains (losses):						
Included in other comprehensive income	**0**	**(5)**	**(4)**	**(1)**	**0**	**(10)**
Purchases	**0**	**(34)**	**34**	**282**	**0**	**282**
Sales	**0**	**0**	**0**	**(15)**	**0**	**(15)**
Issuances	**0**	**0**	**0**	**0**	**0**	**0**
Settlements	**0**	**(34)**	**0**	**0**	**0**	**(34)**
Transfers in to Level 3[4]	**0**	**24**	**0**	**76**	**0**	**100**
Transfers out of Level 3[4]	**0**	**(117)**	**0**	**0**	**0**	**(117)**
Balance, September 30, 2011	**$ 0**	**$ 191**	**$ 39**	**$ 342**	**$ 12**	**$ 584**
Total unrealized gains (losses) included in net income related to assets and liabilities still held as of September 30, 2011[5]	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**	**$ 0**

	Three Months Ended September 30, 2010				
(Dollars in millions)	Securities Available for Sale	Mortgage Servicing Rights	Derivative Receivables[2]	Retained Interests in Securitizations[3]	Derivative Payables[2]
Balance, June 30, 2010	$ 1,212	$ 137	$ 51	$ 196	$ (47)
Total realized and unrealized gains (losses):					
Included in net income	(3)	(13)[1]	5	0	(7)
Included in other comprehensive income	(23)	0	0	0	0
Purchases, sales, issuances and settlements, net	(21)	0	2	(72)	0
Transfers in to Level 3[4]	349	0	0	0	0
Transfers out of Level 3[4]	(385)	0	(1)	0	1
Balance, September 30, 2010	$ 1,129	$ 124	$ 57	$ 124	$ (53)
Total unrealized gains (losses) included in net income related to assets and liabilities still held as of September 30, 2010[5]	$ (3)	$ (13)	$ 5	$ 0	$ (7)

	Three Months Ended September 30, 2010					
(Dollars in millions)	U.S. Treasury & Agency	Residential mortgage backed securities	Asset-backed Securities	Commercial mortgage-backed Securities	Other	Total
Securities Available for Sale						
Balance, June 30, 2010	$ 0	$ 1,061	$ 132	$ 0	$ 19	$ 1,212
Total realized and unrealized gains (losses):						
Included in net income	0	(3)	0	0	0	(3)

Included in other comprehensive income	0	(23)	(1)	0	1	(23)
Purchases, sales, issuances and settlements, net	0	(21)	0	0	0	(21)
Transfers in to Level 3[4]	0	349	0	0	0	349
Transfers out of Level 3[4]	0	(335)	(50)	0	0	(385)
Balance, September 30, 2010	$ 0	$ 1,028	$ 81	$ 0	$ 20	$ 1,129
Total unrealized gains (losses) included in net income related to assets and liabilities still held as of September 30, 2010[5]	$ 0	$ (3)	$ 0	$ 0	$ 0	$ (3)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Nine Months Ended September 30, 2011				
(Dollars in millions)	Securities Available for Sale	Mortgage Servicing Rights	Derivative Receivables[2]	Retained Interests in Securitizations[3]	Derivative Payables[2]
Balance, January 1, 2011	$ 598	$ 141	$ 46	$ 117	$ (43)
Total realized and unrealized gains (losses):					
Included in net income	0	(44)[1]	39	(16)	(28)
Included in other comprehensive income	(14)	0	0	0	0
Purchases	316	0	0	0	0
Sales	(30)	0	0	0	0
Issuances	0	7	5	0	(182)
Settlements	(94)	(10)	(23)	0	12
Transfers in to Level 3[4]	131	0	0	0	0
Transfers out of Level 3[4]	(323)	0	(2)	0	1
Balance, September 30, 2011	$ 584	$ 94	$ 65	$ 101	$ (240)
Total unrealized gains (losses) included in net income related to assets and liabilities still held as of September 30, 2011[5]	$ 0	$ (44)	$ 39	$ (16)	$ (28)

	Nine Months Ended September 30, 2011					
(Dollars in millions)	U.S. Treasury & Agency	Residential mortgage backed securities	Asset-backed Securities	Commercial mortgage-backed Securities	Other	Total
Securities Available for Sale						
Balance, January 1, 2011	$ 0	$ 578	$ 13	$ 0	$ 7	$ 598
Total realized and unrealized gains (losses):						
Included in other comprehensive income	0	(9)	(4)	(1)	0	(14)
Purchases	0	0	34	282	0	316
Sales	0	(15)	0	(15)	0	(30)
Issuances	0	0	0	0	0	0
Settlements	0	(93)	(1)	0	0	(94)
Transfers in to Level 3[4]	0	50	0	76	5	131
Transfers out of Level 3[4]	0	(320)	(3)	0	0	(323)
Balance, September 30, 2011	$ 0	$ 191	$ 39	$ 342	$ 12	$ 584
Total unrealized gains (losses) included in net income related to assets and liabilities still held as of September 30, 2011[5]	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0

	Nine Months Ended September 30, 2010				
(Dollars in millions)	Securities Available for Sale	Mortgage Servicing Rights	Derivative Receivables[2]	Retained Interests in Securitizations[3]	Derivative Payables[2]
Balance, January 1, 2010	$ 1,506	$ 240	$ 440	$ 3,945	$ (33)
Total realized and unrealized gains (losses):					

Included in net income	(3)	(62)[1]	15	9	(20)
Included in other comprehensive income	(72)	0	0	0	0
Purchases, sales, issuances and settlements, net	40	(54)	4	(79)	(1)
Impact of adoption of consolidation standards	0	0	(401)	(3,751)	0
Transfers in to Level 3[4]	1,101	0	0	0	0
Transfers out of Level 3[4]	(1,443)	0	(1)	0	1
Balance, September 30, 2010	$ 1,129	$ 124	$ 57	$ 124	$ (53)
Total unrealized gains (losses) included in net income related to assets and liabilities still held as of September 30, 2010[5]	$ (3)	$ (62)	$ 14	$ 8	$ (20)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Nine Months Ended September 30, 2010					
(Dollars in millions)	U.S. Treasury & Agency	Residential mortgage backed securities	Asset-backed Securities	Commercial mortgage-backed Securities	Other	Total
Securities Available for Sale						
Balance January 1, 2010	$ 0	$ 1,468	$ 13	$ 0	$ 25	$ 1,506
Total realized and unrealized gains (losses):						
Included in net income	0	(3)	0	0	0	(3)
Included in other comprehensive income	0	(71)	(2)	0	1	(72)
Purchases, sales, issuances and settlements, net	0	(30)	70	0	0	40
Transfers in to Level 3[4]	0	1,051	50	0	0	1,101
Transfers out of Level 3[4]	0	(1,387)	(50)	0	(6)	(1,443)
Balance, September 30, 2010	$ 0	$ 1,028	$ 81	$ 0	$ 20	$ 1,129
Total unrealized gains (losses) included in net income related to assets and liabilities still held as of September 30, 2010[5]	$ 0	$ (3)	$ 0	$ 0	$ 0	$ (3)

(1) Gains (losses) related to Level 3 mortgage servicing rights are reported in other non-interest income.

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

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

(4) The transfer out of Level 3 for the third quarter and first nine months of 2011 and 2010 was primarily driven by greater consistency amongst multiple pricing sources. The transfer into Level 3 was primarily driven by less consistency amongst vendor pricing on individual securities for non-agency MBS.

(5) The amount presented for unrealized gains (losses) for assets still held as of the reporting date primarily represents impairments for available-for-sale securities and accretion on certain fixed maturity securities, and are reported in total other-than-temporary losses as a component of non-interest income. The amounts presented for unrealized gains (losses) for assets still held as of the end of the reported period for mortgage servicing rights, derivative receivable and derivative payables are reflected in Other as a component of non-interest income. The amounts presented for unrealized gains (losses) for assets still held as of the end of the reported period for retained interests in securitizations are reported in Servicing and securitizations as a component of non-interest income.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We are required to measure and recognize certain other financial assets at fair value on a nonrecurring basis in the consolidated balance sheet. These financial assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when we evaluate impairment). Fair value adjustments for loans held for sale, foreclosed assets, and other assets are recorded in other non-interest expense, and fair value adjustments for loans held for investment are recorded in provision for loan and lease losses in the consolidated statement of income.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

For assets measured at fair value on a nonrecurring basis and still held on the consolidated balance sheet, the following table provides the fair value measures by level of valuation assumptions used as of September 30, 2011 and 2010 and the gains or losses recognized for these assets as a result of fair value measurements for the three and nine months ended September 30, 2011 and 2010:

	September 30, 2011 Fair Value Measurements Using				Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
(Dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Assets at Fair Value**	**Total Gains/(Losses)[2]**	**Total Gains/(Losses)[2]**
Assets						
Loans held for sale	**$ 0**	**$ 312**	**$ 0**	**312**	**$ 3**	**$ 3**
Loans held for investment	**0**	**55**	**62**	**117**	**(18)**	**(68)**
Foreclosed assets[1]	**0**	**138**	**0**	**138**	**(4)**	**(23)**
Other	**0**	**18**	**0**	**18**	**0**	**(13)**
Total	**$ 0**	**$ 523**	**$ 62**	**$ 585**	**$ (19)**	**$ (101)**

	September 30, 2010 Fair Value Measurements Using				Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
(Dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Assets at Fair Value**	**Total Gains/(Losses)[2]**	**Total Gains/(Losses)[2]**
Assets						
Loans held for sale	$ 0	$ 190	$ 0	$ 190	$ (1)	$ (5)
Loans held for investment	0	91	138	229	17	(90)
Foreclosed assets[1]	0	268	0	268	(9)	(29)
Other	0	8	0	8	2	0
Total	$ 0	$ 557	$ 138	$ 695	$ 9	$ (124)

(1) Represents the fair value and related losses of foreclosed properties that were written down subsequent to their initial classification as foreclosed properties.

(2) Represents the gains/losses recognized for the periods presented.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Fair Value of Financial Instruments

The table below presents the fair value of financial instruments, whether or not recognized on the consolidated balance sheet, at fair value as of September 30, 2011 and December 31, 2010:

(Dollars in millions)	September 30, 2011 Carrying Amount	September 30, 2011 Estimated Fair Value	December 31, 2010 Carrying Amount	December 31, 2010 Estimated Fair Value
Financial assets:				
Cash and cash equivalents	**$ 6,358**	**$ 6,358**	$ 5,249	$ 5,249
Restricted cash for securitization investors	**984**	**984**	1,602	1,602
Securities available for sale	**38,400**	**38,400**	41,537	41,537
Loans held for sale	**312**	**312**	228	228
Net loans held for investment	**125,672**	**128,149**	120,319	124,117
Interest receivable	**958**	**958**	1,070	1,070
Accounts receivable from securitization	**101**	**101**	118	118
Derivatives	**2,143**	**2,143**	1,319	1,319
Mortgage servicing rights	**94**	**94**	141	141
Financial liabilities:				
Non-interest bearing deposits	**$ 17,541**	**$ 17,541**	$ 15,048	$ 15,048
Interest-bearing deposits	**110,777**	**111,478**	107,162	107,587
Senior and subordinated notes	**11,051**	**10,960**	8,650	9,236
Securitized debt obligations	**17,120**	**17,257**	26,915	26,943
Federal funds purchased and securities loaned or sold under agreements to repurchase	**1,441**	**1,441**	1,517	1,517
Other borrowings	**4,703**	**4,696**	4,714	4,901
Interest payable	**401**	**401**	488	488
Derivatives	**926**	**926**	636	636

The following describes the valuation techniques used in estimating the fair value of our financial instruments as of September 30, 2011 and December 31, 2010. We applied the fair value provisions, to the financial instruments not recognized on the consolidated balance sheet at fair value, which include loans held for investment, interest receivable, non-interest bearing and interest bearing deposits, other borrowings, senior and subordinated notes, and interest payable. The provisions requiring us to maximize the use of observable inputs and to measure fair value using a notion of exit price were factored into our selection of inputs of our established valuation techniques.

Financial Assets

Cash and Cash Equivalents

The carrying amounts of cash and due from banks, federal funds sold and securities purchased under agreements to resell and interest-bearing deposits with other banks approximate fair value.

Restricted Cash for Securitization Investors

The carrying amounts of restricted cash for securitization investors approximate their fair value due to their relatively short-term nature.

Securities Available For Sale

Quoted prices in active markets are used to measure the fair value of U.S. Treasury securities. For other investment categories, we utilize multiple third party pricing services to obtain fair value measures for the large

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

majority of our securities. A pricing service may be considered as the primary pricing provider for certain types of securities, and the designation of the primary pricing provider may vary depending on the type of securities. The determination of the primary pricing provider is based on our experience and validation benchmark of the pricing service s performance in terms of providing fair value measurement for the various types of securities.

Certain securities available for sale are classified as Level 2 and 3, the majority of which are residential mortgage-backed securities. Classification indicates that significant valuation assumptions are not consistently observable in the market. When significant assumptions are not consistently observable, fair values are derived using the best available data. Such data may include quotes provided by a dealer, the use of external pricing services, independent pricing models, or other model-based valuation techniques such as calculation of the present values of future cash flows incorporating assumptions such as benchmark yields, spreads, prepayment speeds, credit ratings, and losses. The techniques used by the pricing services utilize observable market data to the extent available. Pricing models may be used, which can vary by asset class and may incorporate available trade, bid and other market information. Across asset classes, information such as trader/dealer input, credit spreads, forward curves, and prepayment speeds are used to help determine appropriate valuations. Because many fixed income securities do not trade on a daily basis, the evaluated pricing applications may apply available information through processes such as benchmarking curves, like securities, sector groupings, and matrix pricing to prepare valuations. In addition, model processes are used by the pricing services to develop prepayment and interest rate scenarios.

We validate the pricing obtained from the primary pricing providers through comparison of pricing to additional sources, including other pricing services, dealer pricing indications in transaction results, and other internal sources. Pricing variances among different pricing sources are analyzed and validated.

The decrease in the amount of Level 3 securities reflected run-off of non-agency mortgage securities and tighter pricing of these securities between third party vendors.

Loans Held For Sale

Loans held for sale are carried at the lower of aggregate cost, net of deferred fees, deferred origination costs and effects of hedge accounting, or fair value. The fair value of loans held for sale is determined using current secondary market prices for portfolios with similar characteristics. The carrying amounts as of September 30, 2011 and December 31, 2010 approximate fair value.

Loans Held For Investment, Net

The fair values of credit card loans, installment loans, auto loans, home loans and commercial loans were estimated using a discounted cash flow method, a form of the income approach. Discount rates were determined considering rates at which similar portfolios of loans would be made under current conditions and considering liquidity spreads applicable to each loan portfolio based on the secondary market. The fair value of credit card loans excluded any value related to customer account relationships.

Interest Receivable

The carrying amount of interest receivable approximates the fair value of this asset due to its relatively short-term nature.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Accounts Receivable from Securitizations

Accounts receivable from securitizations include the interest-only strip, retained notes accrued interest receivable, cash reserve accounts and cash spread accounts for those securitization structures achieving off-balance sheet treatment. We use a valuation model that calculates the present value of estimated future cash flows. The model incorporates our estimate of assumptions market participants use in determining fair value, including estimates of payment rates, defaults, and discount rates including adjustments for liquidity, and contractual interest and fees. Other retained interests related to securitizations are carried at cost, which approximates fair value. The valuation technique for these securities is discussed in more detail in Note 7 Variable Interest Entities and Securitizations.

Derivative Assets

Most of our derivatives are not exchange traded, but instead traded in over the counter markets where quoted market prices are not readily available. The fair value derived for those derivatives using models that use primarily market observable inputs, such as interest rate yield curves, credit curves, option volatility and currency rates are classified as Level 2. Any derivative fair value measurements using significant assumptions that are unobservable are classified as Level 3, which include interest rate swaps whose remaining terms do not correlate with market observable interest rate yield curves. The impact of counterparty non-performance risk is considered when measuring the fair value of derivative assets. These derivatives are included in other assets on the balance sheet.

We validate the pricing obtained from the internal models through comparison of pricing to additional sources, including external valuation agents and other internal sources. Pricing variances among different pricing sources are analyzed and validated.

Mortgage Servicing Rights

MSRs do not trade in an active market with readily observable prices. Accordingly, we determine the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment spreads, discount rate, cost to service, contractual servicing fee income, ancillary income and late fees. We record MSRs at fair value on a recurring basis. Fair value measurements of MSRs use significant unobservable inputs and, accordingly, are classified as Level 3. The valuation technique for these securities is discussed in more detail in Note 8 Goodwill and Other Intangible Assets.

Financial Liabilities

Interest Bearing Deposits

The fair value of other interest-bearing deposits was determined based on discounted expected cash flows using discount rates consistent with current market rates for similar products with similar remaining terms.

Non-Interest Bearing Deposits

The carrying amount of non-interest bearing deposits approximates fair value.

Senior and Subordinated Notes

We engage multiple third party pricing services in order to estimate the fair value of senior and subordinated notes. The pricing service utilizes a pricing model that incorporates available trade, bid and other market information. It also incorporates spread assumptions, volatility assumptions and relevant credit information into the pricing models.

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Securitized Debt Obligations

We utilized multiple third party pricing services to obtain fair value measures for the large majority of our securitized debt obligations. The techniques used by the pricing services utilize observable market data to the extent available; and pricing models may be used which incorporate available trade, bid and other market information as described in the above section. We used internal pricing models, discounted cash flow models or similar techniques to estimate the fair value of certain securitization trusts where third party pricing was not available.

Other Borrowings

The carrying amount of federal funds purchased and repurchase agreements, and other short-term borrowings approximates fair value. The fair value of junior subordinated borrowings was estimated using the same methodology as described for senior and subordinated notes. The fair value of other borrowings was determined based on trade information for bonds with similar duration and credit quality, adjusted to incorporate any relevant credit information of the issuer.

Interest Payable

The carrying amount of interest payable approximates the fair value of this liability due to its relatively short-term nature.

Derivative Liabilities

Most of our derivatives are not exchange traded, but instead traded in over the counter markets where quoted market prices are not readily available. The fair value of those derivatives, derived using models that use primarily market observable inputs, such as interest rate yield curves, credit curves, option volatility and currency rates, are classified as Level 2. Any derivative fair value measurements using significant assumptions that are unobservable are classified as Level 3, which include interest rate swaps whose remaining terms do not correlate with market observable interest rate yield curves. The impact of counterparty non-performance risk is considered when measuring the fair value of derivative assets. These derivatives are included in other liabilities on the consolidated balance sheets.

We validate the pricing obtained from the internal models through comparison of pricing to additional sources, including external valuation agents and other internal sources. Pricing variances among different pricing sources are analyzed and validated.

Commitments to Extend Credit and Letters of Credit

These financial instruments are generally not sold or traded. The fair value of the guarantees outstanding which we include on our consolidated balance sheets in other liabilities was $4 million and $3 million as of September 30, 2011 and December 31, 2010, respectively. The estimated fair values of extensions of credit and letters of credit are not readily available. However, the fair value of commitments to extend credit and letters of credit is based on fees currently charged to enter into similar agreements with comparable credit risks and the current creditworthiness of the counterparties. Commitments to extend credit issued by us are generally short-term in nature and, if drawn upon, are issued under current market terms and conditions for credits with comparable risks. At September 30, 2011 and December 31, 2010, there was no material unrealized appreciation or depreciation on these financial instruments.

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NOTE 14 BUSINESS SEGMENTS

Segment Description

Our principal operations are currently organized into three primary reportable 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. Certain activities that are not part of a defined business segment are included in the Other category.

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.

Other Category: 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. Accordingly, net gains and losses on our investment securities portfolio and certain trading activities are included in the Other category. The Other category also includes foreign exchange-rate fluctuations related to the revaluation of foreign currency-denominated investments; certain gains (losses) on the sale and securitization of loans; unallocated corporate expenses that do not directly support the operations of the business segments or for which the business segments are not considered financially accountable in evaluating their performance, such as acquisition and restructuring charges; provisions for representation and warranty reserves related to continuing operations; certain material items that are non-recurring in nature; and offsets related to certain line-item reclassifications.

Basis of Presentation

We report the financial results of our business segments on a continuing operations basis. See Note 3 Discontinued Operations for a discussion of discontinued operations. The results of our individual businesses, which are prepared on an internal management accounting and reporting basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. See Note 20 Business Segments of our 2010 Form 10-K for more information on our business segment reporting methodology.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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 reconsolidation of our total business segment results, or managed results, to our consolidated U.S. GAAP results.

	Three Months Ended September 30, 2011						
(Dollars in millions)	**Credit Card**	**Consumer Banking**	**Commercial Banking**	**Other**	**Total Managed**	**Reconciliation[1]**	**Total Reported**
Net interest income (expense)	**$ 2,042**	**$ 1,097**	**$ 353**	**$ (209)**	**$ 3,283**	**$ 0**	**$ 3,283**
Non-interest income	**678**	**188**	**62**	**(57)**	**871**	**0**	**871**
Total revenue	**2,720**	**1,285**	**415**	**(266)**	**4,154**	**0**	**4,154**
Provision for loan and lease losses	**511**	**136**	**(10)**	**(15)**	**622**	**0**	**622**
Non-interest expense:							
Core deposit intangible amortization	**0**	**32**	**10**	**0**	**42**	**0**	**42**
Other non-interest expense	**1,188**	**821**	**190**	**56**	**2,255**	**0**	**2,255**
Total non-interest expense	**1,188**	**853**	**200**	**56**	**2,297**	**0**	**2,297**
Income (loss) from continuing operations before income taxes	**1,021**	**296**	**225**	**(307)**	**1,235**	**0**	**1,235**
Income tax provision (benefit)	**358**	**106**	**80**	**(174)**	**370**	**0**	**370**
Income (loss) from continuing operations, net of tax	**$ 663**	**$ 190**	**$ 145**	**$ (133)**	**$ 865**	**$ 0**	**$ 865**

	Three Months Ended September 30, 2010						
(Dollars in millions)	**Credit Card**	**Consumer Banking**	**Commercial Banking**	**Other**	**Total Managed**	**Reconciliation[1]**	**Total Reported**
Net interest income (expense)	$ 1,934	$ 946	$ 325	$ (93)	$ 3,112	$ (3)	$ 3,109
Non-interest income	671	196	30	7	904	3	907
Total revenue	2,605	1, 142	355	(86)	4,016	0	4,016
Provision for loan and lease losses	660	114	95	(2)	867	0	867
Non-interest expense:							
Core deposit intangible amortization	0	36	14	0	50	0	50
Other non-interest expense	978	721	185	62	1,946	0	1,946
Total non-interest expense	978	757	199	62	1,996	0	1,996
Income (loss) from continuing operations before income taxes	967	271	61	(146)	1,153	0	1,153
Income tax provision (benefit)	336	96	22	(119)	335	0	335
	$ 631	$ 175	$ 39	$ (27)	$ 818	$ 0	$ 818

Income (loss) from continuing operations, net of tax	

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Nine Months Ended September 30, 2011						
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Other	Total Managed	Reconciliation[1]	Total Reported
Net interest income (expense)	$ 5,873	$ 3,131	$ 1,007	$ (452)	$ 9,559	$ 0	$ 9,559
Non-interest income	1,971	568	195	(64)	2,670	0	2,670
Total revenue	7,844	3,699	1,202	(516)	12,229	0	12,229
Provision for loan and lease losses	1,270	272	(43)	0	1,499	0	1,499
Non-interest expense:							
Core deposit intangible amortization	0	100	31	0	131	0	131
Other non-interest expense	3,604	2,251	538	190	6,583	0	6,583
Total non-interest expense	3,604	2,351	569	190	6,714	0	6,714
Income (loss) from continuing operations before income taxes	2,970	1,076	676	(706)	4,016	0	4,016
Income tax provision (benefit)	1,046	384	241	(497)	1,174	0	1,174
Income (loss) from continuing operations, net of tax	$ 1,924	$ 692	$ 435	$ (209)	$ 2,842	$ 0	$ 2,842

	Nine Months Ended September 30, 2010						
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Other	Total Managed	Reconciliation[1]	Total Reported
Net interest income (expense)	$ 6,024	$ 2,777	$ 956	$ (316)	$ 9,441	$ (7)	$ 9,434
Non-interest income	2,048	674	132	(81)	2,773	2	2,775
Total revenue	8,072	3,451	1,088	(397)	12,214	(5)	12,209
Provision for loan and lease losses	2,600	52	395	27	3,074	(5)	3,069
Non-interest expense:							
Core deposit intangible amortization	0	110	42	0	152	0	152
Other non-interest expense	2,894	2,070	547	180	5,691	0	5,691
Total non-interest expense	2,894	2,180	589	180	5,843	0	5,843
Income (loss) from continuing operations before income taxes	2,578	1,219	104	(604)	3,297	0	3,297
Income tax provision (benefit)	890	434	37	(413)	948	0	948
Income (loss) from continuing operations, net of tax	$ 1,688	$ 785	$ 67	$ (191)	$ 2,349	$ 0	$ 2,349

(1) Reflects the impact of adjustments to reconcile our total business segment results, which are presented on a managed basis, to our reported GAAP results. These adjustments primarily consist of: (i) the reclassification of finance charges, past due fees, other interest income and interest expense amounts included in non-interest income for management reporting purposes to net interest income for GAAP reporting

purposes and (ii) the reclassification of net charge-offs included in non-interest income for management reporting purposes to the provision for loan and lease losses for GAAP reporting purposes.

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Business Segment Loans and Deposits

The total loan and deposit amounts attributable to each of our reportable business segments as of September 30, 2011 and December 31, 2010 are presented in the following tables.

	September 30, 2011				
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Other	Total Reported
Loans held for investment	**$ 62,030**	**$ 35,352**	**$ 32,105**	**$ 465**	**$ 129,952**
Total deposits	**0**	**88,589**	**25,282**	**14,447**	**128,318**

	December 31, 2010				
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Other	Total Reported
Loans held for investment	$ 61,371	$ 34,383	$ 29,742	$ 451	$ 125,947
Total deposits	0	82,959	22,630	16,621	122,210

NOTE 15 COMMITMENTS, CONTINGENCIES AND GUARANTEES

Letters of Credit

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

We had contractual amounts of standby letters of credit and commercial letters of credit of $984 million as of September 30, 2011 and $922 million as of December 31, 2010. These financial guarantees had expiration dates ranging from 2011 to 2016 as of September 30, 2011. The fair value of the guarantees outstanding which we include on our consolidated balance sheets in other liabilities was $4 million as of September 30, 2011.

Contingent Payments Related to Acquisitions and Partnership Agreements

Certain of our acquisition and partnership agreements include contingent payment provisions in which we agree to provide future payments, up to a maximum amount, based on certain performance criteria. Our contingent payment arrangements are generally based on the difference between the expected credit performance of specified loan portfolios as of the date of the applicable agreement and the actual future performance. To the extent that actual losses associated with these portfolios are less than the expected level, we agree to share a portion of the benefit with the counterparty. The maximum contingent payment amount related to our acquisitions totaled $330 million as of September 30, 2011. The actual payment amount related to $30 million of this balance will be determined as of September 30, 2012. The actual payment amount related to the remaining $300 million of this balance will be determined as of December 31, 2013. We recognized an expense related to contingent payment arrangements of $60 million and $90 million in the third quarter and first nine months of 2011, respectively, and recorded a corresponding liability. Our liability for contingent payments related to these arrangements totaled $90 million as of September 30, 2011. We did not record a liability related to these arrangements as of December 31, 2010 based on our expectation of credit losses on the portfolios.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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 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:

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

(Dollars in billions)	Unpaid Principal Balance September 30, 2011	Unpaid Principal Balance December 31, 2010	Original Unpaid Principal Balance Total	2008	2007	2006	2005
Government sponsored enterprises (GSEs [(1)])	**$ 5**	$ 5	$ 11	$ 1	$ 4	$ 3	$ 3
Insured Securitizations	**7**	7	18	0	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.

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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 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.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The following table 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.

Open Pipeline All Vintages (all entities)[1]

(Dollars in millions)	GSEs	Insured Securitizations	Uninsured Securitizations 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)	0	(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)**	**0**	**(16)**	**(81)**
Reclassifications[3]	**4**	**70**	**(74)**	**0**
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 Securitizations & 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

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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 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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.

The following table 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:

Changes in Representation and Warranty Reserve

(Dollars in millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Full Year 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.

Allocation of Representation and Warranty Reserve

(Dollars in millions, except for loans sold)	Reserve Liability September 30, 2011	Reserve Liability December 31, 2010	Loans Sold 2005 to 2008(1)
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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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 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 the 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.

Litigation

In accordance with the current accounting standards for loss contingencies, we establish reserves for litigation related matters when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss can be reasonably estimated. Litigation claims and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. Below we provide a description of material legal proceedings and claims.

For some of the matters disclosed below, we are able to determine estimates of potential future outcomes that are not probable and reasonably estimable outcomes justifying either the establishment of a reserve or an incremental reserve build, but which are reasonably possible outcomes. For other disclosed matters, such an estimate is not possible at this time. For those matters where an estimate is possible, excluding the reasonably possible future losses relating to the U.S. Bank Litigation, the DBSP Litigation, and the FHLB of Boston Litigation because reasonably possible losses with respect to those litigations are included within the range of reasonably possible representation and warranty liabilities discussed above, management currently estimates the aggregate high end of the range of possible loss is $75 million to $225 million. Notwithstanding our attempt to estimate a reasonably possible range of loss beyond our current accrual levels for some litigation matters based on current information, it is possible that actual future losses will exceed both the current accrual level and the range of reasonably possible losses disclosed here. Given the inherent uncertainties involved in these matters, and the very large or indeterminate damages sought in some of these matters, there is significant uncertainty as to the ultimate liability we may incur from these litigation matters and an adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any particular reporting period.

Interchange Litigation

In 2005, a number of entities, each purporting to represent a class of retail merchants, filed antitrust lawsuits (the Interchange Lawsuits) against MasterCard and Visa and several member banks, including our subsidiaries and us, alleging among other things, that the defendants conspired to fix the level of interchange fees. The complaints

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

seek injunctive relief and civil monetary damages, which could be trebled. Separately, a number of large merchants have asserted similar claims against Visa and MasterCard only. In October 2005, the class and merchant Interchange Lawsuits were consolidated before the U.S. District Court for the Eastern District of New York for certain purposes, including discovery. Fact and expert discovery have closed. The parties have briefed and presented oral argument on motions to dismiss and class certification and are awaiting decisions from the court. The parties have also filed motions for summary judgment and will present oral argument before the court in the fourth quarter of 2011.

The defendant banks are members of Visa U.S.A., Inc. (Visa). As members, our subsidiary banks have indemnification obligations to Visa with respect to final judgments and settlements of certain litigation against Visa. In the first quarter of 2008, Visa completed an IPO of its stock. With IPO proceeds, Visa established an escrow account for the benefit of member banks to fund certain litigation settlements and claims, including the Interchange Lawsuits. As a result, in the first quarter of 2008, we reduced our Visa-related indemnification liabilities of $91 million recorded in other liabilities with a corresponding reduction of other non-interest expense. We made an election in accordance with the accounting guidance for fair value option for financial assets and liabilities on the indemnification guarantee to Visa, and the fair value of the guarantee at December 31, 2010 and September 30, 2011 was zero. In January 2011, we entered into a MasterCard Settlement and Judgment Sharing Agreement, along with other defendant banks, which apportions between MasterCard and its member banks any costs and liabilities of any judgment or settlement arising from the Interchange Lawsuits.

In March 2011, a furniture store owner, on behalf of himself and other merchants who accept Visa and MasterCard branded credit cards, filed a class action in the Supreme Court of British Columbia (Vancouver Registry) against the Visa and MasterCard membership associations related to credit card interchange fees. In May 2011, another merchant, on behalf of himself and other merchants who accept Visa and MasterCard branded credit cards, filed a class action in the Ontario Superior Court of Justice (Toronto Region) asserting the same alleged violations of law related to credit card interchange fees and network rules. Both class actions name Visa and MasterCard and a number of member banks, including Capital One Financial Corporation, which only issues MasterCard branded credit cards in Canada. The class action complaints allege that the associations and member banks are liable for civil conspiracy, unjust enrichment, constructive trust and unlawful interference with economic interests and violated Canadian anti-competition laws by (a) conspiring to fix supra-competitive interchange fees and merchant discounts, and (b) requiring participation in the respective networks and adherence to Visa and MasterCard Rules to acceptance of payment guarantee services.

Late Fees Litigation

In 2007, a number of individual plaintiffs, each purporting to represent a class of cardholders, filed antitrust lawsuits in the U.S. District Court for the Northern District of California against several issuing banks, including us. These lawsuits allege, among other things, that the defendants conspired to fix the level of late fees and over-limit fees charged to cardholders, and that these fees are excessive. In May 2007, the cases were consolidated for all purposes, and a consolidated amended complaint was filed alleging violations of federal statutes and state law. The amended complaint requests civil monetary damages, which could be trebled, and injunctive relief. In November 2007, the court dismissed the amended complaint. Plaintiffs appealed that order to the Ninth Circuit Court of Appeals. The plaintiffs appeal challenges the dismissal of their claims under the National Bank Act, the Depository Institutions Deregulation Act of 1980 and the California Unfair Competition Law (the UCL), but not their antitrust conspiracy claims. In June 2009, the Ninth Circuit Court of Appeals stayed the matter pending the bankruptcy proceedings of one of the defendant financial institutions. In August 2011, the Ninth Circuit Court of Appeals entered an additional order continuing the stay of the matter pending the bankruptcy proceedings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Credit Card Interest Rate Litigation

In July 2010, the U.S. Court of Appeals for the Ninth Circuit reversed a dismissal entered in favor of COBNA in Rubio v. Capital One Bank, which was filed in the U.S. District Court for the Central District of California in 2007. The plaintiff in Rubio alleges in a putative class action that COBNA breached its contractual obligations and violated the Truth In Lending Act (the TILA) and the UCL when it raised interest rates on certain credit card accounts. The plaintiff seeks damages, restitution, attorney s fees and an injunction against future rate increases. The District Court granted COBNA s motion to dismiss all claims as a matter of law prior to any discovery. On appeal, the Ninth Circuit reversed the District Court s dismissal with respect to the TILA and UCL claims, remanding the case back to the District Court for further proceedings. The Ninth Circuit upheld the dismissal of the plaintiff s breach of contract claim, finding that COBNA was contractually allowed to increase interest rates. In September 2010, the Ninth Circuit denied COBNA s Petition for Panel Rehearing and Rehearing En Banc. In January 2011, COBNA filed a writ of certiorari with the United States Supreme Court, seeking leave to appeal the Ninth Circuit s ruling. On April 4, 2011, the United States Supreme Court denied Capital One s writ of certiorari, and as a result, the Ninth Circuit remanded the case back to the District Court to begin discovery.

The Capital One Bank Credit Card Interest Rate Multi-district Litigation matter involves similar issues as Rubio. This multi-district litigation matter was created as a result of a June 2010 transfer order issued by the United States Judicial Panel on Multi-district Litigation (MDL), which consolidated for pretrial proceedings in the U.S. District Court for the Northern District of Georgia two pending putative class actions against COBNA Nancy Mancuso, et al. v. Capital One Bank (USA), N.A., et al., (E.D. Virginia); and Kevin S. Barker, et al. v. Capital One Bank (USA), N.A., (N.D. Georgia), A third action, Jennifer L. Kolkowski v. Capital One Bank (USA), N.A., (C.D. California) was subsequently transferred into the MDL. On August 2, 2010, the plaintiffs in the MDL filed a Consolidated Amended Complaint. The Consolidated Amended Complaint alleges in a putative class action that COBNA breached its contractual obligations, and violated the TILA, the California Consumers Legal Remedies Act, the UCL, the California False Advertising Act, the New Jersey Consumer Fraud Act, and the Kansas Consumer Protection Act when it raised interest rates on certain credit card accounts. The MDL plaintiffs seek statutory damages, restitution, attorney s fees and an injunction against future rate increases. Fact discovery is now closed. On August 8, 2011, Capital One filed a motion for summary judgment.

West Virginia Attorney General Litigation

In January 2010, the West Virginia Attorney General filed suit against COBNA and various affiliates in Mason County, West Virginia, challenging numerous credit card practices under the West Virginia Consumer Credit and Protection Act. The West Virginia Attorney General seeks injunctive relief, consumer refunds, statutory damages, disgorgement, and attorneys fees. COBNA removed the case to the U.S. District Court for the Southern District of West Virginia and filed a motion to dismiss the complaint. In July 2010, the U.S. District Court for the Southern District of West Virginia remanded the case back to Mason County Circuit Court and denied the motion to dismiss as moot. In August 2010, we filed a motion to dismiss and a motion to stay discovery pending resolution of the motion to dismiss. In April 2011, the Court denied our motion to dismiss and scheduled a bench trial to begin on December 6, 2011. On July 20, 2011, COBNA removed the case again to the U.S. District Court for the Southern District of West Virginia. The plaintiff filed a motion to remand the matter to state court. On August 12, 2011, the district court issued an order remanding the matter back to Mason County Circuit Court.

Mortgage Repurchase Litigation

On February 5, 2009, GreenPoint was named as a defendant in a lawsuit commenced in the Supreme Court of the State of New York, New York County, by U.S. Bank National Association, Syncora Guarantee Inc. (formerly

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

known as XL Capital Assurance Inc.) and CIFG Assurance North America, Inc. (the U.S. Bank Litigation). Plaintiffs allege, among other things, that GreenPoint breached certain representations and warranties in two contracts pursuant to which GreenPoint sold approximately 30,000 mortgage loans having an aggregate original principal balance of approximately $1.8 billion to a purchaser that ultimately transferred most of these mortgage loans to a securitization trust. Some of the securities issued by the trust were insured by two of the plaintiffs. Plaintiffs have alleged breaches of representations and warranties with respect to certain specific mortgage loans. Plaintiffs seek unspecified damages and an order compelling GreenPoint to repurchase the entire portfolio of 30,000 mortgage loans based on alleged breaches of representations and warranties relating to a limited sampling of loans in the portfolio, or, alternatively, the repurchase of specific mortgage loans to which the alleged breaches of representations and warranties relate. On March 3, 2010, the Court granted GreenPoint s motion to dismiss with respect to plaintiffs Syncora and CIFG and denied the motion with respect to U.S. Bank. In March 2010, GreenPoint answered the complaint with respect to U.S. Bank, denying the allegations, and filed a counterclaim against U.S. Bank alleging breach of covenant of good faith and fair dealing. In April 2010, plaintiffs U.S. Bank, Syncora, and CIFG filed an amended complaint seeking, among other things, the repurchase remedies described above and indemnification for losses suffered by Syncora and CIFG. GreenPoint filed a motion to dismiss the amended complaint. On January 6, 2011, the Court instructed plaintiffs to seek leave of court to file an amended complaint supported by an evidentiary showing of merit. Plaintiffs filed their motion for leave in June 2011, which is currently expected to be argued in the fourth quarter of 2011. As noted above, GreenPoint has established reserves with respect to its probable and reasonably estimable legal liability from the U.S. Bank Lawsuit, which reserves are included within the overall representation and warranty reserve. Also as noted above, GreenPoint has exposure to loss in excess of the amount established within the overall representation and warranty reserve because GreenPoint has not established reserves with respect to the portfolio-wide repurchase claim on the basis that the claim is not considered probable and reasonably estimable. In the event GreenPoint is obligated to repurchase all 30,000 mortgage loans under the portfolio-wide repurchase claim, GreenPoint would incur the current and future economic losses inherent in the portfolio. With respect to the mortgage loan portfolio at issue in the U.S. Bank Litigation, we believe approximately $824 million of losses have been realized and approximately $330 million in mortgage loans are still outstanding, of which approximately $43 million are more than 90 days delinquent, including foreclosures and REO.

In September 2010, DB Structured Products, Inc. (DBSP) named GreenPoint in a third-party complaint, filed in the New York County Supreme Court, alleging breach of contract and seeking indemnification (the DBSP Litigation). In the underlying suit, Assured Guaranty Municipal Corp. (AGM) sued DBSP for alleged breaches of representations and warranties made by DBSP with respect to certain residential mortgage loans that collateralize a securitization insured by AGM and sponsored by DBSP (the Underlying Lawsuit). DBSP purchased the HELOC loans from GreenPoint in 2006. The entire securitization is comprised of about 6,200 mortgage loans with an aggregate original principal balance of approximately $353 million. DBSP asserts that any liability it faces lies with GreenPoint, alleging that DBSP s representations and warranties to AGM are substantially similar to the representations and warranties made by GreenPoint to DBSP. GreenPoint filed a motion to dismiss the complaint in October 2010, which the court denied on July 25, 2011. The parties are currently engaged in discovery. As noted above, GreenPoint has established reserves with respect to its estimated probable and reasonable estimable legal liability from the DBSP Litigation, which reserves are included within the overall representation and warranty reserve. Also as noted above, GreenPoint has not established a reserve with respect to any portfolio-wide repurchase claim, but in the event GreenPoint is obligated to indemnify DBSP for the repurchase of all 6,200 mortgage loans, GreenPoint would incur the current and future economic losses inherent in the securitization. With respect to these loans, we believe approximately $144 million of losses have been realized and approximately $52 million in mortgage loans are still outstanding, of which approximately $4 million are more than 90 days delinquent, including foreclosures and REO.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

SEC Investigation

Since July 2009, we have been providing documents and information in response to an inquiry by the Staff of the SEC. In the first quarter of 2010, the SEC issued a formal order of investigation with respect to this inquiry. Although the order, as is generally customary, authorizes a broader inquiry by the Staff, we believe that the investigation is focused largely on our method of determining the loan loss reserves for our auto finance business for certain quarterly periods in 2007. We are cooperating fully with the Staff s investigation.

Checking Account Overdraft Litigation

In May 2010, Capital One Financial Corporation and COBNA were named as defendants in a putative class action named Steen v. Capital One Financial Corporation, et al., filed in the U.S. District Court for the Eastern District of Louisiana. Plaintiff challenges our practices relating to fees for overdraft and non-sufficient funds fees on consumer checking accounts. Plaintiff alleges that our methodology for posting transactions to customer accounts is designed to maximize the generation of overdraft fees, supporting claims for breach of contract, breach of the covenant of good faith and fair dealing, unconscionability, conversion, unjust enrichment and violations of state unfair trade practices laws. Plaintiff seeks a range of remedies, including restitution, disgorgement, injunctive relief, punitive damages and attorneys fees. In May 2010, the case was transferred to the Southern District of Florida for coordinated pre-trial proceedings as part of a multi-district litigation (MDL) involving numerous defendant banks, In re Checking Account Overdraft Litigation. In January 2011, plaintiffs filed a second amended complaint against CONA in the MDL court. In February 2011, CONA filed a motion to dismiss the second amended complaint. On March 21, 2011, the MDL court granted the motion to dismiss claims of breach of the covenant of good faith and fair dealing under Texas law, but denied the motion to dismiss in all other respects. On April 18, 2011, CONA moved for reconsideration of those portions of the court s ruling denying its motion to dismiss, and on June 7, 2011, CONA moved for certification of an interlocutory appeal. The MDL court denied the motion to reconsider on June 23, 2011, and denied the motion for interlocutory appeal on July 13, 2011. The parties are now engaged in discovery.

Patent Litigation

On February 23, 2011, Capital One Financial Corporation, Capital One, N.A., and Capital One Bank (USA), N.A. (collectively, Capital One), were named as defendants, along with several other banks, in a patent infringement lawsuit filed by DataTreasury Corporation (DataTreasury) in the United States District Court for the Eastern District of Texas. DataTreasury alleges that Capital One and the other banks willfully infringed certain patents relating to remote image capture with centralized processing and storage. Capital One was served with the complaint on April 5, 2011, and filed an answer on May 26, 2011. On August 30, 2011, Capital One joined other defendants in filing a Motion to Transfer Venue from the U.S. District Court for the Eastern District of Texas, Tyler Division to the Southern District of Texas, Houston Division. That motion is currently pending.

FHLB Securities Litigation

On April 20, 2011, the Federal Home Loan Bank of Boston (the FHLB of Boston) filed suit against dozens of mortgage industry participants in Massachusetts Superior Court, alleging, among other things, violations of Massachusetts state securities laws in the sale and marketing of certain residential mortgage-backed securities (the FHLB of Boston Litigation). Capital One Financial Corporation and Capital One, National Association are named in the complaint as alleged successors in interest to Chevy Chase Bank, which allegedly marketed some of the mortgage-backed securities at issue in the litigation. The FHLB of Boston seeks rescission, unspecified damages, attorneys fees, and other unspecified relief. The case was removed to the United States District Court for the District of Massachusetts in May 2011, and plaintiff subsequently filed a motion to remand the matter to state court.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Tax Matters

On September 21, 2009, the U.S. Tax Court issued a decision in the case *Capital One Financial Corporation and Subsidiaries v. Commissioner* covering tax years 1995-1999, with both parties prevailing on certain issues. On July 6, 2010, we filed a motion to appeal certain issues upon which the IRS prevailed. The IRS chose not to appeal the issues upon which we prevailed resulting in a final resolution of those issues favorable to us. On October 21, 2011, the Fourth Circuit Court of Appeals affirmed the Tax Court s unfavorable decision on the issues we appealed. As we do not intend to pursue further appeals on these issues, the Fourth Circuit s decision represents a final resolution of the remaining issues in the case. We have accounted for these matters in accordance with the accounting guidance for income taxes, and the resolution of these matters will not have a material effect on our financial position.

Other Pending and Threatened Litigation

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

Pending Acquisitions

ING Direct

In June 2011, we announced that we entered into a definitive agreement under which we will acquire 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 as of September 30, 2011. 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 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.

HSBC U.S. Credit Card Business

In August 2011, we announced that we entered into a purchase agreement 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. Pursuant to the purchase agreement, we have the option, subject to certain conditions, to pay up to $750 million of the consideration to HSBC in the form of our common stock (valued at $39.23 per share).

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For a discussion of the quantitative and qualitative disclosures about market risk, see Part I Item 2. MD&A Market Risk Management.

Item 4. Controls and Procedures

Overview

We are required under applicable laws and regulations to maintain controls and procedures, which include disclosure controls and procedures as well as internal control over financial reporting, as further described below.

(a) Disclosure Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures refer to controls and other procedures designed to provide reasonable assurance that information required to be disclosed in our financial reports is recorded, processed, summarized and reported within the time periods specified by SEC rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we must apply judgment in evaluating and implementing possible controls and procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 of the Securities Exchange Act of 1934 (the Exchange Act), our management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of September 30, 2011, the end of the period covered by this Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2011, at a reasonable level of assurance, in recording, processing, summarizing and reporting information required to be disclosed within the time periods specified by the SEC rules and forms.

(b) Changes in Internal Control Over Financial Reporting

We regularly review our disclosure controls and procedures and make changes intended to ensure the quality of our financial reporting. There were no changes in internal control over financial reporting that occurred in the third quarter of 2011 that materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

The information required by Item 1 is included in Notes to the Consolidated Financial Statements Note 15 Commitments, Contingencies and Guarantees.

Item 1A. Risk Factors

We are not aware of any material changes from 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table shows shares of our common stock we repurchased during the third quarter of 2011:

(Dollars in millions, except per share information)	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Amount That May Yet be Purchased Under the Plan or Program
July 1-31, 2011	**16,861**	**$ 49.39**		$
August 1-31, 2011				
September 1-30, 2011	**23,260**	**42.33**		
Total	**40,121**	**45.30**		

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

Item 3. Defaults upon Senior Securities

None.

Item 5. Other Information

None.

Item 6. Exhibits

An index to exhibits has been filed as part of this report beginning on page 164 and is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAPITAL ONE FINANCIAL CORPORATION

(Registrant)

Date: November 7, 2011	By: /s/ GARY L. PERLIN Gary L. Perlin Chief Financial Officer

INDEX TO EXHIBITS

The following exhibits are incorporated by reference or filed herewith. References to (i) the 2003 Form 10-K are to the Company s Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 5, 2004; (ii) the 2004 Form 10-K are to the Company s Annual Report on Form 10-K for the year ended December 31, 2004, filed on March 9, 2005; (iii) the 2008 Form 10-K are to the Company s Annual Report on Form 10-K for the year Ended December 31, 2008, filed on February 26, 2009; and (iv) the 2009 Form 10-K are to the Company s Annual Report on Form 10-K for the year Ended December 31, 2009, filed on February 26, 2010.

Exhibit No.	Description
2.1	Stock Purchase Agreement, dated as of December 3, 2008, by and among Capital One Financial Corporation, B.F. Saul Real Estate Investment Trust, Derwood Investment Corporation, and B.F. Saul Company Employees Profit Sharing and Retirement Trust (incorporated by reference to Exhibit 2.4 of the 2008 Form 10-K).
2.2	Purchase and Sale Agreement, dated as of June 16, 2011, by and among Capital One Financial Corporation, ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp (incorporated by reference to Exhibit 2.1 of the Company s Report on Form-8-K, filed on June 22, 2011).
2.3	Purchase and Assumption Agreement, dated as of August 10, 2011, by and among HSBC Finance Corporation, HSBC USA Inc., HSBC Technology and Services (USA) Inc. and Capital One Financial Corporation (incorporated by reference to Exhibit 2.1 of the Company s Report on Form-8-K, filed on August 12, 2011).
3.1	Restated Certificate of Incorporation of Capital One Financial Corporation, (as amended and restated May 16, 2011 (incorporated by reference to Exhibit 3.4 of the Company s Report on Form 8-K, filed on May 17, 2011).
3.2	Amended and Restated Bylaws of Capital One Financial Corporation (incorporated by reference to Exhibit 3.3 of the Company s Report on Form 8-K, filed on May 17, 2011).
4.1.1	Specimen certificate representing the Common Stock (incorporated by reference to Exhibit 4.1 of the 2003 Form 10-K).
4.1.2	Warrant Agreement, dated December 3, 2009, between Capital One Financial Corporation and Computershare Trust Company, N.A. (incorporated herein by reference to the Exhibit 4.1 of the Company s Form 8-A filed on December 4, 2009).
4.2.1	Senior Indenture dated as of November 1, 1996 between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A. (as successor to Harris Trust and Savings Bank), as trustee (incorporated by reference to Exhibit 4.1 of the Company s Report on Form 8-K, filed on November 13, 1996).
4.2.2	Copy of 6.25% Senior Notes, due 2013, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.5 of the 2003 Form 10-K).
4.2.3	Copy of 5.25% Senior Notes, due 2017, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.6 of the 2004 Form 10-K).
4.2.4	Copy of 4.80% Senior Notes, due 2012, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.7 of the 2004 Form 10-K).
4.2.5	Copy of 5.50% Senior Notes, due 2015, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Company s Quarterly Report on Form 10-Q for the period ending September 30, 2005).

Exhibit No.	Description
4.2.6	Specimen of 5.70% Senior Note, due 2011, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.2 of the Company s Report on Form 8-K, filed on September 18, 2006).
4.2.7	Specimen of 6.750% Senior Note, due 2017, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Company s Report on Form 8-K, filed on September 5, 2007).
4.2.8	Specimen of 7.375% Senior Note, due 2014, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Company s Report on Form 8-K, filed on May 22, 2009).
4.2.8	Specimen of Floating Rate Senior Note due 2014, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.3 of the Company s Report on Form 8-K, filed on July 19, 2011).
4.2.9	Specimen of 2.125% Senior Note due 2014, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.4 of the Company s Report on Form 8-K, filed on July 19, 2011).
4.2.10	Specimen of 3.150% Senior Note due 2016, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5 of the Company s Report on Form 8-K, filed on July 19, 2011).
4.2.11	Specimen of 4.750% Senior Note due 2021, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.6 of the Company s Report on Form 8-K, filed on July 19, 2011).
4.3	Indenture (providing for the issuance of Junior Subordinated Debt Securities), dated as of June 6, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K, filed on June 12, 2006).
4.4.1	First Supplemental Indenture, dated as of June 6, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.2 of the Company s Current Report on Form 8-K, filed on June 12, 2006).
4.4.2	Amended and Restated Declaration of Trust of Capital One Capital II, dated as of June 6, 2006, between Capital One Financial Corporation, as Sponsor, The Bank of New York Mellon, as institutional trustee, BNY Mellon Trust of Delaware, as Delaware Trustee and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.3 of the Company s Current Report on Form 8-K, filed on June 12, 2006).
4.4.3	Guarantee Agreement, dated as of June 6, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Company s Current Report on Form 8-K, filed on June 12, 2006).
4.4.4	Specimen certificate representing the Enhanced TRUPS (incorporated by reference to Exhibit 4.5 of the Company s Current Report on Form 8-K, filed on June 12, 2006).
4.4.5	Specimen certificate representing the Junior Subordinated Debt Security (incorporated by reference to Exhibit 4.6 of the Company s Current Report on Form 8-K, filed on June 12, 2006).
4.5.1	Second Supplemental Indenture, dated as of August 1, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.2 of the Company s Current Report on Form 8-K, filed on August 4, 2006).
4.5.2	Specimen certificate representing the Junior Subordinated Debt Security (incorporated by reference to Exhibit 4.6 of the Company s Current Report on Form 8-K, filed on August 4, 2006).
4.5.3	Amended and Restated Declaration of Trust of Capital One Capital III, dated as of August 1, 2006, between Capital One Financial Corporation, as Sponsor, The Bank of New York Mellon, as institutional trustee, BNY Mellon Trust of Delaware, as Delaware trustee and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.3 of the Company s Current Report on Form 8-K, filed on August 4, 2006).

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Exhibit No.	Description
4.5.4	Guarantee Agreement, dated as of August 1, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Company s Current Report on Form 8-K, filed on August 4, 2006).
4.5.5	Specimen certificate representing the Capital Security (incorporated by reference to Exhibit 4.5 of the Company s Current Report on Form 8-K, filed on August 4, 2006).
4.6.1	Third Supplemental Indenture, dated as of February 5, 2007, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.2 of the Company s Current Report on Form 8-K, filed on February 8, 2007).
4.6.2	Amended and Restated Declaration of Trust of Capital One Capital IV, dated as of February 5, 2007, between Capital One Financial Corporation, as Sponsor, The Bank of New York Mellon, as institutional trustee, BNY Mellon Trust of Delaware, as Delaware trustee and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.3 of the Company s Current Report on Form 8-K, filed on February 8, 2007).
4.6.3	Guarantee Agreement, dated as of February 5, 2007, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Company s Current Report on Form 8-K, filed on February 8, 2007).
4.6.4	Specimen certificate representing the Capital Security (incorporated by reference to Exhibit 4.5 of the Company s Current Report on Form 8-K, filed on February 8, 2007).
4.6.5	Specimen certificate representing the Capital Efficient Note (incorporated by reference to Exhibit 4.6 of the Company s Current Report on Form 8-K, filed on February 8, 2007).
4.7.1	Fourth Supplemental Indenture, dated as of August 5, 2009, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.2 of the Company s Current Report on Form 8-K, filed on August 6, 2009).
4.7.2	Amended and Restated Declaration of Trust of Capital One Capital V, dated as of August 5, 2009, between Capital One Financial Corporation, as Sponsor, The Bank of New York Mellon Trust Company, N.A., as institutional trustee, BNY Mellon Trust of Delaware, as Delaware trustee and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.3 of the Company s Current Report on Form 8-K, filed on August 6, 2009).
4.7.3	Guarantee Agreement, dated as of August 5, 2009, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Company s Current Report on Form 8-K, filed on August 6, 2009).
4.7.4	Specimen certificate representing the Trust Preferred Security (incorporated by reference to Exhibit 4.5 of the Company s Current Report on Form 8-K, filed on August 6, 2009).
4.7.5	Specimen certificate representing the Junior Subordinated Debt Security (incorporated by reference to Exhibit 4.6 of the Company s Current Report on Form 8-K, filed on August 6, 2009).
4.8.1	Fifth Supplemental Indenture, dated as of November 13, 2009, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.2 of the Company s Current Report on Form 8-K, filed on November 13, 2009).
4.8.2	Amended and Restated Declaration of Trust of Capital One Capital VI, dated as of November 13, 2009, between Capital One Financial Corporation, as Sponsor, The Bank of New York Mellon Trust Company, N.A., as institutional trustee, BNY Mellon Trust of Delaware, as Delaware Trustee and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.3 of the Company s Current Report on Form 8-K, filed on November 13, 2009).

Exhibit No.	Description
4.8.3	Guarantee Agreement, dated as of November 13, 2009, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Company s Current Report on Form 8-K, filed on November 13, 2009).
4.8.4	Specimen certificate representing the Trust Preferred Security (incorporated by reference to Exhibit 4.5 of the Company s Current Report on Form 8-K, filed on November 13, 2009).
4.8.5	Specimen certificate representing the Junior Subordinated Debt Security (incorporated by reference to Exhibit 4.6 of the Company s Current Report on Form 8-K, filed on November 13, 2009).
4.9.1	Indenture, dated as of August 29, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.1 of the Company s Current Report on Form 8-K, filed on August 31, 2006).
4.9.2	Specimen certificate representing the Subordinated Note Certificate (incorporated by reference to Exhibit 4.2 of the Company s Current Report on Form 8-K, filed on August 31, 2006).
10.1	Forward Sale Agreement between Capital One Financial Corporation and Barclays Capital Inc., dated July 14, 2011 (incorporated by reference to Exhibit 10.1 of the Company s Report on Form 8-K, filed on July 19, 2011).
10.2	Forward Sale Agreement between Capital One Financial Corporation and Morgan Stanley & Co. LLP, dated July 14, 2011 (incorporated by reference to Exhibit 10.2 of the Company s Report on Form 8-K, filed on July 19, 2011).
12.1*	Computation of Ratio of Earnings to Combined Fixed Charges
12.2*	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
31.1*	Certification of Richard D. Fairbank
31.2*	Certification of Gary L. Perlin
32.1*	Certification** of Richard D. Fairbank
32.2*	Certification** of Gary L. Perlin
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Presentation Linkbase Document

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

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