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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from to

Commission File No. 1-13300

CAPITAL ONE FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code:
(703) 720-1000

Securities registered pursuant to section 12(b) of the act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (par value $.01 per share)	New York Stock Exchange
Warrants (expiring November 14, 2018)	New York Stock Exchange
7.50% Enhanced Trust Preferred Securities (Enhanced TRUPS®)	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes ☐ No ☒

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

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

Indicate by check mark whether the registrant is a Shell Company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the close of business on June 30, 2011.

Common Stock, $.01 Par Value: $23,504,061,823*

* In determining this figure, the registrant assumed that the executive officers of the registrant and the registrant's directors are affiliates of the registrant. Such assumption shall not be deemed to be conclusive for any other purpose. The number of shares outstanding of the registrant's common stock as of the close of business on January 31, 2012.

Common Stock, $.01 Par Value: 459,408,409 shares
DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the annual meeting of stockholders to be held on May 8, 2012, are incorporated by reference into Part III.

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PART I

Item 1. Business

OVERVIEW

General

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 spectrum of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of December 31, 2011, our principal subsidiaries included:

- Capital One Bank (USA), National Association (“COBNA”), which currently offers credit and debit card products, other lending products and deposit products; and
- Capital One, National Association (“CONA”), which offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients.

The Company and its subsidiaries are hereafter collectively referred to as “we”, “us” or “our.” CONA and COBNA are collectively referred to as the “Banks” in this report.

We had $135.9 billion in total loans outstanding and $128.2 billion in deposits as of December 31, 2011, compared with $125.9 billion in total loans outstanding and $122.2 billion in deposits as of December 31, 2010. We serve banking customers through branch locations primarily in New York, New Jersey, Texas, Louisiana, Maryland, Virginia and the District of Columbia. In September 2010, we rebranded Chevy Chase Bank, F.S.B. (“Chevy Chase Bank”), strengthening the Capital One brand in the Washington, D.C. region. In addition to bank lending, treasury management and depository services, we offer credit and debit card products, auto loans and mortgage banking in markets across the United States. As of December 31, 2011, we were the fourth largest issuer of Visa® (“Visa”) and MasterCard® (“MasterCard”) credit cards in the United States based on the outstanding balance of credit card loans.

In June 2011, we entered into a purchase and sale agreement with ING Groep N.V., ING Bank N.V., ING Direct N.V., and ING Direct Bancorp (collectively the “ING Sellers”), under which we would acquire substantially all of the ING Sellers’ ING Direct business in the United States (“ING Direct”). We closed the acquisition of ING Direct on February 17, 2012. Headquartered in Wilmington, Delaware, ING Direct is the largest direct bank in the United States. With the closing of the transaction and the addition of ING Direct’s deposits, which totaled approximately $83.0 billion as of December 31, 2011, we become the sixth largest depository institution.

We also offer products outside of the United States principally through Capital One (Europe) plc (“COEP”), an indirect subsidiary of COBNA organized and located in the United Kingdom (U.K.), and through a branch of COBNA in Canada. COEP has authority, among other things, to provide credit card and installment loans. Our U.K. operations transitioned to an Authorized Payment Institution (“API”) effective December 1, 2010. As a result, we are no longer authorized to accept deposits in the U.K. Prior to November 19, 2010, COEP was referred to as Capital One Bank (Europe) plc (“COBEP”). Our branch of COBNA in Canada has the authority to provide credit card loans.

Recent Acquisition and Disposition Activity

We regularly explore and evaluate opportunities to acquire financial services companies and financial assets, including credit card and other loan portfolios, and enter into strategic partnerships as part of our growth strategy.

As part of our evaluation, we analyze the values of, and regularly submit bids for, the acquisition of customer accounts and other liabilities and assets of financial institutions and other businesses. We also regularly consider the potential disposition of certain of our assets, branches, partnership agreements or lines of businesses. We may issue equity or debt in connection with acquisitions, including public offerings, to fund such acquisitions. Recent completed or pending acquisitions are discussed below.

Hudson's Bay Company—Credit Card Portfolio

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

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, we acquired Kohl's existing private-label credit card loan portfolio from JPMorgan Chase & Co. on April 1, 2011. 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. 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. The partnership agreement has an initial seven-year term and an automatic one-year renewal thereafter unless either party delivers notice of an intent to terminate.

ING Direct

On June 16, 2011, we entered into a purchase and sale agreement with the ING Sellers to acquire ING Direct. On February 17, 2012, we closed the acquisition of ING Direct, which included (i) the acquisition of the equity interests of ING Bank, fsb ("ING Bank"), (ii) the acquisition of the equity interests of each of WS Realty, LLC and ING Direct Community Development LLC and (iii) the acquisition of certain other assets and the assumption of certain other liabilities of ING Direct Bancorp. The aggregate consideration was 54,028,086 shares of common stock and approximately $6.3 billion in cash. The ING Direct acquisition consists of assets, which include cash and cash equivalents, investment securities and loans with a total estimated fair value of $92.2 billion as of December 31, 2011 and deposits of approximately $83.0 billion as of December 31, 2011.

HSBC—U.S. Credit Card Business

In August 2011, we entered into a purchase agreement with HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc. (collectively, "HSBC"), to acquire substantially all of the assets and assume liabilities of HSBC's credit card and private-label credit card business in the United States for a premium estimated at $2.6 billion as of June 30, 2011. We expect the acquisition of the HSBC U.S. credit card business to significantly expand and enhance our Credit Card franchise. 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).

Additional Information

Our common stock is listed on the NYSE and is traded under the symbol "COF." As of January 31, 2012, there were 15,242 holders of record of our common stock. Our principal executive office is located at 1680 Capital One Drive, McLean, Virginia 22102 (telephone number (703) 720-1000). We maintain a Web site at *www.capitalone.com*. Documents available on our Web site include: (i) our Code of Business Conduct and Ethics for the Corporation; (ii) our Corporate Governance Principles; and (iii) charters for the Audit and Risk, Compensation, Finance and Trust Oversight, and Governance and Nominating Committees of the Board of Directors.

These documents also are available in print to any shareholder who requests a copy. In addition, we make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after electronically filing or furnishing such material to the Securities and Exchange Commission ("SEC").

OPERATIONS AND BUSINESS SEGMENTS

Our revenues are primarily driven by lending to consumers and commercial customers and by deposit-taking activities, which generate net interest income, and by activities that generate non-interest income, such as fee-based services provided to customers and merchant interchange fees with respect to certain credit card transactions. Our expenses primarily consist of the cost of funding our assets, our provision for loan and lease losses, operating expenses (including associate salaries and benefits, infrastructure maintenance and enhancements and branch operations and expansion costs), marketing expenses and income taxes. We expect expenses associated with the integration of the ING Direct and the pending acquisition of the HSBC U.S. credit card business to represent a significant portion of our expenses in 2012.

Our principal operations are currently organized, for management reporting purposes, 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. The operations of acquired businesses have been integrated into our existing business segments. Certain activities that are not part of a segment are included in our "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 auto 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.

Customer usage and payment patterns, credit quality, levels of marketing expense and operating efficiency all affect our profitability. In our Credit Card business, we experience fluctuations in purchase volumes and the level of outstanding loan receivables due to higher seasonal consumer spending and payment patterns around the winter holiday season, summer vacations and back-to-school periods. Although there is some seasonal impact to purchase volumes and credit card loan balances in our Credit Card business, these seasonal trends have not caused significant fluctuations in our results of operations. No individual quarter in 2011 or 2010 accounted for more than 30% of our total revenues in either of these fiscal years. Delinquency rates in our consumer lending businesses also have historically exhibited seasonal patterns, with delinquency rates generally tending to decrease in the first two quarters of the year as customers use income tax refunds to pay down outstanding loan balances.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")—Executive Summary and Business Outlook," "MD&A—Business Segment Financial Performance" and "Item 8. Financial Information and Supplementary Data—Notes to Consolidated Financial Statements" for additional information about our business segments.

SUPERVISION AND REGULATION

General

Capital One Financial Corporation is a bank holding company ("BHC") under Section 3 of the Bank Holding Company Act of 1956, as amended (12 U.S.C. § 1842) (the "BHC Act") and is subject to the requirements of the BHC Act, including its capital adequacy standards and limitations on our nonbanking activities. We are also subject to supervision, examination and regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve").

Permissible activities for a BHC include those activities that are so closely related to banking as to be a proper incident thereto, such as consumer lending and other activities that have been approved by the Federal Reserve by regulation or order. Certain servicing activities are also permissible for a BHC if conducted for or on behalf of the BHC or any of its affiliates. Impermissible activities for BHCs include activities that are related to commerce such as retail sales of nonfinancial products. Under Federal Reserve policy, we are expected to act as a source of financial and managerial strength to any banks that we control, including the Banks and ING Bank, and to commit resources to support them.

On May 27, 2005, we became a "financial holding company" under the Gramm-Leach-Bliley Act amendments to the BHC Act (the "GLBA"). The GLBA removed many of the restrictions on the activities of BHCs that become financial holding companies. A financial holding company, and the nonbank companies under its control, are permitted to engage in activities considered financial in nature (including, for example, insurance underwriting, agency sales and brokerage, securities underwriting and dealing and merchant banking activities), incidental to financial activities or complementary to financial activities if the Federal Reserve determines that they pose no risk to the safety or soundness of depository institutions or the financial system in general.

Our election to become a financial holding company under the GLBA certifies that the depository institutions we control meet certain criteria, including capital, management and Community Reinvestment Act ("CRA") requirements. Effective July 21, 2011, under amendments to the BHC Act enacted under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), Capital One Financial Corporation also must be "well capitalized" and "well managed." If we were to fail to continue to meet the criteria for financial holding company status, we could, depending on which requirements we failed to meet, face restrictions on new financial activities or acquisitions or be required to discontinue existing activities that are not generally permissible for bank holding companies.

The Banks are national associations chartered under the laws of the United States, the deposits of which are insured by the Deposit Insurance Fund (the "DIF") of the Federal Deposit Insurance Corporation (the "FDIC") up to applicable limits. ING Bank is a federal savings bank chartered under the laws of the United States, the deposits of which are also insured by the DIF. In addition to regulatory requirements imposed as a result of COBNA's international operations (discussed below), the Banks and ING Bank are subject to comprehensive regulation and periodic examination by the Office of the Comptroller of the Currency ("OCC"), the FDIC and, effective July 21, 2011, by the Consumer Financial Protection Bureau (the "CFPB").

We are also registered as a financial institution holding company under Virginia law and, as such, we are subject to periodic examination by Virginia's Bureau of Financial Institutions. We also face regulation in the international jurisdictions in which we conduct business (see below under "Regulation of International Business by Non–U.S. Authorities").

Regulation of Business Activities

The activities of the Banks and ING Bank as consumer lenders also are subject to regulation under various federal laws, including the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting

Act (the “FCRA”), the CRA and the Servicemembers Civil Relief Act, as well as under various state laws. Depending on the underlying issue and applicable law, regulators are often authorized to impose penalties for violations of these statutes and, in certain cases, to order banks to compensate injured borrowers. Borrowers may also have a private right of action for certain violations. Federal bankruptcy and state debtor relief and collection laws also affect the ability of a bank to collect outstanding balances owed by borrowers. These laws may affect the ability of banks to collect outstanding balances.

New Regulations of Consumer Lending Activities

The Credit CARD Act (amending the Truth-In-Lending Act) enacted in May 2009, and related changes to Regulation Z, impose a number of restrictions on credit card practices impacting rates and fees and update the disclosures required for open-end credit. Overlimit fees may not be imposed without prior consent, and the number of such fees that can be charged for the same violation is constrained. The amount of any penalty fee or charge must be “reasonable and proportional” to the violation. The Credit CARD Act also significantly restricts the ability of a card issuer to increase rates charged on pre-existing card balances. Card issuers are generally prohibited from raising rates on pre-existing balances when generally prevailing interest rates change. Moreover, the circumstances under which a card issuer can raise the interest rate on pre-existing balances of a customer whose risk of default increases are restricted. Payments above the minimum payment must be allocated first to balances with the highest interest rate. The amount of fees charged to credit card accounts with lower credit lines is limited. A consumer’s ability to pay must be taken into account before issuing credit or increasing credit limits.

State Consumer Financial Laws

The Dodd-Frank Act created a new independent supervisory body, the CFPB that is the primary regulator for federal consumer financial statutes. State attorneys general will be authorized to enforce new regulations issued by the CFPB. State consumer financial laws will continue to be preempted under the National Bank Act under the existing standard set forth in the Supreme Court decision in Barnett Bank of Marion County, N.A. v. Nelson, which preempts any state law that significantly interferes with or impairs banking powers. OCC determinations of such preemption, however, must be on a case-by-case basis, and courts reviewing the OCC’s preemption determinations will now consider the appropriateness of those determinations under a different standard of judicial review. These laws may affect the ability of the Banks and ING Bank to collect outstanding balances.

Mortgage Lending

The Dodd-Frank Act prescribes additional disclosure requirements and substantive limitations on our mortgage lending activities. Most of these provisions require the issuance of regulations by the CFPB or other federal agencies before they become effective. Though we do not expect the resulting regulations to have a material impact on our operations, one new requirement under the Dodd-Frank Act, the requirement for mortgage loan securitizers to retain a portion of the economic risk associated with certain mortgage loans, could impact the type and amount of mortgage loans we offer, depending on the final regulations.

Debit Interchange Fees

The Dodd-Frank Act requires that the amount of any interchange fee received by a debit card issuer with respect to debit card transactions be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. In June 2011, the Federal Reserve adopted a final rule and an interim final rule implementing the portion of the Dodd-Frank Act that limits interchange fees received by a debit card issuer. The final rule limits interchange fees per debit card transaction to $.21 plus five basis points of the transaction amount and provides, through the interim final rule, for an additional $.01 fraud prevention adjustment to the interchange fee for issuers that meet certain fraud prevention requirements.

Dividends, Stock Repurchases and Transfers of Funds

In November 2011, the Federal Reserve finalized capital planning rules applicable to large bank holding companies like us (commonly referred to as Comprehensive Capital Analysis and Review or CCAR). Under the rules, bank holding companies with consolidated assets of $50 billion or more must submit capital plans to the Federal Reserve on an annual basis and must obtain approval from the Federal Reserve before making most capital distributions. The purpose of the rules is to ensure that large bank holding companies have robust, forward-looking capital planning processes that account for their unique risks and capital needs to continue operations through times of economic and financial stress. As part of its evaluation of a capital plan, the Federal Reserve will consider the comprehensiveness of the plan, the reasonableness of assumptions and analysis and methodologies used to assess capital adequacy and the ability of the bank holding company to maintain capital above each minimum regulatory capital ratio and above a Tier 1 common ratio of 5% on a pro forma basis under expected and stressful conditions throughout a planning horizon of at least nine quarters.

Traditionally, dividends to us from our direct and indirect subsidiaries have represented a major source of funds for us to pay dividends on our stock, make payments on corporate debt securities and meet our other obligations. There are various federal law limitations on the extent to which the Banks and ING Bank can finance or otherwise supply funds to us through dividends and loans. These limitations include minimum regulatory capital requirements, federal banking law requirements concerning the payment of dividends out of net profits or surplus, Sections 23A and 23B of the Federal Reserve Act and Regulation W governing transactions between an insured depository institution and its affiliates, as well as general federal regulatory oversight to prevent unsafe or unsound practices. In general, federal and applicable state banking laws prohibit, without first obtaining regulatory approval, insured depository institutions, such as the Banks and ING Bank, from making dividend distributions if such distributions are not paid out of available earnings or would cause the institution to fail to meet applicable capital adequacy standards.

Capital Adequacy

The Banks and ING Bank are subject to capital adequacy guidelines adopted by federal banking regulators. For a further discussion of the capital adequacy guidelines, see “MD&A—Capital Management” and “Note 13—Regulatory and Capital Adequacy.” The Banks and ING Bank exceeded minimum regulatory requirements under these guidelines as of December 31, 2011.

FDICIA and Prompt Corrective Action

In general, the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) subjects banks to significantly increased regulation and supervision. Among other things, FDICIA requires federal banking agencies to take “prompt corrective action” for banks that do not meet minimum capital requirements. FDICIA establishes five capital ratio levels: well capitalized; adequately capitalized; undercapitalized; significantly undercapitalized; and critically undercapitalized. Under applicable regulations, a bank is considered to be well capitalized if it maintains a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6%, 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 measure. A bank is considered to be adequately capitalized if it maintains a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4%, a Tier 1 leverage capital ratio of at least 4% (3% for certain highly rated institutions), and does not otherwise meet the well capitalized definition. The three undercapitalized categories are based upon the amount by which a bank falls below the ratios applicable to adequately capitalized institutions. The capital categories are determined solely for purposes of applying FDICIA’s prompt corrective action provisions, and such capital categories may not constitute an accurate representation of the Banks’ or ING Bank’s overall financial condition or prospects. As of December 31, 2011, each of the Banks and ING Bank met the requirements for a well-capitalized institution.

As an additional means to identify problems in the financial management of depository institutions, FDICIA requires regulators to establish certain non-capital safety and soundness standards. The standards relate generally to operations and management, asset quality, interest rate exposure and executive compensation. The agencies are authorized to take action against institutions that fail to meet such standards.

Enhanced Prudential Standards and Other Requirements under the Dodd-Frank Act

With the enactment of the Dodd-Frank Act, because we are a bank holding company with consolidated assets of $50 billion or greater (a “covered company”), we are subject to certain enhanced prudential standards, including requirements that may be recommended by the Financial Stability Oversight Council (the “Council”) and implemented by the Federal Reserve and other regulators. As a result, we expect to be subject to more stringent standards and requirements than those applicable for smaller institutions, including risk-based capital requirements, leverage limits and liquidity requirements. The Council also may issue recommendations to the Federal Reserve or other primary financial regulatory agency to apply new or heightened standards to risky financial activities or practices. In December 2011, the Federal Reserve released proposed rules beginning to implement the enhanced prudential standards. If finalized as proposed, we will be subject to new requirements regarding liquidity management, risk management, single-counterparty credit limits and annual stress tests conducted by the Federal Reserve, and we will be required to conduct our own semiannual stress tests. The proposal also implements an early remediation framework, under which a covered company could be subject to enforcement actions, growth limits, prohibitions on capital distributions and other consequences if a triggering event were to occur. The Federal Reserve also indicates in the proposal that it intends to implement the Basel III capital surcharge framework, although the extent to which that would apply to the Company is unclear. Under rules proposed by the OCC in January 2012, each of the Banks and ING Bank would be required to conduct semiannual stress tests. In addition, in 2011, the Federal Reserve finalized rules requiring the Company to implement resolution planning for orderly resolution in the event of material financial distress or failure of the Company (often referred to as “living wills”). The FDIC has issued similar rules regarding resolution planning applicable to the Banks and ING Bank.

In addition to the provisions described throughout this Supervision and Regulation section, the Dodd-Frank Act imposes new, more stringent standards and requirements with respect to bank and nonbank acquisitions and mergers, affiliate transactions, and proprietary trading (the “Volcker Rule”). It is also possible that CONA will be designated as a “swap dealer” under the Dodd-Frank Act due to its derivative activities associated with commercial lending, which would result in oversight by the Commodity Futures Trading Commission and more requirements for our current and future derivative transactions. The Dodd-Frank Act also prohibits conflicts of interest relating to securitizations and generally requires securitizers to retain a 5% economic interest in the credit risk of assets sold through the issuance of asset-backed securitizations, with an exemption for traditionally underwritten residential mortgage loans. In addition, the Dodd-Frank Act includes provisions related to corporate governance and executive compensation and new fees and assessments, among others.

The federal agencies have significant discretion in drafting the implementing rules and regulations of the Dodd-Frank Act. 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. However, the full impact of the Dodd-Frank Act will not be known for many months or, in some cases, years. In addition, the Dodd-Frank Act requires various studies and reports to be delivered to Congress, which could result in additional legislative or regulatory action.

Basel II

U.S. Federal banking regulators finalized the “Advanced” version of Basel II in December 2007 and they issued a Notice of Proposed Rulemaking for the “Standardized” version in June 2008. The rules are 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. We expect to become subject to these rules at the end of 2012 as a result of the ING Direct acquisition.

Prior to full implementation of the Basel II framework, organizations must complete a qualification period of four consecutive quarters, known as the parallel run, during which they must meet the requirements of the rule to the satisfaction of their primary U.S. banking regulator. Based on current growth estimates, we would expect to enter parallel run January 1, 2015. This will require completing a written implementation plan and building processes and systems to comply with the rules. Compliance with the Basel II rules will require a material investment of resources.

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. We will continue to monitor regulators' implementation of the new rules with respect to the institutions that are subject to them and assess the potential impact to us.

Basel III

In December 2009, the Basel Committee on Banking Supervision (the "Basel Committee") released proposals for additional capital and liquidity requirements, which have been clarified and amended in recent pronouncements ("Basel III"). In September 2010, the Basel Committee announced a package of reforms that included detailed capital ratios and capital conservation buffers, subject to transition periods through 2018. In December 2010, the Basel Committee published a final framework on capital and liquidity, consistent in large part with the prior proposals. The liquidity framework included two standards for liquidity risk supervision, each subject to observation periods and transitional arrangements. One standard promotes short-term resilience by requiring sufficient high-quality liquid assets to survive a stress scenario lasting for 30 days; the other promotes longer-term resilience by requiring sufficient stable funding over a one-year period, based on the liquidity characteristics of assets and activities.

How U.S. banking regulations will be modified to reflect these international standards remains unclear, particularly given the capital surcharge regulations that the Federal Reserve intends to implement under the Dodd-Frank Act and the current Prompt Corrective Action framework. U.S. regulators have not yet implemented any portion of the Basel III framework, although we expect them to do so in the future. We expect that minimum capital and liquidity requirements for us and other institutions will increase as a result of Basel III, the Dodd-Frank Act and related activity. We will continue to monitor regulators' implementation of the new rules with respect to the institutions that are subject to them and assess the potential impact to us.

Deposits and Deposit Insurance

Each of CONA, COBNA and ING Bank, as an insured depository institution, is a member of the DIF maintained by the FDIC. Through the DIF, the FDIC insures the deposits of insured depository institutions up to prescribed limits for each depositor. The DIF was formed on March 31, 2006, upon the merger of the Bank Insurance Fund and the Savings Association Insurance Fund in accordance with the Federal Deposit Insurance Reform Act of 2005 (the "Reform Act"). The Reform Act permits the FDIC to set a Designated Reserve Ratio ("DRR") for the DIF. To maintain the DIF, member institutions may be assessed an insurance premium, and the FDIC may take action to increase insurance premiums if the DRR falls below its required level.

Prior to passage of the Dodd-Frank Act, the FDIC had established a plan to restore the DIF in the face of recent insurance losses and future loss projections, which resulted in several rules that generally increased deposit insurance rates and purported to improve risk differentiation so that riskier institutions bear a greater share of insurance premiums. The Dodd-Frank Act reformed the management of the DIF in several ways: raised the minimum DRR to 1.35% (from the former minimum of 1.15%) and removed the upper limit on the DRR; required that the reserve ratio reach 1.35% by September 30, 2020 (rather than 1.15% by the end of 2016); required that in setting assessments, the FDIC must offset the effect of meeting the increased reserve ratio on small insured depository institutions; and eliminated the requirement that the FDIC pay dividends from the DIF when the reserve ratio reaches certain levels. The FDIC has set the DRR at 2% and, in lieu of dividends, has established progressively lower assessment rate schedules as the reserve ratio meets certain trigger levels. The Dodd-Frank Act also required the FDIC to change the deposit insurance assessment base from deposits to average consolidated total assets minus average tangible equity. In February 2011, the FDIC finalized rules to implement this change that significantly modified how deposit insurance assessment rates are calculated for those banks with assets of $10 billion or greater.

Banks may accept brokered deposits as part of their funding. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), as discussed in "MD&A—Liquidity Risk," only "well-capitalized" and "adequately-capitalized" institutions may accept brokered deposits. Adequately-capitalized institutions, however, must first obtain a waiver from the FDIC before accepting brokered deposits, and such deposits may not pay rates that significantly exceed the rates paid on deposits of similar maturity from the institution's normal market area or, for deposits from outside the institution's normal market area, the national rate on deposits of comparable maturity.

The FDIC is authorized to terminate a bank's deposit insurance upon a finding by the FDIC that the bank's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the bank's regulatory agency. The termination of deposit insurance for a bank could have a material adverse effect on its liquidity and its earnings.

Overdraft Protection

The Federal Reserve amended Regulation E in November 2009 to limit the ability to assess overdraft fees for paying ATM and one-time debit card transactions that overdraw a consumer's account, unless the consumer opts in to such payment of overdrafts. The rule does not apply to overdraft services with respect to checks, ACH transactions, or recurring debit card transactions, or to the payment of overdrafts pursuant to a line of credit or a service that transfers funds from another account. We are required to provide to customers written notice describing our overdraft service, fees imposed and other information, and to provide customers with a reasonable opportunity to opt in to the service. Before we may assess fees for paying discretionary overdrafts, a customer must affirmatively opt in, which could negatively impact our deposit business revenue.

Source of Strength and Liability for Commonly-Controlled Institutions

Under the regulations issued by the Federal Reserve, a bank holding company must serve as a source of financial and managerial strength to its subsidiary banks (the so-called "source of strength doctrine"). The Dodd-Frank Act codified the source of strength doctrine, directing the Federal Reserve to require bank holding companies to serve as a source of financial strength to its subsidiary banks.

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

FDIC Orderly Liquidation Authority

The Dodd-Frank Act provided the FDIC with liquidation authority that may be used to liquidate a financial company if the Treasury Secretary, in consultation with the President, based on the recommendation of the Federal Reserve and another federal agency, determines that doing so is necessary to mitigate serious adverse effects on U.S. financial stability. Upon such a determination, the FDIC would be appointed receiver and must liquidate the company in a way that mitigates significant risks to financial stability and minimizes moral hazard. The costs of a liquidation of a financial company would be borne by shareholders and unsecured creditors and then, if necessary, by risk-based assessments on large financial companies. The FDIC has issued rules implementing this authority, and may issue additional rules in the future.

FFIEC Account Management Guidance

On January 8, 2003, the Federal Financial Institutions Examination Council ("FFIEC") released Account Management and Loss Allowance Guidance (the "Guidance"). The Guidance applies to all credit lending of regulated financial institutions and generally requires that banks properly manage several elements of their lending programs, including line assignments, over-limit practices, minimum payment and negative amortization, workout and settlement programs, and the accounting methodology used for various assets and income items related to loans.

We believe that our account management and loss allowance practices are prudent and appropriate and, consistent with the Guidance. We caution, however, the Guidance provides wide discretion to bank regulatory agencies in the application of the Guidance to any particular institution and its account management and loss allowance practices. Accordingly, under the Guidance, bank examiners could require changes in our account management or loss allowance practices in the future, and such changes could have an adverse impact on our financial condition or results of operation.

Privacy and Fair Credit Reporting

The GLBA requires a financial institution to describe in a privacy notice certain of its privacy and data collection practices and requires that customers or consumers, before their nonpublic personal information is shared, be given a choice (through an opt-out notice) to limit the sharing of such information about them with nonaffiliated third parties unless the sharing is required or permitted under the GLBA as implemented. We, the Banks and ING Bank have written privacy notices that are available either through our website, the website of the relevant legal entity, or both, and are delivered to consumers and customers when required under the GLBA. In accordance with the privacy notices, we, the Banks and ING Bank protect the security of information about our customers, educate our employees about the importance of protecting customer privacy and allow our customers to remove their names from the solicitation lists used and shared with others by us and the Banks or ING Bank to the extent they use or share such lists. We, the Banks and ING Bank require business partners with whom we share such information to have adequate security safeguards and to abide by the redisclosure and reuse provisions of the GLBA. To the extent that the GLBA and the FCRA require us or one or more of the Banks or ING Bank to provide customers and consumers the opportunity to opt out of sharing information, then the relevant entity or entities provide such options in the privacy notice. In addition to adopting federal requirements regarding privacy, the GLBA also permits individual states to enact stricter laws relating to the use of customer information. To date, at least California and Vermont have done so by statute, regulation or referendum, and other states may consider proposals which impose additional requirements or restrictions on us, the Banks or ING Bank. If the federal or state regulators of the financial subsidiaries establish further guidelines for addressing customer privacy issues, we, one or more of the Banks, or ING Bank may need to amend our privacy policies and adapt our internal procedures.

Under Section 501(b) of the GLBA, among other sources of statutory authority, including state law, we are required to observe various data security-related requirements, including establishing information security and data security breach response programs and properly authenticating customers before processing or enabling certain types of transactions or interactions. The failure to observe any one or more of these requirements could subject us to enforcement action or litigation.

Like other financial institutions, the Banks and ING Bank rely upon consumer reports for prescreen marketing, underwriting new loans and for reviewing and managing risks associated with existing accounts. In addition, the

Banks and ING Bank furnish customer account information to the major consumer reporting agencies. The use of consumer reports by the Banks and ING Bank and furnishing of account information to the consumer reporting agencies is regulated under the FCRA on a uniform, nationwide basis. This includes restrictions on the ability of the Banks and ING Bank to share consumer report information with affiliates and to use customer account information shared by affiliates for a marketing purpose. The Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act"), extends the federal preemption of the FCRA permanently, although the law authorizes states to enact laws regulating certain subject matters so long as they are not inconsistent with the conduct required by the FCRA. The FACT Act also added new provisions to the FCRA designed to address the growing crime of identity theft and to improve the accuracy of consumer credit information. Generally, FCRA rulemaking and enforcement authority with respect to the Banks and ING Bank now resides with CFPB. In addition, the FCRA creates a limited private right of action for consumers to seek relief for certain violations for the FCRA.

Investment in the Company, the Banks and ING Bank

Certain acquisitions of our capital stock may be subject to regulatory approval or notice under federal or state law. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of our capital stock in excess of the amount that can be acquired without regulatory approval. Each of the Banks and ING Bank is an "insured depository institution" within the meaning of the Change in Bank Control Act.

Consequently, federal law and regulations prohibit any person or company from acquiring control of us without, in most cases, prior written approval of the Federal Reserve or the OCC, as applicable. Control is conclusively presumed if, among other things, a person or company acquires more than 25% of any class of our voting stock. A rebuttable presumption of control arises if a person or company acquires more than 10% of any class of voting stock and is subject to any of a number of specified "control factors" as set forth in the applicable regulations. Additionally, COBNA and CONA are "banks" within the meaning of Chapter 13 of Title 6.1 of the Code of Virginia governing the acquisition of interests in Virginia financial institutions (the "Financial Institution Holding Company Act"). The Financial Institution Holding Company Act prohibits any person or entity from acquiring, or making any public offer to acquire, control of a Virginia financial institution or its holding company without making application to, and receiving prior approval from, the Virginia Bureau of Financial Institutions. Because ING Bank is a federal savings bank located in Delaware, acquisitions of interests in ING Bank are governed by Chapter 8 of Title 5 of the Delaware Code (the "Delaware Banking Code"). The Delaware Banking Code prohibits any person or entity from acquiring ownership or control of a federal savings bank located in Delaware, or its holding company if its holding company is located in Delaware, without making application to, and receiving prior approval from, the Delaware State Bank Commissioner.

USA PATRIOT Act of 2001

The USA PATRIOT Act of 2001 (the "Patriot Act") contains sweeping anti-money laundering and financial transparency laws as well as enhanced information collection tools and enforcement mechanisms for the U.S. government, including: due diligence requirements for private banking and correspondent accounts; standards for verifying customer identification at account opening; rules to promote cooperation among financial institutions, regulators, and law enforcement in identifying parties that may be involved in terrorism or money laundering; reporting requirements applicable to the receipt of coins and currency of more than $10,000 in nonfinancial trades or businesses; and more broadly applicable suspicious activity reporting requirements.

The Department of Treasury, in consultation with the Federal Reserve and other federal financial institution regulators, has promulgated rules and regulations implementing the Patriot Act that prohibit correspondent accounts for foreign shell banks at U.S. financial institutions; require financial institutions to maintain certain records relating to correspondent accounts for foreign banks; require financial institutions to produce certain records upon request of the appropriate federal banking agency; require due diligence with respect to private banking and correspondent banking accounts; facilitate information sharing between government and financial institutions; require verification of customer identification; and require financial institutions to have an anti-money laundering program in place.

Non-Bank Activities

Our non-bank subsidiaries are subject to supervision and regulation by various other federal and state authorities. Our insurance agency subsidiaries, for example, are regulated by state insurance regulatory agencies in the states in which we operate. Capital One Agency LLC is a licensed insurance agency that provides both personal and business insurance services to retail and commercial clients and is regulated by the New York State Insurance Department in its home state and by the state insurance regulatory agencies in the states in which it operates.

Capital One Investment Services LLC, Capital One Southcoast Capital, Inc. and ING DIRECT Investment, Inc. are registered broker-dealers regulated by the SEC and the Financial Industry Regulatory Authority. Our broker-dealer subsidiaries are subject to, among other things, net capital rules designed to measure the general financial condition and liquidity of a broker-dealer. Under these rules, broker-dealers are required to maintain the minimum net capital deemed necessary to meet their continuing commitments to customers and others, and are required to keep a substantial portion of their assets in relatively liquid form. These rules also limit the ability of broker-dealers to transfer capital to parent companies and other affiliates. Broker-dealers are also subject to other regulations covering their business operations, including sales and trading practices, public offerings, publication of research reports, use and safekeeping of client funds and securities, capital structure, record-keeping and the conduct of directors, officers and employees.

Capital One Asset Management LLC, which provides investment advice to institutions, foundations, endowments and high net worth individuals, is a registered investment adviser regulated under the Investment Advisers Act of 1940. Capital One Financial Advisors LLC is a New York-state registered investment adviser. ShareBuilder Advisors, LLC is an SEC-registered investment adviser that provides investment advice to retail customers.

Regulation of International Business by Non—U.S. Authorities

COBNA is subject to regulation in foreign jurisdictions where it operates, currently in the United Kingdom and Canada.

United Kingdom

In the United Kingdom, COBNA operates through Capital One (Europe) plc (“COEP”), which was established in 2000. Effective December 1, 2010, COEP became an authorized payment institution regulated by the Financial Services Authority (the “FSA”) under the Payment Services Regulations 2009. COEP is a member of the Lending Code, which sets standards of good lending practice in relation to loans, credit cards and current account overdrafts. COEP is not a retail deposit-taker. COEP’s indirect parent, Capital One Global Corporation, is wholly-owned by COBNA and is subject to regulation as an “agreement corporation” under the Federal Reserve’s Regulation K.

In 2010, the U.K. Government announced plans to change the structure of financial regulation by the end of 2012. As part of this change, the FSA will cease to exist in its current form. The U.K. Government will create a new Prudential Regulatory Authority (the “PRA”), responsible for the day-to-day prudential supervision of financial institutions and a new Financial Conduct Authority (the “FCA”), responsible for the conduct of all financial services firms. The FSA commenced during 2011 the implementation of a “shadow” structure in preparation for these changes. In addition, a new Financial Policy Committee (the “FPC”) of the Court of Directors of the Bank of England will be established, which will look across the economy at the macroeconomic and financial issues that may threaten stability and address the risks it identifies. An Interim FPC was established in February 2011 and first met in June 2011.

In preparation for these changes, the U.K. Government conducted a range of related consultation work during 2011, in particular focusing on the respective roles and approach of the new regulatory bodies. The consultations included consideration of whether, in addition to the establishment of the FCA, PRA and FPC, the U.K.

consumer credit regime currently regulated by the Office of Fair Trading ("OFT") should become the responsibility of a single regulator and/or whether the existing underlying legislative framework for consumer credit regulation (under the Consumer Credit Act 1974) should be replaced with a model similar to regulation of other retail financial services (under the Financial Services and Markets Act 2000). The consultations suggest that the U.K. Government intends that the FCA be a more engaged regulator, with involvement earlier in a product's lifecycle. The U.K. Government has confirmed there is a consensus amongst consultation respondents in favor of transition to a single regulator of consumer credit (FCA being identified as the likely best regulatory body to perform this function). The U.K Government has also confirmed there was no clear consensus over potential changes to the underlying legislative framework regulating consumer credit. The U.K. Government has indicated that further policy development work is needed to enable it to make a determination on the future of consumer credit regulation.

Cross-border interchange fees are under scrutiny from the European Commission ("EC") and the OFT. The timing of any final resolution of the matter by the EC or the OFT, which has suspended its own investigation into domestic interchange, is uncertain, but it is anticipated that the OFT will await the outcome of the EC court decision before concluding its own investigation, currently expected to be Spring 2012. If the EC decision is appealed to the European Court of Justice, we would expect the OFT to continue the suspension. An appeal to the European Court of Justice is unlikely to be decided before 2014.

In January 2012, the EC released a Green Paper that aims at identifying potential measures to create an integrated European market for card, internet and mobile payments. The current scope of the paper is broad and includes issues such as: market fragmentation; transparency and cost effective pricing of payment services; lack of standardization; interoperability between payment service providers; and security/privacy concerns of payment service users. The paper also looks at whether interchange arrangements create challenges for a fully integrated European market, which may increase the likelihood of further legislation in this area outside of the court process outlined above. The EC will review comments from interested parties, which are due April 2012, to decide next steps and what, if any, further regulation is required to create a single European market.

Following a referral by the OFT, the Competition Commission (the "CC") launched a market investigation into the supply of Payment Protection Insurance ("PPI") in the United Kingdom. The scope included PPI on mortgages, credit cards, unsecured loans (personal loans, motor loans and hire purchase) and secured loans. In October 2010, the CC published its final report on remedies, and the final Order was published in March 2011. Implementation of the main new remedies was split. The first phase was introduced in October 2011 and the second will be introduced in April 2012, with the April 2012 phase including a seven-day point of sale prohibition.

Following the dismissal of the British Bankers Association's judicial review, firms, including COEP, have had to comply with new rules introduced by the FSA in December 2010 governing the handling of PPI complaints. The new rules have resulted in changes to the way that the industry handles PPI complaints and the associated media attention has led to a significant increase in PPI complaint volumes.

Canada

In Canada, COBNA operates as an authorized foreign bank pursuant to the Bank Act (Canada) (the "Bank Act") and is permitted to conduct its credit card business in Canada through its Canadian branch, Capital One Bank (Canada Branch) ("Capital One Canada"). The primary regulator of Capital One Canada is the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Other regulators include the Financial Consumer Agency of Canada ("FCAC"), the Office of the Privacy Commissioner of Canada, and the Financial Transactions and Reports Analysis Centre of Canada. Capital One Canada is subject to regulation under various Canadian federal laws, including the Bank Act and its regulations, the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Personal Information Protection and Electronic Documents Act.

In 2011, four new regulatory developments that affect credit cards issued by federally regulated financial institutions in Canada became effective. These amendments could increase our operational and compliance costs and affect the types and terms of products that we offer in Canada.

In January 2011, amendments to the Personal Investigations Act of Manitoba came into force ("Manitoba Amendments"). The Manitoba Amendments require credit grantors to take certain steps to verify a credit applicant's identity before entering into or amending a credit agreement, following the placement of a security alert with a credit bureau.

In April 2011, the FCAC published its guidance on Consent for Increases in Credit Limits ("FCAC Guidance"). The FCAC Guidance sets out the FCAC Commissioner's interpretation of the requirement under the Credit Business Practices (Banks, Authorized Foreign Banks, Trust and Loan Companies, Retail Associations, Canadian Insurance Companies and Foreign Insurance Companies) Regulations to obtain express consent from a borrower prior to increasing the credit limit on a credit card. The FCAC's expectation is that credit card issuers obtain express consent from borrowers in each instance of a proposed credit limit increase by the issuer and that such consent is obtained at the time of the proposed credit limit increase. The FCAC Guidance became effective in July 2011.

In June 2011, the Bank Act was amended to allow for certain information that is to be provided in writing, to be satisfied by the provision of an electronic document. At the same time, the Electronic Documents (Banks and Bank Holding Companies) Regulations, which prescribe additional requirements for the provision of electronic documents, became effective. The additional requirements include obtaining customer consent to receive documents electronically and the provision of a notification to customers containing prescribed information. The amendments specify that customers may revoke consent at any time, and confirmations of such revocation must be provided without delay. The amendments also provide that if there is a reason to believe that a customer did not receive the electronic document, a paper document must be mailed.

In July 2010, amendments to the Financial Consumer Agency of Canada Act became effective, expanding the mandate of the FCAC to include monitoring and evaluating trends and consumer issues that may have an impact on consumers of financial products and services. In November 2011, the FCAC published a new Compliance Framework, which among other changes included amendments to the content, scope and frequency of existing reporting requirements and introduced a new requirement to self-report certain compliance issues. Some of the new reporting requirements were effective immediately, while others will be effective on April 1, 2012.

COMPETITION

Each of our business segments operates in a highly competitive environment, and we face competition in all aspects of our business from numerous bank and non-bank providers of financial services.

Our Credit Card business competes with international, national, regional and local issuers of Visa® and MasterCard® credit cards, as well as with American Express®, Discover Card® and, to a certain extent, issuers of debit cards. In general, customers are attracted to credit card issuers largely on the basis of price, credit limit and other product features, and customer loyalty is often limited.

Our Consumer Banking and Commercial Banking businesses compete with national and state banks and direct banks for deposits, auto loans, mortgages and trust accounts and with savings and loan associations and credit unions for loans and deposits. Our competitors also include automotive finance companies, mortgage banking companies and other financial services providers that provide loans, deposits, and other similar services and products. In addition, we compete against non-depository institutions that are able to offer these products and services. Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. Combinations of this type could significantly change the competitive environment in which we conduct business. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties. In addition, competition among direct banks is intense because online banking provides our customers the ability to rapidly deposit and withdraw funds and open and close accounts in favor of products and services offered by competitors.

Our businesses generally compete on the basis of the quality and range of their products and services, transaction execution, innovation and price. Competition varies based on the types of clients, customers, industries and geographies served. With respect to some of our products and geographies and products, we compete globally and with respect to others, we compete on a regional basis. Our ability to compete depends, in part, on our ability to attract and retain our professional and other associates and on our reputation. In the current environment, customers are generally attracted to depository institutions that are perceived as stable, with solid liquidity and funding.

We believe that we are able to compete effectively in our current markets. There can be no assurance, however, that our ability to market products and services successfully or to obtain adequate returns on our products and services will not be impacted by the nature of the competition that now exists or may later develop, or by the broader economic environment. For a discussion of the risks related to our competitive environment, please refer to "Item 1A. Risk Factors."

EMPLOYEES

A central part of our philosophy is to attract and retain a highly capable staff. We had 31,542 employees, whom we refer to as "associates," as of December 31, 2011. None of our associates are covered under a collective bargaining agreement, and management considers our employee relations to be satisfactory.

ADDITIONAL INFORMATION

Geographic Diversity

Our consumer loan portfolios, including credit cards, are diversified across the United States with modest concentration in California, Texas, New York, Florida, Louisiana and Illinois. We also have credit card loans in the U.K. and Canada. Our commercial loans are concentrated in New York, Texas, Louisiana and New Jersey. See "MD&A—Credit Risk Profile" and "Note 22—Significant Concentration of Credit Risk" for additional information.

Technology/Systems

We leverage information technology to achieve our business objectives and to develop and deliver products and services that satisfy our customers' needs. A key part of our strategic focus is the development of efficient, flexible computer and operational systems to support complex marketing and account management strategies, the servicing of our customers, and the development of new and diversified products. We believe that the continued development and integration of these systems is an important part of our efforts to reduce costs, improve quality and provide faster, more flexible technology services. Consequently, we continuously review capabilities and develop or acquire systems, processes and competencies to meet our unique business requirements.

As part of our continuous efforts to review and improve our technologies, we may either develop such capabilities internally or rely on third party outsourcers who have the ability to deliver technology that is of higher quality, lower cost, or both. Over time, we have increasingly relied on third party outsourcers to help us deliver systems and operational infrastructure. These relationships include (but are not limited to): Total System Services Inc. ("TSYS") for processing services for our North American and United Kingdom portfolios of consumer and small business credit card accounts, Fidelity National Information Services ("Fidelity") for the Capital One banking systems and IBM Corporation for management of our North American data centers.

To protect our systems and technologies, we employ security, backup and recovery systems and generally require the same of our third-party service providers. In addition, we perform, or cause to be performed, a variety of vulnerability and penetration testing on the platforms, systems and applications used to provide our products and services in an effort to ensure that any attacks on these platforms, systems and applications are unlikely to succeed. To date, to our knowledge, we have not been targeted with a direct, material cyber attack. We do not believe that the direct attacks we have seen have resulted in outside entities successfully penetrating our security controls.

Intellectual Property

As part of our overall and ongoing strategy to protect and enhance our intellectual property, we rely on a variety of protections, including copyrights, trademarks, trade secrets, patents and certain restrictions on disclosure, solicitation, and competition. We also undertake other measures to control access to and distribution of our other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use certain intellectual property or proprietary information without authorization. Our precautions may not prevent misappropriation or infringement of our intellectual property or proprietary information. In addition, our competitors and other third parties also file patent applications for innovations that are used in our industry. The ability of our competitors and other third parties to obtain such patents may adversely affect our ability to compete. Conversely, our ability to obtain such patents may increase our competitive advantage. There can be no assurance that we will be successful in such efforts, or that the ability of our competitors to obtain such patents may not adversely impact our financial results.

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, expenses, capital measures, returns, accruals for claims in litigation and for other claims against us; earnings per share or other financial measures for us; future financial and operating results; our plans, objectives, expectations and intentions; the projected impact and benefits of the acquisition of ING Direct (the "ING Direct Transaction") and the pending acquisition of HSBC's U.S. credit card business (the "HSBC Transaction" and, with the ING Direct Transaction, 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 and 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 the HSBC Transaction are not obtained or satisfied on a timely basis or at all;
- the possibility that modifications to the terms of the HSBC Transaction 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 HSBC Transaction;
- 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 the HSBC Transaction;
- 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, including integration of the assets and businesses acquired;
- 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;
- the accuracy of estimates and assumptions we use to determine the fair value of assets acquired and liabilities assumed in the Transactions, and the potential for our estimates or assumptions to change as additional information becomes available and we complete the accounting analysis 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 this Annual Report on Form 10-K.

Item 1A. Risk Factors

Business Risks

This section highlights specific risks that could affect our business. Although we have tried to discuss all material risks of which we are aware at the time this Annual Report on Form 10-K has been filed, other risks may prove to be important in the future, including those that are not currently ascertainable. In addition to the factors discussed elsewhere in this Annual Report, other factors that could cause actual results to differ materially from our forward looking statements include:

The Current Business Environment, Including A Slow or Delayed Economic Recovery, May Adversely Affect Our Industry, Business, Results Of Operations And Capital Levels.

The recent global recession resulted in a general tightening in the credit markets, lower levels of liquidity, reduced asset values (including commercial properties), sharp and prolonged declines in residential home values and sales volumes, reduced business profits, increased rates of business and consumer repayment delinquency, increased rates of business and consumer bankruptcy, and increased and prolonged unemployment, some of which have had a negative impact on our results of operation. Although the overall economic recovery seems to be underway, it has remained modest and fragile. A recovery that is only shallow and very gradual, marked by continued elevated unemployment rates and reduced home prices, or another downturn, may have a material adverse effect on our financial condition and results of operations as customers default on their loans or maintain lower deposit levels or, in the case of credit card accounts, carry lower balances and reduce credit card purchase activity.

In particular, we may face the following risks in connection with these events:

- Adverse macroeconomic conditions may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which could have a negative impact on our results of operations. In addition, changes in consumer behavior, including decreased consumer spending and a shift in consumer payment behavior towards avoiding late fees, over-limit fees, finance charges and other fees, could have an adverse impact on our results of operations.
- Increases in bankruptcies could cause increases in our charge-off rates, which could have a negative impact on our results of operations.
- Our ability to recover debt that we have previously charged-off may be limited, which could have a negative impact on our results of operations.
- The processes and models we use to estimate inherent losses may no longer be reliable because they rely on complex judgments, including assumptions and forecasts of economic conditions which may no longer be capable of accurate estimation in an unpredictable economic environment, which could have a negative impact on our results of operations.
- Our ability to assess the creditworthiness of our customers may be impaired if the criteria or models we use to underwrite and manage our customers become less predictive of future losses, which could cause our losses to rise and have a negative impact on our results of operations.

- Significant concern regarding the creditworthiness of some of the governments in Europe has contributed to volatility in the financial markets and led to greater economic uncertainty worldwide. Sovereign debt concerns in Europe could diminish economic recovery and lead to further stress in the financial markets, both globally and in the United States, which could have a negative impact on our financial results.
- Our ability to borrow from other financial institutions or to engage in funding transactions on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, which could limit our access to funding. The interest rates that we pay on our securities are also influenced by, among other things, applicable credit ratings from recognized rating agencies. A downgrade to any of these credit ratings could affect our ability to access the capital markets, increase our borrowing costs and have a negative impact on our results of operations. Increased charge-offs, rising LIBOR and other events may cause our securitization transactions to amortize earlier than scheduled, which could accelerate our need for additional funding from other sources.
- We have increased our reliance on deposit funding over the past several years, in particular with the acquisition of ING Direct, and an inability to accept or maintain deposits or to obtain other sources of funding could materially affect our liquidity position and our ability to fund our business. Many other financial institutions have also increased their reliance on deposit funding and, as such, we expect continued competition in the deposit markets. We cannot predict how this competition will affect our costs. If we are required to offer higher interest rates to attract or maintain deposits, our funding costs will be adversely impacted.
- Regulators, rating agencies or investors could change their standards regarding appropriate capital levels for banks in general or us in particular. If the new standards call for capital levels higher than the capital we have or that we anticipate, it could have negative impacts on our ability to lend or to grow deposits and on our business results.
- Interest rates have remained at historically low levels for a prolonged period of time, and the flat yield curve associated with current interest rates generally leads to lower revenue and reduced margins because it limits our opportunity to increase the spread between asset yields and funding costs. The continued presence of a flat yield curve for a sustained period of time could have a material adverse effect on our earnings and our net interest margin.
- The historically low interest rate environment also increases our exposure to prepayment risk, particularly with respect to the originated mortgage portfolio we acquired from ING Direct. Increased prepayments, refinancing or other factors would reduce expected revenue associated with mortgage assets and could also lead to a reduction in the value of our mortgage servicing rights, which could have a negative impact on our financial results.

Compliance With New And Existing Laws And Regulations May Increase Our Costs, Reduce Our Revenue, Limit Our Ability To Pursue Business Opportunities, And Increase Compliance Challenges.

There has been increased legislation and regulation with respect to the financial services industry in the last few years, and we expect that oversight of our business will continue to expand in scope and complexity. A wide and increasing array of banking and consumer lending laws apply to almost every aspect of our business. Failure to comply with these laws and regulations could result in financial, structural and operational penalties, including receivership, and could result in negative publicity or damage to our reputation with regulators or the public. In addition, establishing systems and processes to achieve compliance with these laws and regulations may increase our costs and limit our ability to pursue certain business opportunities.

In July 2010, President Obama signed into law the Dodd-Frank Act. The Dodd-Frank Act, as well as the related rules and regulations adopted by various regulatory agencies, could have a significant adverse impact on our business, results of operations or financial condition. The Dodd-Frank Act is a comprehensive financial reform act that requires, among other things, enhanced prudential standards (including capital and liquidity requirements), enhanced supervision (including stress testing), recovery and resolution planning (often referred to as "living wills"), prohibitions on proprietary trading and increased transparency and regulation of derivatives trading. The Dodd-Frank Act also provides heightened expectations for risk management and regulatory oversight of all aspects of large financial institutions, including us. Many aspects of the law remain to be implemented under the rulemaking and regulatory authority of the SEC, the CFTC and federal banking regulators. Although it is clear that the Dodd-Frank Act will materially impact large financial institutions like us, the ultimate effect and scope of that impact may not be understood for years. Though some aspects of the Dodd-Frank Act will clearly have a significant impact on our financial condition or results of operations, other aspects of the law may not apply to us. Nevertheless, the law will increase our need to build new compliance processes and infrastructure and to otherwise enhance our risk management throughout all aspects of our business. The cumulative impact will include higher expectations for capital and liquidity, as discussed in more detail below under the header "We May Not Be Able to Maintain Adequate Capital Levels or Liquidity, Which Could have a Negative Impact on Our Financial Results," and higher operational costs once regulators fully implement the law. In addition, U.S. government agencies charged with adopting rules and regulations under the Dodd-Frank Act may do so in an unforeseen manner, including ways that potentially expand the reach of the legislation more than as initially contemplated.

There are a number of other provisions in the Dodd-Frank act that will impact our business, including:

- The Dodd-Frank Act created a new independent supervisory body, the Consumer Financial Protection Bureau (the "CFPB") that became the primary regulator for federal consumer financial statutes on July 21, 2011. Rule writing authority for specified consumer financial statutes transferred to CFPB from other federal regulators. In addition, supervisory authority for consumer compliance over various institutions, including us, was transferred to the CFPB. State attorneys general will be authorized to enforce new regulations issued by the CFPB. Although state consumer financial laws will continue to be preempted under the National Bank Act under the existing standard set forth in the Supreme Court decision in *Barnett Bank of Marion County, N.A. v. Nelson*, OCC determinations of such preemption must be on a case-by-case basis, and courts reviewing the OCC's preemption determinations will now consider the appropriateness of those determinations under a different standard of judicial review. As a result, state consumer financial laws enacted in the future that might previously have been preempted may be held to apply to our business activities. The cost of complying with these additional laws could have a negative impact on our financial results.
- The Dodd-Frank Act requires that the amount of any interchange fee received by a debit card issuer with respect to debit card transactions be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. On June 29, 2011, the Federal Reserve adopted a final rule and an interim final rule implementing the portion of the Dodd-Frank Act that limits interchange fees received by a debit card issuer. The final rule limits interchange fees per debit card transaction to $.21 plus five basis points of the transaction amount and provides, through the interim final rule, for an additional $.01 fraud prevention adjustment to the interchange fee for issuers that meet certain fraud prevention requirements. These rules will negatively impact revenue from our debit card business.
- 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. Also, the Dodd-Frank Act will most likely subject us to the supervision of regulatory agencies that historically have not regulated our businesses, such as the Commodity Futures Trading Commission with respect to our derivatives activities. These provisions could have an adverse impact on our results of operations or financial condition by increasing our cost of funding, our cost of capital or our cost of complying with applicable laws and regulations.

The Credit CARD Act (amending the Truth-in-Lending Act) and related changes to Regulation Z impose a number of restrictions on credit card practices impacting rates and fees and also update the disclosures required for open-end credit. Overlimit fees may not be imposed without prior consent of the customer, and the number of such fees that can be charged for the same violation is constrained. The amount of any penalty fee or charge must be "reasonable and proportional" to the violation. In addition, the ability of a card issuer to increase rates charged on pre-existing card balances has been significantly restricted. Card issuers are generally prohibited from raising rates on pre-existing balances when generally prevailing interest rates change. Moreover, the circumstances under which a card issuer can raise the interest rate on pre-existing balances of a customer whose risk of default increases are restricted. As a result, the rules implementing the Credit CARD Act could make the card business generally less resilient in future economic downturns.

Under the various state and federal statutes and regulations, we are required to observe various data security and privacy-related requirements, including establishing information security and data security breach response programs and properly authenticating customers before processing or enabling certain types of transactions or interactions. Future federal and state legislation and regulation could further restrict how we collect, use, share and secure customer information. The failure to observe any one or more of these requirements could subject us to litigation or enforcement actions and impact some of our current or planned business initiatives.

Certain laws and regulations, and any interpretations and applications with respect thereto, may benefit consumers, borrowers and depositors, but not stockholders. The legislative and regulatory environment is beyond our control, may change rapidly and unpredictably and may negatively influence our revenue, costs, earnings, growth and capital levels. Our success depends on our ability to maintain compliance with both existing and new laws and regulations. For a description of the laws and regulations to which we are subject, please refer to "Supervision and Regulation" in "Item 1. Business."

We May Experience Increased Delinquencies And Credit Losses.

Like other lenders, we face the risk that our customers will not repay their loans. Rising losses or leading indicators of rising losses (such as higher delinquencies, higher rates of non-performing loans, higher bankruptcy rates, lower collateral values or elevated unemployment rates) may require us to increase our allowance for loan and lease losses, which may degrade our profitability if we are unable to raise revenue or reduce costs to compensate for higher losses. In particular, we face the following risks in this area:

- *Missed Payments*. Our customers may miss payments. Loan charge-offs (including from bankruptcies) are generally preceded by missed payments or other indications of worsening financial condition for our customers. Customers are more likely to miss payments during an economic downturn or prolonged periods of slow economic growth. In addition, we face the risk that consumer and commercial customer behavior may change (for example, an increase in the unwillingness or inability of customers to repay debt), causing a long-term rise in delinquencies and charge-offs.
- *Estimates of Inherent losses*. The credit quality of our portfolio can have a significant impact on our earnings. We allow for and reserve against credit risks based on our assessment of credit losses inherent in our loan portfolios. This process, which is critical to our financial results and condition, requires complex judgments, including forecasts of economic conditions. We may underestimate our inherent losses and fail to hold a loan loss allowance sufficient to account for these losses. Incorrect assumptions could lead to material underestimates of inherent losses and inadequate allowance for loan and lease losses. In addition, our estimate of inherent losses impacts the amount of allowances we build to account for those losses. In cases where we modify a loan, if the modifications do not perform as anticipated we may be required to build additional allowance on these loans. The increase or release of allowances impacts our current financial results.
- *Underwriting.* Our ability to assess the credit worthiness of our customers may diminish. If the models and approaches we use to select, manage and underwrite our consumer and commercial customers become less predictive of future charge-offs (due, for example, to rapid changes in the economy, including the unemployment rate), our credit losses may increase and our returns may deteriorate.
- *Business Mix.* Our business mix could change in ways that could adversely affect credit losses. We engage in a diverse mix of businesses with a broad range of credit loss characteristics. Consequently, changes in our business mix may change our charge-off rate.

- *Charge-off Recognition.* The rules governing charge-off recognition could change. We record charge-offs according to accounting and regulatory guidelines and rules. These guidelines and rules, including the FFIEC Account Management Guidance, could require changes in our account management or loss allowance practices and cause our charge-offs to increase for reasons unrelated to the underlying performance of our portfolio. Such changes could have an adverse impact on our financial condition or results of operation.
- *Industry Practices.* Our charge-off and delinquency rates may be negatively impacted by industry developments, including new regulations applicable to our industry.
- *Collateral.* Collateral, when we have it, could be insufficient to compensate us for loan losses. When customers default on their loans and we have collateral, we attempt to seize it where permissible and appropriate. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan, and we may be unsuccessful in recovering the remaining balance from our customers. Particularly with respect to our commercial lending and home loan activities, decreases in real estate values adversely affect the value of property used as collateral for our loans and investments. Thus, the recovery of such property could be insufficient to compensate us for the value of these loans. Borrowers may be less likely to continue making payments on loans if the value of the property used as collateral for the loan is less than what the borrower owes, even if the borrower is still financially able to make the payments.
- *New York Concentration*. Although our lending is geographically diversified, approximately 48% of our commercial loan portfolio is concentrated in the New York metropolitan area. The regional economic conditions in the New York area affect the demand for our commercial products and services as well as the ability of our customers to repay their commercial loans and the value of the collateral securing these loans. An economic downturn or prolonged period of slow economic growth in the New York region could have a material adverse effect on the performance of our commercial loan portfolio and our results of operations.

We May Experience Increased Losses Associated With Mortgage Repurchases and Indemnification Obligations.

Certain of our subsidiaries, including GreenPoint Mortgage Funding, Inc. (“GreenPoint”), Capital One Home Loans and Capital One, N.A., as successor to Chevy Chase Bank, may be required to repurchase mortgage loans that have been sold to investors in the event there are certain breaches of certain representations and warranties contained within the sales agreements. We may be required to repurchase mortgage loans that we sell to investors in the event that there was improper underwriting or fraud or in the event that the loans become delinquent shortly after they are originated. These subsidiaries also may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, including securities fraud claims, and the amount of such losses could exceed the repurchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans.

We have established reserves in our consolidated financial statements for potential losses that are considered to be both probable and reasonably estimable related to the mortgage loans sold by our originating subsidiaries. The adequacy of the reserve and the ultimate amount of losses incurred will depend on, among other things, the actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rate of claimants, developments in litigation related to us and the industry, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices). Due to uncertainties relating to these factors, there can be no assurance that our reserves will be adequate or that the total amount of losses incurred will not have a material adverse effect upon our financial condition or results of operations. For additional information related to our mortgage loan repurchase and indemnification obligations and related reserves and our estimate of the upper end of the reasonably possible future losses from representation and warranty claims beyond the current accrual levels as of December 31, 2011, see “Note 21—Commitments, Contingencies and Guarantees.”

We May Not Be Able to Maintain Adequate Capital Levels or Liquidity, Which Could Have a Negative Impact on Our Financial Results.

As a result of the Dodd-Frank Act and international accords, financial institutions will become subject to new and increased capital and liquidity requirements. Although it is not yet clear what form these requirements will take or how they will apply to us, it is possible that we could be required to increase our capital levels above the levels in our current financial plans. These new requirements could have a negative impact on our ability to lend, grow deposit balances or make acquisitions and on our ability to make capital distributions in the form of increased dividends or share repurchases. Higher capital levels could also lower our return on equity.

Recent developments in capital and liquidity requirements that may impact us include the following:

- In December 2010, the Basel Committee on Banking Supervision published a final framework (commonly known as Basel III) on capital and liquidity. The key elements of the capital proposal include: raising the quality, consistency and transparency of the capital base; strengthening the risk coverage of the capital framework; introducing a leverage ratio that is different from the U.S. leverage ratio measures; promoting the build-up of capital buffers; and imposing a capital surcharge for global systemically important institutions. The liquidity framework includes two standards for liquidity risk supervision, one standard promoting short-term resilience and the other promoting longer-term resilience. How U.S. banking regulations will be modified to reflect these international standards remains unclear, particularly given the forthcoming capital and other prudential requirement regulations under the Dodd-Frank Act and the current Prompt Corrective Action framework. We expect, however, that minimum capital and liquidity requirements for us and other institutions will increase as a result of Basel III, the Dodd-Frank Act and related activity.
- In November 2011, the Federal Reserve finalized capital planning rules applicable to large bank holding companies like us (commonly referred to as Comprehensive Capital Analysis and Review or CCAR). Under the rules, bank holding companies with consolidated assets of $50 billion or more must submit capital plans to the Federal Reserve on an annual basis and must obtain approval from the Federal Reserve before making most capital distributions. The purpose of the rules is to ensure that large bank holding companies have robust, forward-looking capital planning processes that account for their unique risks and capital needs to continue operations through times of economic and financial stress. As part of its evaluation of a capital plan, the Federal Reserve will consider the comprehensiveness of the plan, the reasonableness of assumptions and analysis and methodologies used to assess capital adequacy and the ability of the bank holding company to maintain capital above each minimum regulatory capital ratio and above a Tier 1 common ratio of 5% on a pro forma basis under expected and stressful conditions throughout a planning horizon of at least nine quarters.
- Because we are a consolidated bank holding company with consolidated assets of $50 billion or greater, we are subject to certain heightened prudential standards under the Dodd-Frank Act, including requirements that may be recommended by the Financial Stability Oversight Council and implemented by the Federal Reserve. As a result, we expect to be subject to more stringent standards and requirements than those applicable for smaller institutions, including risk-based capital requirements, leverage limits and liquidity requirements. In December 2011, the Federal Reserve released proposed rules beginning to implement the enhanced prudential requirements, including a detailed liquidity framework. If finalized as proposed, these requirements would increase our liquidity requirements and associated compliance and operational costs.
- The Basel II final rules as implemented in the United States are 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. We expect to become subject to these rules at the end of 2012 as a result of the acquisition of ING Direct. Prior to full implementation of the Basel II framework, organizations must complete a qualification period of four consecutive quarters, known as the parallel run, during which they must meet the requirements of the rule to the satisfaction of their primary U.S. banking regulator. Based on current growth estimates, we would expect to enter parallel run January 1, 2015. This will require

completing a written implementation plan and building processes and systems to comply with the rules. Compliance with the Basel II rules will require a material investment of resources. In addition, 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.

See “Item 1. Business—Supervision and Regulation” for additional information.

We Face Risk Related To Our Operational, Technological And Organizational Infrastructure.

Our ability to grow and compete is dependent on our ability to build or acquire necessary operational, technological and organizational infrastructure. We are in the process of completing significant development projects to complete the systems integration of prior acquisitions and to build a scalable infrastructure in both our Retail Banking and Commercial Banking businesses. We anticipate making additional infrastructure changes and upgrades in connection with the integration of ING Direct and the pending acquisition of HSBC’s U.S. credit card business. Our pending acquisition of the HSBC U.S. credit card business in particular involves the transfer of intellectual property, servicing platforms, infrastructure, contact centers and a significant number of employees. We expect that decoupling and transitioning these assets, infrastructure and systems from HSBC’s current systems and operations and integrating them into our own business operations will be a highly complex process. These infrastructure changes, upgrades and integrations may cause disruptions to our existing and acquired businesses, including, but not limited to, systems interruptions, transaction processing errors, interruptions to collection processes and system conversion delays, all of which could have a negative impact on us. In addition, we expect to enter into numerous transitional service arrangements with HSBC entities that will provide for services associated with the decoupling and transition of the business. Under these arrangements, HSBC will provide certain services to us and we will provide certain services to HSBC. These transitional service arrangements will continue for various dates until the separation of the business from HSBC is complete, and during that time we will rely on the ability of the applicable HSBC entities to provide these services. The complexities and requirements of these arrangements will increase the operational risk associated with the transition and integration of the business, and this increased risk could lead to unanticipated expenses, disruptions to our operations or other adverse consequences.

While we expect the pending acquisition of HSBC’s U.S. credit card business will close in the second quarter of 2012, the complexities of the decoupling and transition could present risks of delay to our anticipated closing timing. Any significant delay in closing the acquisition could have a negative impact on our results of operations due to increased costs or a delay in our realization of the anticipated benefits of the acquisition.

Similar to other large corporations, we are exposed to operational risk that can manifest itself in many ways, such as errors related to failed or inadequate processes, faulty or disabled computer systems, fraud by employees or persons outside of our company and exposure to external events. In addition, we are heavily dependent on the strength and capability of our technology systems which we use to manage our internal financial and other systems, interface with our customers and develop and implement effective marketing campaigns. Our ability to develop and deliver new products that meet the needs of our existing customers and attract new ones and to run our business in compliance with applicable laws and regulations depends on the functionality and reliability of our operational and technology systems. Any disruptions or failures of our operational and technology systems, including those associated with improvements or modifications to such systems, could cause us to be unable to market and manage our products and services or to report our financial results in a timely and accurate manner, all of which could have a negative impact on our results of operations.

In some cases, we and the businesses we are acquiring outsource the maintenance and development of operational and technological functionality to third parties. These third parties may experience errors or disruptions that could adversely impact us and over which we may have limited control. Any increase in the amount of our infrastructure that we outsource to third parties may increase our exposure to these risks.

In addition, our on-going investments in infrastructure, which may be necessary to maintain a competitive business, integrate newly acquired businesses such as ING Direct and HSBC's U.S. credit card business and establish scalable operations, may increase our expenses. Further, as our business develops, changes or expands, additional expenses can arise as a result of a reevaluation of business strategies, management of outsourced services, asset purchases or other acquisitions, structural reorganization, compliance with new laws or regulations or the integration of newly acquired businesses. If we are unable to successfully manage our expenses, our financial results will be negatively affected.

We Could Incur Increased Costs or Reductions In Revenue Or Suffer Reputational Damage In the Event Of The Theft, Loss or Misuse Of Information, Including As A Result Of A Cyber-Attack.

Our products and services involve the gathering, storage and transmission of sensitive information regarding our customers and their accounts. Our ability to provide such products and services, many of which are web-based, relies upon the management and safeguarding of information, software, methodologies and business secrets. To provide these products and services, we use information systems and infrastructure that we and third party service providers operate. We also have arrangements in place with retail partners and other third parties where we share and receive information about their customers who are or may become our customers. As a financial institution, we also are subject to and examined for compliance with an array of data protection laws, regulations and guidance, as well as to our own internal privacy and information security policies and programs. If unauthorized persons were somehow to get access to personal, confidential or proprietary information, including customer information, in our possession or to our proprietary information, software, methodologies and business secrets, it could result in significant legal and financial exposure, supervisory liability, damage to our reputation or a loss of confidence in the security of our systems, products and services that could adversely affect our business.

Information security risks for large financial institutions like us have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists, activists and other external parties. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our businesses rely on our digital technologies, computer and email systems, software and networks to conduct their operations. In addition, to access our products and services, our customers may use computers, personal smartphones, tablet PC's and other mobile devices that are beyond our security control systems. Although we believe we have a robust suite of authentication and layered information security controls, our technologies, systems, networks and our customers' devices may become the target of cyber-attacks or other attacks that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary or other information, including their access credential to accounts with online functionality, or that could result in disruptions to the business operations of us or our customers or other third parties. Further, a breach or attack affecting one of our third-party service providers or partners could impact us through no fault of our own.

Because the methods and techniques employed by perpetrators of fraud and others to attack, disable, degrade or sabotage platforms, systems and applications change frequently and often are not fully recognized or understood until after they have been launched, we and our third-party service providers and partners may be unable to anticipate certain attack methods in order to implement effective preventative measures. Should a cyber-attack against us succeed on any material scale, market perception of the effectiveness of our security measures could be harmed, and we could face the aforementioned risks. Though we have insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event.

The Growth Of Our Online Banking Business Presents Certain Risks.

As a result of our strategic decisions and recent acquisitions, including ING Direct, we have grown our online banking business significantly over the past few years. Today, we operate one of the largest online banking businesses in the world, with over $128 billion in deposits as of December 31, 2011. While online banking represents a significant opportunity for customers in terms of greater and more flexible access to banking services at reduced costs, it also presents significant risks. In addition to the software, infrastructure and cyber-attack risks discussed above, we face risks related to online banking, including:

- We face strong competition in the online banking market. Aggressive pricing throughout the industry may adversely affect the retention of existing balances and the cost-efficient acquisition of new deposit funds and may affect our growth and profitability. When general economic conditions improve, new competitors may forcefully enter the market and pursue a discount pricing strategy in order to attract loan origination volume, particularly if the new entrants target high quality loans. In addition, the effects of a competitive environment may be exacerbated by the flexibility of online banking and the increasing financial and technological sophistication of our customer base. Customers could close their online accounts or reduce balances or deposits in favor of products and services offered by competitors. These shifts, which could be rapid, could result from general dissatisfaction with our products or services, including concerns over pricing, online security or our reputation. For example, once we transition from the "ING Direct" brand for the online banking business we recently acquired, the new brand may not be as readily accepted by customers as we anticipate, and these customers may not accept our branding, image, name, reputation, policies or level of service or may be dissatisfied with perceived differences regarding how they manage their online accounts after the transition, and as a result may transfer their accounts and business to a competitor.
- Our online businesses are dependent on our ability to process, record and monitor a large number of complex transactions. If any of our financial, accounting, or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. Third parties with which we do business could also be sources of operational risk, particularly in the event of breakdowns or failures of such parties' own systems. Any of these occurrences could diminish our ability to operate one or more of our online banking businesses, or result in potential liability to clients, reputational damage and regulatory intervention, any of which could result in a material adverse effect. We may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, computer viruses or electrical or telecommunications outages, cyber-attacks, as discussed above, natural disasters, other damage to property or physical assets or events arising from local or larger scale politics, including terrorist acts. Such disruptions may give rise to losses in service to customers and loss or liability to us.

We May Fail To Realize All Of The Anticipated Benefits Of Our Mergers And Acquisitions, Which Failure Could Result in Adverse Effects On Our Results Of Operations or Dilution Of Our Common Stockholders.

We have engaged in merger and acquisition activity over the past several years and may continue to engage in such activity in the future. We have explored, and expect to continue to explore, opportunities to acquire financial services companies and financial assets and to enter into strategic partnerships as part of our growth strategy. For example, as described under "Recent Acquisition and Disposition Activity—ING Direct," we announced the ING Direct acquisition in June 2011 and the acquisition of HSBC's U.S. credit card business in August 2011. In addition, we entered into credit card partnership agreements with, Kohl's Corp., Sony Corporation and Hudson's Bay Company during the past two years, including the acquisition of the related credit card loan portfolios, and we acquired Chevy Chase Bank in February 2009. We continue to evaluate and anticipate engaging in, among other merger and acquisition activity, additional strategic partnerships and selected acquisitions of financial institutions and other financial assets, including credit card and other loan portfolios.

Any merger, acquisition or strategic partnership we undertake will entail certain risks, which may materially and adversely affect our results of operations. If we experience greater than anticipated costs to integrate acquired businesses into our existing operations or are not able to achieve the anticipated benefits of any merger, acquisition or strategic partnership, including cost savings and other synergies, our business could be negatively affected. In addition, it is possible that the ongoing integration processes could result in the loss of key employees, errors or delays in systems implementation, the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of any merger, acquisition or strategic partnership. Integration efforts also may divert management attention and resources. These integration matters may have an adverse effect on us during any transition period.

In addition, we may face the following risks in connection with any merger, acquisition or strategic partnership, including the ING Direct acquisition and the pending acquisition of HSBC's U.S. credit card businesses:

- *New Businesses and Geographic or Other Markets*. Our merger, acquisition or strategic partnership activity may involve our entry into new businesses and new geographic areas or other markets which present risks resulting from our relative inexperience in these new businesses or markets. These new businesses or markets may change the overall character of our consolidated portfolio of businesses and could react differently to economic and other external factors. We face the risk that we will not be successful in these new businesses or in these new markets.
- *Identification and Assessment of Merger and Acquisition Targets and Deployment of Acquired Assets*. We cannot assure you that we will identify or acquire suitable financial assets or institutions to supplement our organic growth through acquisitions or strategic partnerships. In addition, we may incorrectly assess the asset quality and value of the particular assets or institutions we acquire. Further, our ability to achieve the anticipated benefits of any merger, acquisition or strategic partnership will depend on our ability to assess the asset quality and value of the particular assets or institutions we partner with, merge with or acquire. We may be unable to profitably deploy any assets we acquire.
- *Regulatory Approval*. Any future and pending merger or acquisition may be subject to regulatory or governmental approvals, which will require, among other things, review of our resulting financial condition, our ability to manage our resulting size, competitive considerations and our service to the community. We cannot assure you that we will receive any regulatory or governmental approvals. If such regulatory approvals of a merger or acquisition are not granted or are granted with conditions that become applicable to the parties, delayed or failed implementation of our strategic objectives could result, including failure to realize the anticipated benefits of the proposed merger or acquisition. In addition, governmental authorities from which approvals are typically required frequently have broad discretion in administering governing regulations. These governmental authorities may impose requirements, limitations or costs, or require divestitures or place restrictions on the conduct of our or another party's business after the completion of merger or acquisition transaction.
- *Dilutive Issuances*. We may issue common stock, other equity securities or debt in connection with future mergers and acquisitions, including in public offerings to fund such mergers and acquisitions or to provide adequate capital for the additional assets acquired. Issuances of our common stock, other equity securities or debt, whether as consideration for such mergers or acquisitions or to raise necessary funds or capital, may have a dilutive effect on earnings per share and our common stockholders' equity.
- *Accuracy of Assumptions*. In connection with any merger, acquisition or strategic partnership, we may make certain assumptions relating to the proposed merger or acquisition that may be, or may prove to be, inaccurate, including as the result of the failure to realize the expected benefits of any merger, acquisition or strategic partnership. The inaccuracy of any assumptions we may make could result in unanticipated consequences that could have a material adverse effect on our results of operations or financial condition. Assumptions we might make when considering a proposed merger, acquisition or strategic partnership may relate to numerous matters, including:
  - — projections of a target or partner company's future net income and our earnings per share;
  - — our ability to issue equity and debt to complete any merger or acquisition;
  - — our expected capital structure and capital ratios after any merger, acquisition or strategic partnership;
  - — projections as to the amount of future loan losses in any target or partner company's portfolio;

- the amount of goodwill and intangibles that will result from any merger, acquisition or strategic partnership;
- certain purchase accounting adjustments that we expect will be recorded in our financial statements in connection with any merger, acquisition or strategic partnership;
- cost, deposit, cross-selling and balance sheet synergies in connection with any merger, acquisition or strategic partnership;
- merger, acquisition or strategic partnership costs, including restructuring charges and transaction costs;
- our ability to maintain, develop and deepen relationships with customers of a target or partner company;
- our ability to grow a target or partner company's customer deposits and manage a target or partner company's assets and liabilities;
- higher than expected transaction and integration costs and unknown liabilities as well as general economic and business conditions that adversely affect the combined company following any merger or acquisition transaction;
- the extent and nature of regulatory oversight over a target or partner company;
- projected or expected tax benefits or assets;
- accounting matters related to the target or partner company, including accuracy of assumptions and estimates used in preparation of financial statements such as those used to determine allowance for loan losses, fair value of certain assets and liabilities, securities impairment and realization of deferred tax assets;
- our expectations regarding macroeconomic conditions, including the unemployment rate, housing prices, the interest rate environment, the shape of the yield curve, inflation and other economic indicators; and other financial and strategic risks associated with any merger or acquisition.

- *Target Specific Risk*. Assets and companies that we acquire will have their own risks that are specific to a particular asset or company. These risks include, but are not limited to, particular or specific regulatory, accounting, operational, reputational and industry risks, any of which could have a material adverse effect on our results of operations or financial condition. Indemnification rights, if any, may be insufficient to compensate us for any losses or damages resulting from such risks. In addition to regulatory approvals discussed above, certain of our merger, acquisitions or partnership activity may require third-party consents in order for us to fully realize the anticipated benefits of any such transaction.
- *Termination Fees*. Termination of agreements relating to the acquisition of an entity or assets, or merger with another entity, may, under certain circumstances, result in termination fees that could have a material adverse effect on our results of operations or financial condition.

Reputational Risk and Social Factors May Impact Our Results.

Our ability to originate and maintain accounts is highly dependent upon the perceptions of consumer and commercial borrowers and deposit holders and other external perceptions of our business practices or our financial health. Adverse perceptions regarding our reputation in the consumer, commercial and funding markets could lead to difficulties in generating and maintaining accounts as well as in financing them. In particular, negative perceptions regarding our reputation could lead to decreases in the levels of deposits that consumer and commercial customers and potential customers choose to maintain with us. Negative public opinion could also result from actual or alleged conduct in any number of activities or circumstances, including lending practices, regulatory compliance, inadequate protection of customer information, or sales and marketing, and from actions taken by regulators or other persons in response to such conduct.

In addition, a variety of social factors may cause changes in borrowing activity, including credit card use, payment patterns and the rate of defaults by accountholders and borrowers domestically and internationally. These social factors include changes in consumer confidence levels, the public's perception regarding consumer debt, including credit card use, and changing attitudes about the stigma of bankruptcy. If consumers develop or maintain negative attitudes about incurring debt, or if consumption trends decline, our business and financial results will be negatively affected.

Damage To Our Brands Could Impact Our Financial Performance.

Our brands have historically been very important to us. As with many financial services institutions, maintaining and enhancing our brand will depend largely on our ability to be a technology leader and to continue to provide high-quality products and services. Negative public perception of our brands could result from actual or alleged conduct in any number of activities, including lending practices, corporate governance, regulatory compliance and the use and protection of customer information, as well as from actions taken by government regulators and community organizations in response to that conduct. If we fail to maintain and enhance our brands, or if we incur excessive expenses in this effort, our business, results of operations and financial condition could be materially and adversely affected. Our online banking brands may also be negatively impacted by a number of factors, including service outages, product malfunctions, data privacy, lack of training, security issues and integration difficulties from recent acquisitions.

We Face Intense Competition in All of Our Markets.

We operate in a highly competitive environment, and we expect competitive conditions to continue to intensify. We face intense competition both in making loans and attracting deposits. We compete on the basis of the rates we pay on deposits and the rates and other terms we charge on the loans we originate or purchase, as well as the quality of our customer service. Price competition for loans might result in origination of fewer loans or earning less on our loans. We expect that competition will continue to increase with respect to most of our products. Some of our competitors are substantially larger than we are, which may give those competitors advantages, including a more diversified product and customer base, the ability to reach out to more customers and potential customers, operational efficiencies, more versatile technology platforms, broad-based local distribution capabilities, lower-cost funding and larger existing branch networks. In addition, some of our competitors are not subject to the same regulatory requirements or legislative scrutiny to which we are subject, which also could place us at a competitive disadvantage.

We have recently expanded our partnership business with the addition of Kohl's, Hudson's Bay Company and Sony, and we expect to add a significant number of partnerships with the pending acquisition of HSBC's U.S. credit card business. The market for key business partners, especially in the Card business, is very competitive, and we cannot assure you that we will be able to grow or maintain these partner relationships. We face the risk that we could lose partner relationships, even after we have invested significant resources, time and expense in acquiring and developing the relationships. The loss of any of our business partners could have a negative impact on our results of operations, including lower returns, excess operating expense and excess funding capacity.

In such a competitive environment, we may lose entire accounts or may lose account balances to competing firms, or we may find it more costly to maintain our existing customer base. Customer attrition from any or all of our lending products, together with any lowering of interest rates or fees that we might implement to retain customers, could reduce our revenues and therefore our earnings. Similarly, customer attrition from our deposit products, in addition to an increase in rates or services that we may offer to retain those deposits, may increase our expenses and therefore reduce our earnings.

If We Do Not Adjust to Rapid Changes in the Financial Services Industry, Our Financial Performance May Suffer.

Our ability to deliver to stockholders strong financial performance and returns on investment will depend in part on our ability to expand the scope of available financial services to meet the needs and demands of our customers. With our recent acquisition of ING Direct and our pending acquisition of HSBC's U.S. credit card business, we expect to market new products to our growing customer base. Our ability to sell more products to customers is a key part of our strategy to grow revenue and earnings. Many of our competitors are also focusing on cross-selling, which could limit our ability to execute our cross-sell strategy or require lower interest rates or fees on our lending products or offer higher interest rates on deposits, as well as affect our ability to maintain existing customers. This increasingly competitive environment is primarily a result of changes in regulation, changes in technology and product delivery systems, as well as the accelerating pace of consolidation among financial service providers.

Fluctuations in Market Interest Rates Or Volatility in the Capital Markets Could Adversely Affect Our Revenue and Expense, the Value of Assets and Obligations, Our Cost of Capital or Our Liquidity.

Like other financial institutions, our business may be sensitive to market interest rate movement and the performance of the capital markets. Changes in interest rates or in valuations in the debt or equity markets could directly impact us. For example, we borrow money from other institutions and depositors, which we use to make loans to customers and invest in debt securities and other earning assets. We earn interest on these loans and assets and pay interest on the money we borrow from institutions and depositors. Fluctuations in interest rates, including changes in the relationship between short-term rates and long-term rates and in the relationship between our funding basis rate and our lending basis rate, may have negative impacts on our net interest income and therefore our earnings. In addition, interest rate fluctuations and competitor responses to those changes may affect the rate of customer prepayments for mortgage, auto and other term loans and may affect the balances customers carry on their credit cards. These changes can reduce the overall yield on our earning asset portfolio. Changes in interest rates and competitor responses to these changes may also impact customer decisions to maintain balances in the deposit accounts they have with us. In addition, changes in valuations in the debt and equity markets could have a negative impact on the assets we hold in our investment portfolio. Finally, such market changes could also have a negative impact on the valuation of assets for which we provide servicing.

We assess our interest rate risk by estimating the effect on our earnings under various scenarios that differ based on assumptions about the direction and the magnitude of interest rate changes. We take risk mitigation actions based on those assessments. We face the risk that changes in interest rates could materially reduce our net interest income and our earnings, especially if actual conditions turn out to be materially different than those we assumed. See "MD&A—Market Risk Management" for additional information.

Our Business Could Be Negatively Affected If It Is Unable to Attract, Retain and Motivate Skilled Senior Leaders.

Our success depends, in large part, on our ability to retain key senior leaders, and competition for such senior leaders can be intense in most areas of our business. The executive compensation provisions of the Dodd-Frank Act and the regulations issued thereunder, and any further legislation, regulation or regulatory guidance restricting executive compensation, may limit the types of compensation arrangements that we may enter into with our most senior leaders and could have a negative impact on our ability to attract, retain and motivate such leaders in support of our long-term strategy. These laws and regulations may not apply in the same manner to all financial institutions, and we therefore may face more restrictions than other institutions and companies with whom we compete for talent. If we are unable to retain talented senior leadership, our business could be negatively affected.

Our Businesses are Subject to the Risk of Increased Litigation.

Our businesses are subject to increased litigation risks as a result of a number of factors and from various sources, including the highly regulated nature of the financial services industry, the focus of state and federal prosecutors on banks and the financial services industry, the structure of the credit card industry and business practices in the mortgage lending business. Substantial legal liability against us could have a material adverse effect or cause significant reputational harm to us, which could seriously harm our business. For a description of the litigation risks that we face, see "Note 21—Commitments, Contingencies and Guarantees."

We Face Risks from Unpredictable Catastrophic Events.

Despite our substantial business contingency plans, the impact from natural disasters and other catastrophic events, including terrorist attacks, may have a negative effect on our business and infrastructure, including our information technology systems. The impact of such events and other catastrophes on the overall economy may also adversely affect our financial condition and results of operations.

We Face Risks from the Use of Estimates in Our Financial Statements.

Pursuant to United States Generally Accepted Accounting Principles, we are required to use certain assumptions and estimates in preparing our financial statements, including, but not limited to, estimating our allowance for loan and lease losses and the fair value of certain assets and liabilities. If the assumptions or estimates underlying our financial statements are incorrect, we may experience unexpected material losses. For a discussion of our use of estimates in the preparation of our consolidated financial statements, see "Note 1—Summary of Significant Accounting Policies."

Our Ability To Receive Dividends From Our Subsidiaries Could Affect Our Liquidity And Ability To Pay Dividends.

We are a separate and distinct legal entity from our subsidiaries. Dividends to us from our direct and indirect subsidiaries, including our bank subsidiaries, have represented a major source of funds for us to pay dividends on our common stock, make payments on corporate debt securities and meet other obligations. There are various federal law limitations on the extent to which the Banks can finance or otherwise supply funds to us through dividends and loans. These limitations include minimum regulatory capital requirements, federal banking law requirements concerning the payment of dividends out of net profits or surplus, Sections 23A and 23B of the Federal Reserve Act and Regulation W governing transactions between an insured depository institution and its affiliates, as well as general federal regulatory oversight to prevent unsafe or unsound practices. If our subsidiaries' earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, our liquidity may be affected and we may not be able to make dividend payments to our common stockholders, to make payments on outstanding corporate debt securities or meet other obligations, each and any of which could have a material adverse impact on our results of operations, financial position or perception of financial health.

The Soundness of Other Financial Institutions Could Adversely Affect Us.

Our ability to engage in routine funding and other transactions could be adversely affected by the stability and actions of other financial services institutions. Financial services institutions are interrelated as a result of trading, clearing, servicing, counterparty and other relationships. With our recent acquisition of ING Direct and our pending acquisition of HSBC's U.S. credit card businesses, we have exposure to increasing numbers of financial institutions and counterparties. These counterparties include institutions and counterparties that may be exposed to various risks over which we have little or no control, including European or U.S. sovereign debt that is currently or may become in the future subject to significant price pressure, rating agency downgrade or default risk.

In addition, we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant credit concentration with respect to the financial services industry overall. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions.

Likewise, adverse developments affecting the overall strength and soundness of our competitors, the financial services industry as a whole and the general economic climate or sovereign debt could have a negative impact on perceptions about the strength and soundness of our business even if we are not subject to the same adverse developments. In addition, adverse developments with respect to third parties with whom we have important relationships also could negatively impact perceptions about us. These perceptions about us could cause our business to be negatively affected and exacerbate the other risks that we face.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate real estate portfolio is used to support our business segments. We own our 587,000 square foot headquarters building in McLean, Virginia which houses our executive offices and northern Virginia staff. We own approximately 316 acres of land in Goochland County, Virginia which contains nearly 1.2 million square feet of office space to house various business and staff groups. Additionally, we own 139 acres of land in Plano, Texas which includes nearly 600,000 square feet of office space to support our Auto Finance business and other functions.

Our Commercial and Consumer Banking segments utilize approximately 3.1 million square feet in owned properties and 3.0 million square feet in leased locations across the District of Columbia, Louisiana, New Jersey, Maryland, New York, Texas and Virginia for office and branch operations.

Our corporate real estate portfolio also includes leased or owned space totaling, in the aggregate, 3.4 million square feet in Richmond, Toronto, Melville, New York City and various other locations.

Item 3. Legal Proceedings

The information required by Item 3 is included in "Note 21—Commitments, Contingencies and Guarantees."

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Market Information

Our common stock is listed on the NYSE and is traded under the symbol "COF." As of January 31, 2012, there were 15,242 holders of record of our common stock. The table below presents the high and low closing sales prices of our common stock as reported by the NYSE and cash dividends per common share declared by us during each quarter indicated.

	Sales Price		Cash
Quarter Ended	High	Low	Dividends
2011:			
December 31	**$47.07**	**$37.75**	**$ 0.05**
September 30	**54.31**	**37.63**	**0.05**
June 30	**56.21**	**47.87**	**0.05**
March 31	**52.76**	**43.68**	**0.05**
2010:			
December 31	$42.78	$36.55	$ 0.05
September 30	45.00	37.12	0.05
June 30	46.73	38.02	0.05
March 31	43.02	34.63	0.05

Dividend Restrictions

For information regarding our ability to pay dividends, see the discussion under "Item 1. Business—Supervision and Regulation—Dividends and Transfers of Funds," "MD&A—Capital Management—Dividend Policy," and "Note 13—Regulatory and Capital Adequacy," which we incorporate herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

Information relating to compensation plans under which our equity securities are authorized for issuance is presented in Part III of this report under "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

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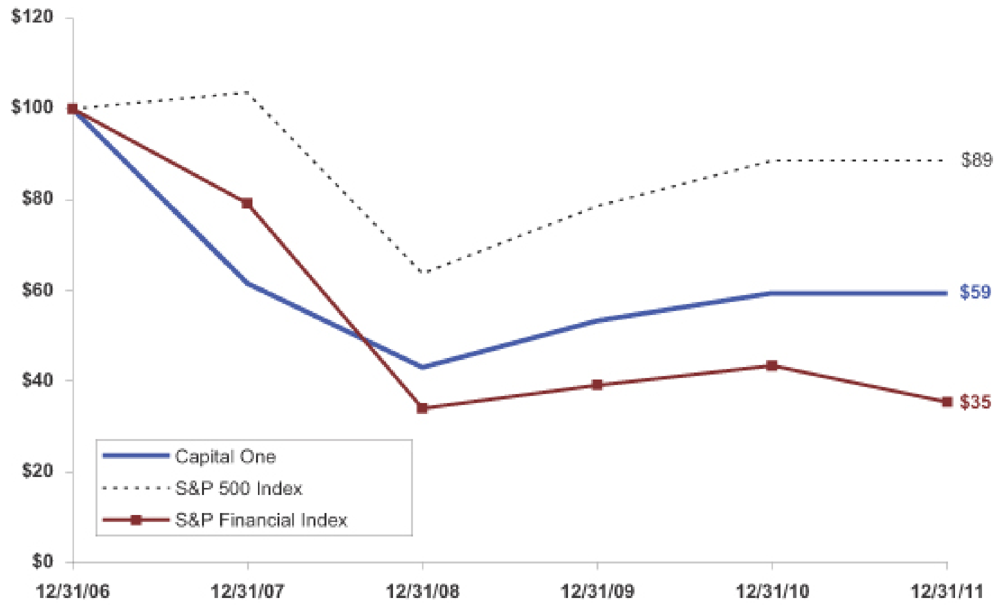
Common Stock Performance Graph

The following graph shows the cumulative total stockholder return on our common stock compared with an overall stock market index, the S&P Composite 500 Stock Index ("S&P 500 Index"), and a published industry index, the S&P Financial Composite Index ("S&P Financial Index"), over the five-year period commencing December 31, 2006, and ending December 31, 2011. The stock performance graph assumes that $100 was invested in our common stock and each index and that all dividends were reinvested. The stock price performance on the graph below is not necessarily indicative of future performance.

Comparison of 5-Year Cumulative Total Return
(Capital One, S&P 500 Index and S&P Financial Index)



	2006	2007	2008	2009	2010	2011
Capital One	$100.00	$ 61.62	$43.02	$53.30	$59.47	$59.35
S&P 500 Index	100.00	103.53	63.69	78.62	88.67	88.67
S&P Financial Index	100.00	79.16	34.08	39.12	43.36	35.38

Recent Sales of Unregistered Securities

We did not have any sales of unregistered equity securities in 2011. On June 16, 2011, we entered into a purchase and sale agreement with the ING Sellers to acquire ING Direct. On February 17, 2012, in connection with the closing of the acquisition, we issued 54,028,086 shares of common stock to ING Bank N.V. as partial consideration for the acquisition in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

The following table presents information related to repurchases of shares of our common stock during the fourth quarter of 2011.

	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
October 1-31, 2011	**22,309**	**$ 45.44**	—	$ —
November 1-30, 2011	**—**	**—**	—	—
December 1-31, 2011	**2,313**	**46.07**	—	—
Total	**24,622**	**$ 45.50**	—	—

(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 6. Selected Financial Data

We prepare our consolidated financial statements using generally accepted accounting principles in the U.S. ("U.S. GAAP"), which we refer to as our reported results. Below we present selected consolidated financial data from our reported results of operations for the five-year period ended December 31, 2011, as well as selected consolidated balance sheet data as of the end of each year within this five-year period. Certain prior period amounts have been reclassified to conform to the current period presentation. The historical financial information presented may not be indicative of our future performance.

Prior to January 1, 2010, we also presented and analyzed our results on a non-GAAP "managed basis." Our managed presentation assumed that securitized loans accounted for as sales and reported as off-balance sheet in accordance with applicable accounting guidance in effect prior to January 1, 2010, remained on balance sheet, and the earnings from the loans underlying these trusts are reported in our results of operations in the same manner as the earnings from loans that we own. While our managed presentation resulted in differences in the classification of revenues in our income statement, net income on a managed basis was the same as reported net income.

Effective January 1, 2010, we prospectively adopted two new accounting standards related to the transfer and servicing of financial assets and consolidations that changed how we account for our securitization trusts. The adoption of these new accounting standards, which we refer to in this Report as "new consolidation accounting standards," resulted in the consolidation of substantially all of our securitization trusts. As a result, our reported and managed based presentations are generally comparable for periods beginning after January 1, 2010. See "MD&A—Supplemental Tables" and "Exhibit 99.1" for additional information on our non-GAAP measures.

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Five-Year Summary of Selected Financial Data

(Dollars in millions, except per share data)	Year Ended December 31, 2011	2010	2009[(1)]	2008	2007	Change 2011 vs. 2010	Change 2010 vs. 2009
Income statement							
Interest income	**$14,987**	$15,353	$10,664	$11,112	$11,078	**(2)%**	44%
Interest expense	**2,246**	2,896	2,967	3,963	4,548	**(22)**	(2)
Net interest income	**12,741**	12,457	7,697	7,149	6,530	**2**	62
Non-interest income	**3,538**	3,714	5,286	6,744	8,054	**(5)**	(30)
Total revenue	**16,279**	16,171	12,983	13,893	14,584	**1**	25
Provision for loan and lease losses	**2,360**	3,907	4,230	5,101	2,636	**(40)**	(8)
Non-interest expense[(2)]	**9,332**	7,934	7,417	8,210	8,078	**18**	7
Income from continuing operations before income taxes	**4,587**	4,330	1,336	582	3,870	**6**	224
Income tax provision	**1,334**	1,280	349	497	1,278	**4**	267
Income from continuing operations, net of tax	**3,253**	3,050	987	85	2,592	**7**	209
Loss from discontinued operations, net of tax[(3)]	**(106)**	(307)	(103)	(131)	(1,022)	**(65)**	198
Net income (loss)	**3,147**	2,743	884	(46)	1,570	**15**	210
Preferred stock dividends, accretion of discount and other[(4)]	**(26)**	—	(564)	(33)	—	**100**	(100)
Net income (loss) available to common stockholders	**$ 3,121**	$ 2,743	$ 320	$ (79)	$ 1,570	**15%**	757%
Common share statistics							
Basic earnings per common share:							
Income from continuing operations, net of tax	**$ 7.08**	$ 6.74	$ 0.99	$ 0.14	$ 6.64	**5%**	581%
Loss from discontinued operations, net of tax[(3)]	**(0.23)**	(0.67)	(0.24)	(0.35)	(2.62)	**66**	179
Net income (loss) per common share	**$ 6.85**	$ 6.07	$ 0.75	$ (0.21)	$ 4.02	**13%**	709%
Diluted earnings per common share:							
Income from continuing operations, net of tax	**$ 7.03**	$ 6.68	$ 0.98	$ 0.14	$ 6.55	**5%**	582%
Loss from discontinued operations, net of tax[(3)]	**(0.23)**	(0.67)	(0.24)	(0.35)	(2.58)	**(66)**	179
Net income (loss) per common share	**$ 6.80**	$ 6.01	$ 0.74	$ (0.21)	$ 3.97	**13%**	712%
Dividends per common share	**$ 0.20**	$ 0.20	$ 0.53	$ 1.50	$ 0.11	**— %**	(62)%
Common dividend payout ratio	**2.92%**	3.32%	66.80%	722.06%	2.68%	**(40)bps**	6,348bps
Stock price per common share at period end	**$ 42.29**	$ 42.56	$ 38.34	$ 31.89	$ 47.26	**(1)%**	11%
Book value per common share at period end	**64.51**	58.62	59.04	68.38	65.18	**10**	(1)
Total market capitalization at period end	**19,301**	19,271	17,268	12,412	17,623	**	12

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	Year Ended December 31,					Change	
	2011	2010	2009(1)	2008	2007	2011 vs. 2010	2010 vs. 2009
Average balances							
Loans held for investment	**$128,424**	$128,526	$ 99,787	$ 98,971	$ 93,542	****%**	29%
Interest-earning assets	**175,341**	175,741	145,310	133,084	121,420	******	21
Total assets	**199,718**	200,114	171,598	156,292	148,983	******	17
Interest-bearing deposits	**109,644**	104,743	103,078	82,736	73,765	**5**	2
Total deposits	**126,694**	119,010	115,601	93,508	85,212	**6**	3
Borrowings	**38,022**	49,620	23,522	31,096	30,102	**(23)**	111
Stockholders' equity	**28,579**	24,941	26,606	25,278	25,203	**15**	(6)
Performance metrics							
Purchase volume(5)	**$135,120**	$106,912	$102,068	$113,835	$115,181	**26%**	5%
Revenue margin(6)	**9.28%**	9.20%	8.94%	10.44%	12.01%	**8bps**	26bps
Net interest margin(7)	**7.27**	7.09	5.30	5.38	5.38	**18**	179
Net charge-off rate(8)	**2.94**	5.18	4.58	3.51	2.10	**(224)**	60
Return on average assets(9)	**1.63**	1.52	0.58	0.05	1.74	**11**	94
Return on average total stockholders' equity(10)	**11.38**	12.23	3.71	0.34	10.28	**(85)**	852
Non-interest expense as a % of average loans held for investment(11)	**7.27**	6.17	7.43	8.30	8.64	**110**	(126)
Efficiency ratio(12)	**57.33**	49.06	56.21	52.29	54.44	**827**	(715)
Effective income tax rate	**29.08**	29.56	26.16	85.47	33.02	**(48)**	340
Full-time equivalent employees (in thousands), period end	**30.5**	25.7	25.9	23.7	27.0	**19%**	(1)%

	December 31,					Change	
	2011	2010	2009(1)	2008	2007	2011 vs. 2010	2010 vs. 2009
Balance sheet							
Loans held for investment	**$135,892**	$125,947	$ 90,619	$101,018	$101,805	**8%**	39%
Interest-earning assets	**179,817**	172,024	139,724	141,386	128,725	**5**	23
Total assets	**206,019**	197,503	169,646	165,913	150,590	**4**	16
Interest-bearing deposits	**109,945**	107,162	102,370	97,327	71,715	**3**	5
Total deposits	**128,226**	122,210	115,809	108,621	82,761	**5**	6
Borrowings	**39,561**	41,796	21,014	23,178	37,526	**(5)**	99
Stockholders' equity	**29,666**	26,541	26,590	26,612	24,294	**12**	**
Credit quality metrics							
Period-end loans held for investment	**$135,892**	$125,947	$ 90,619	$101,018	$101,805	**8%**	39%
Allowance for loan and lease losses	**4,250**	5,628	4,127	4,524	2,963	**(24)**	36
Allowance as a % of loans held for investment	**3.13%**	4.47%	4.55%	4.48%	2.91%	**(134)bps**	(8)bps
30+ day performing delinquency rate	**3.35**	3.52	3.98	4.21	3.50	**(17)**	(46)
Capital ratios							
Tier 1 common equity ratio(13)	**9.7%**	8.8%	10.6%	12.5%	8.8%	**90bps**	(180)bps
Tier 1 risk-based capital ratio(14)	**12.0**	11.6	13.8	13.8	10.1	**40**	(220)
Total risk-based capital ratio(15)	**14.9**	16.8	17.7	16.7	13.1	**(190)**	(90)
Tangible common equity ("TCE") ratio(16)	**8.2**	6.9	8.0	5.6	5.8	**130**	(110)

	December 31,					Change	
	2011	2010	2009[1]	2008	2007	2011 vs. 2010	2010 vs. 2009
Managed metrics[17]							
Average loans held for investment	**$128,424**	$128,622	$143,514	$147,812	$144,727	****%**	(10)%
Average interest-earning assets	**175,341**	175,815	185,976	179,348	170,496	******	(5)
Period-end loans:							
Period-end on-balance sheet loans held for investment	**$135,892**	$125,947	$ 90,619	$101,018	$101,805	**8**	39
Period-end off-balance sheet securitized loans	—	—	46,184	45,919	49,557	**—**	(100)
Total period-end managed loans	**$135,892**	$125,947	$136,803	$146,937	$151,362	**8**	(8)
Period-end total loan accounts (in millions)	**70.0**	37.4	37.8	45.4	49.1	**87**	(1)
30+ day performing delinquency rate	**3.35%**	3.52%	4.62%	4.38%	3.77%	**(17)bps**	(110)bps
Net charge-off rate	**2.94**	5.18	5.87	4.35	2.88	**(224)**	(69)
Non-interest expense as a % of average loans held for investment[11]	**7.27**	6.17	5.17	5.01	5.58	**110**	100
Efficiency ratio	**57.33**	49.06	43.35	43.14	47.30	**827**	571

** Change is less than one percent.

(1) Effective February 27, 2009, we acquired Chevy Chase Bank. Our financial results subsequent to February 27, 2009 include the operations of Chevy Chase Bank. While our 2011 and 2010 results include the full year impact of the Chevy Chase Bank acquisition, our 2009 results include only a partial year impact.

(2) Non-interest expense for 2008 includes goodwill impairment of $811 million related to the Auto Finance division of our Consumer Banking business.

(3) Discontinued operations reflect ongoing costs related to the mortgage origination operations of GreenPoint's wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. ("Greenpoint"), which we closed in 2007.

(4) Preferred stock dividends in 2009 and 2008 were attributable to our participation in the U.S. Department of Treasury's Troubled Asset Relief Program ("TARP"). See "Note 12—Stockholders' Equity" for additional information.

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

(6) Calculated based on total revenue for the period divided by average interest-earning assets for the period.

(7) Calculated based on net interest income for the period divided by average interest-earning assets for the period.

(8) Calculated based on net charge-offs for the period divided by average loans held for investment for the period. Average loans held for investment include purchased credit-impaired loans acquired as part of the Chevy Chase Bank acquisition

(9) Calculated based on income from continuing operations, net of tax, for the period divided by average total assets for the period.

(10) Calculated based on income from continuing operations, net of tax, for the period divided by average stockholders' equity for the period.

(11) Calculated based on non-interest expense, excluding restructuring and goodwill impairment charges, for the period divided by average loans held for investment for the period.

(12) Calculated based on non-interest expense, excluding restructuring and goodwill impairment charges, for the period divided by total revenue for the period.

(13) Tier 1 common equity ratio is a non-GAAP measure calculated based on Tier 1 common equity divided by risk-weighted assets. See "MD&A—Capital Management" and "MD&A—Supplemental Tables—Table F: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures" for `additional information, including the calculation of this ratio.

(14) Tier 1 risk-based capital ratio is a regulatory measure calculated based on Tier 1 capital divided by risk-weighted assets. See "MD&A—Capital Management" and "MD&A—Supplemental Tables—Table F: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures" for additional information, including the calculation of this ratio.

(15) Total risk-based capital ratio is a regulatory measure calculated based on total risk-based capital divided by risk-weighted assets. See "MD&A—Capital Management" and "MD&A—Supplemental Tables—Table F: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures" for additional information, including the calculation of this ratio.

(16) Tangible common equity ratio ("TCE ratio") is a non-GAAP measure calculated based on tangible common equity divided by tangible assets. See "MD&A—Supplemental Tables—Table F: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures" for the calculation of this measure and reconciliation to the comparative GAAP measure.

(17) See "MD&A—Supplemental Tables" in this report and Exhibit 99.1 for a reconciliation of non-GAAP managed measures to comparable U.S. GAAP measures.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")

This MD&A should be read in conjunction with our audited consolidated financial statements as of December 31, 2011 and related notes. This discussion contains forward-looking statements that are based upon management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Item 1. Business—Forward-Looking Statements" for more information on the forward-looking statements in this report. Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in this report in "Item 1A. Risk Factors."

INTRODUCTION

We are a diversified financial services holding company with banking and non-banking subsidiaries that offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. We continue to deliver on our strategy of combining the power of national scale lending and local scale banking.

We had $135.9 billion in total loans outstanding and $128.2 billion in deposits as of December 31, 2011, compared with $125.9 billion in total loans outstanding and $122.2 billion in deposits as of December 31, 2010.

Our revenues are primarily driven by lending to consumers and commercial customers and by deposit-taking activities, which generate net interest income, and by activities that generate non-interest income, such as fee-based services provided to customers, merchant interchange fees with respect to certain credit card transactions, gains and losses and fees associated with the sale and servicing of loans. Our expenses primarily consist of the cost of funding our assets, our provision for loan and lease losses, operating expenses (including associate salaries and benefits, infrastructure maintenance and enhancements and branch operations and expansion costs), marketing expenses and income taxes. We expect expenses associated with the integration of the ING Direct and the pending acquisition of the HSBC U.S. credit card business to represent a significant portion of our expenses in 2012.

Our principal operations are currently organized, for management reporting purposes, 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. The operations of acquired businesses have been integrated into our existing business segments. Certain activities that are not part of a segment are included in our "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 auto 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.

Table 1 summarizes our business segment results, which we report based on income from continuing operations, net of tax, for 2011, 2010 and 2009. We provide a reconciliation of our total business segment results to our consolidated results using U.S. GAAP in "Note 20—Business Segments" of this Report.

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Table 1: Business Segment Results

	Year Ended December 31,											
	2011				2010				2009			
	Total Revenue[1]		Net Income (Loss)[2]		Total Revenue[1]		Net Income (Loss)[2]		Total Revenue[1]		Net Income (Loss)[2]	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	**$10,431**	**64%**	**$2,277**	**70%**	$10,614	66%	$2,274	75%	$11,289	67%	$ 978	99%
Consumer Banking	**4,956**	**31**	**809**	**25**	4,597	28	905	30	3,986	24	244	25
Commercial Banking	**1,647**	**10**	**532**	**16**	1,473	9	160	5	1,316	8	(213)	(22)
Other[3]	**(755)**	**(5)**	**(365)**	**(11)**	(507)	(3)	(289)	(10)	245	1	(22)	(2)
Total from continuing operations	**$16,279**	**100%**	**$3,253**	**100%**	$16,177	100%	$3,050	100%	$16,836	100%	$ 987	100%

(1) Total revenue consists of net interest income and non-interest income. Total revenue displayed for 2009 is based on our non-GAAP managed basis results. For a reconciliation of this non-GAAP measure to the comparable U.S. GAAP measure, see Exhibit 99.1.

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

(3) Includes the residual impact of the allocation of our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management, to our business segments as well as other items as described in "Note 20—Business Segments."

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

We continued to operate in an environment of elevated economic and regulatory uncertainty during 2011. The overall economic recovery remained modest and fragile. The unemployment rate remained persistently high and the housing market continued to struggle, due in part to the large backlog of homes in the foreclosure process and high rate of delinquent loans. The ongoing and expected development of new regulations and regulatory organizations resulting from the Dodd-Frank Act contributed to continued regulatory uncertainty. Despite the challenges presented by these conditions, we experienced loan growth and stabilization in credit performance during 2011.

Financial Highlights

We reported net income of $3.1 billion ($6.80 per diluted share) in 2011, with each of our three business segments contributing to our earnings. In comparison, we reported net income of $2.7 billion ($6.01 per diluted share) in 2010.

Our capital levels continued to increase during 2011, with total stockholders' equity up $3.1 billion from year-end 2010. Our Tier 1 risk-based capital ratio under Basel I was 12.0% as of December 31, 2011, up 40 basis points from December 31, 2010, and our Tier 1 common equity ratio, a non-GAAP measure, was 9.7% as of December 31, 2011, up 90 basis points from the prior year period, reflecting strong internal capital generation as well as the continued decline in the amount of disallowed deferred tax assets. Our stockholders' equity and capital ratios as of December 31, 2011 do not reflect any impact from the equity forward sale agreements executed in July 2011 referenced below, as they had not been settled in whole or in part as of that date. We present the calculation of our regulatory capital ratios and a reconciliation of our supplemental non-GAAP capital measures below under "MD&A—Supplemental Tables."

In 2011, we acquired HBC's existing $1.4 billion credit card loan portfolio and Kohl's existing $3.7 billion private-label credit card loan portfolio. In June 2011, we entered into a definitive agreement with the ING Sellers to acquire ING Direct and closed the acquisition on February 17, 2012. In addition, in August 2011 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 for an estimated cash premium of $2.6 billion as of June 30, 2011. We provide additional information on the ING Direct and HSBC acquisitions below.

We took several actions during the year to manage the anticipated impact of the ING Direct acquisition on our market risk exposure and regulatory capital requirements. From the date we entered into the agreement to acquire ING Direct to early August 2011, interest rates declined substantially, which resulted in an increase in the estimated fair value of the ING Direct net assets and liabilities. In order to capture some of the anticipated benefits to regulatory capital on the closing date attributable to this decline in interest rates, in early August 2011, we entered into various interest-rate swap transactions with a total notional principal amount of approximately $23.8 billion. We subsequently rebalanced the hedge in October 2011 adding an additional $1 billion in notional principal for a total combined notional principal amount of approximately $24.8 billion. These combined swap transactions were intended 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 early 2012. Although the interest-rate swaps represented economic hedges, they were not designated for hedge accounting under U.S. GAAP. Therefore, we recorded changes in the fair value of these interest-rate swaps in earnings. In 2011, we recorded a mark-to-market loss of $277 million related to these interest-rate swaps, which was attributable to the decline in interest rates. This $277 million loss was largely offset by a gain of $259 million related to the sale of approximately $9.2 billion of investment securities, consisting predominantly of agency mortgage-backed securities ("MBS"). In conjunction with the acquisition of ING Direct on February 17, 2012, we terminated the $24.8 billion in interest-rate swaps related to the acquisition. At termination, the fair value of the swaps was a net loss of $355 million. Based on current estimates, we believe the interest-rate swaps related to the acquisition were effective in meeting our hedging objective. For additional information, see "Market Risk Profile" and "Note 11—Derivative Instruments and Hedging Activities."

Below are additional highlights of our performance for 2011. These highlights generally are based on a comparison between our 2011 and 2010 results. The changes in our financial condition and credit performance are generally based on our financial condition and credit performance as of December 31, 2011, compared with our financial condition and credit performance as of December 31, 2010. We provide a more detailed discussion of our financial performance in the sections following this "Executive Summary and Business Outlook."

Total Company

- *Earnings:* Our earnings of $3.1 billion in 2011 increased by $404 million, or 15%, from 2010. The increase in net income was primarily attributable to significantly lower credit costs due to improvements in loan credit quality. The increase in net income for 2011 also reflected a substantial reduction in the provision for mortgage repurchase losses for legacy mortgage-related representation and warranty claims. These factors were partially offset by higher operating expenses primarily due to continued investment in growing our businesses, accelerating the building of our infrastructure and increased marketing expenditures.
- *Total Loans:* Period-end loans held for investment increased by $10.0 billion, or 8%, in 2011, to $135.9 billion as of December 31, 2011, from $125.9 billion as of December 31, 2010. The increase was primarily attributable to growth in our Credit Card, Commercial Banking, and Auto Finance businesses, which included the additions of the $1.4 billion HBC credit card loan portfolio in the first quarter of 2011 and the $3.7 billion Kohl's private-label credit card loan portfolio in the second quarter of 2011. Excluding the impact of the additions of the HBC and Kohl's credit card loan portfolios, total loans increased by $4.9 billion, or 4%, in 2011, due to strong purchase volume growth across the Domestic Card business, a significant increase in auto loan originations and steady loan growth in our Commercial Banking business. The impact from these factors was partially offset by the continued expected run-off of installment loans in our Credit Card business and legacy home loans in our Consumer Banking business, other loan paydowns and charge-offs.
- *Charge-off and Delinquency Statistics:* Our net charge-off rate declined by 224 basis points to 2.94% in 2011, from 5.18% in 2010. The 30+ day delinquency rate also declined during the year to 3.95% as of December 31, 2011, from 4.23% as of December 31, 2010. The improvement in overall credit trends reflected the impact from strong underlying credit performance and tighter underwriting standards.
- *Allowance for Loan and Lease Losses:* We reduced our allowance by $1.4 billion in 2011 to $4.3 billion as of December 31, 2011. In comparison, after taking into consideration the allowance build resulting from the January 1, 2010 adoption of the new consolidation accounting standards, we reduced our allowance by $2.8 billion in 2010. The significant reduction in the allowance release in 2011 from the allowance release in 2010 reflected the impact of stabilizing credit trends in 2011. While our net-charge off rate improved by 224 basis points in 2011 from 2010, the allowance coverage ratio decreased by only 134 basis points to 3.13% as of December 31, 2011, from 4.47% as of December 31, 2010.
- *Representation and Warranty Reserve:* Our representation and warranty reserve totaled $943 million as of December 31, 2011, compared with $816 million as of December 31, 2010. This reserve, which relates to our mortgage loan repurchase exposure for legacy mortgage loans sold by our subsidiaries to various parties under contractual provisions that include various representations and warranties, reflects losses as of each balance sheet date that we consider to be both probable and reasonably estimable. We recorded a provision for this exposure of $212 million in 2011, compared with a provision of $636 million in 2010.

Business Segments

- *Credit Card:* Our Credit Card business generated net income from continuing operations of $2.3 billion in 2011, the same level as net income from continuing operations in 2010. Our Credit Card business results for

2011 reflected the benefit from improved credit performance, which resulted in a significant decrease in the provision for loan and lease losses. The provision decrease, however, was offset by an increase in non-interest expense attributable to increased operating and integration costs related to the acquisitions of the credit card loan portfolios of Sony, HBC and Kohl's and increased marketing expenditures. New account originations have continued to grow in our Credit Card business, due in part to these acquisitions.

- *Consumer Banking:* Our Consumer Banking business generated net income from continuing operations of $809 million in 2011, compared with net income from continuing operations of $905 million in 2010. The decrease in net income for 2011 reflected the impact of the absence of a one-time pre-tax gain of $128 million recorded in the first quarter of 2010 from the deconsolidation of certain option-adjustable rate mortgage trusts and an increase in the provision for loan and lease losses primarily attributable to growth in auto loans. These factors were partially offset by an increase in total revenue resulting from a shift in our loan product mix toward higher priced auto loans, coupled with lower cost deposit growth through our retail banking branches. Strong growth in auto loan originations during 2011 more than offset a continued run-off in legacy home loans.
- *Commercial Banking:* Our Commercial Banking business generated net income from continuing operations of $532 million in 2011, compared with net income from continuing operations of $160 million in 2010. The improvement in results for our Commercial Banking business reflected an increase in revenues, a modest decrease in non-interest expense and a decrease in the provision for loan and lease losses due to the improvement in credit quality. As a result of the improvement in credit quality, we reduced the allowance for loan and lease losses for our Commercial Banking business by $146 million during 2011 to $711 million as of December 31, 2011. We continued to experience steady loan and deposit growth in our Commercial Banking business.

Business Environment and Significant Recent Developments

Recent Business and Regulatory Developments

The challenging economic environment continued through 2011 due to concerns about the U.S. debt ceiling and subsequent downgrade of the U.S. debt, the continued elevated U.S. unemployment rate and the European debt crisis. These concerns resulted in increased economic uncertainty and market volatility. We believe actions we took in underwriting and managing our business through the recession, including focusing on our most resilient businesses, have continued to drive our strong credit performance. As a result, we believe our internal portfolio credit metrics remain strong, and expect normal seasonality to re-emerge after a long period of cyclical improvement in 2011. We provide more information on recent regulatory developments in "Supervision and Regulation" in "Item 1. Business" of this Report.

Acquisition-Related Developments

ING Direct

We completed the acquisition of ING Direct on February 17, 2012. The aggregate consideration paid was 54,028,086 shares of common stock and approximately $6.3 billion in cash. The ING Direct acquisition consists of assets, which include cash and cash equivalents, investment securities and loans with a total estimated fair value of $92.2 billion as of December 31, 2011 and deposits of approximately $83.0 billion as of December 31, 2011.

Equity and Debt Offerings

On July 19, 2011, we closed a public offering of 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.

On February 16, 2012, we settled forward sale agreements that we entered into with certain counterparties acting as forward purchasers in connection with a public offering of shares of our common stock on July 19, 2011. Pursuant to the forward sale agreements, we issued 40 million shares of our common stock. After underwriter's discounts and commissions, the net proceeds to the company were at a forward sale price per share of $48.17 for a total of approximately $1.9 billion.

We used the net proceeds of these offerings, along with cash sourced from current liquidity, to fund the $6.3 billion in cash consideration paid in connection with the ING Direct acquisition.

HSBC Acquisition— U.S. Credit Card Business

In August 2011, 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).

Business Outlook

We discuss below our current expectations regarding our total company performance and the performance of each of our business segments over the near-term based on market conditions, the regulatory environment and our business strategies as of the time we filed this Annual Report on Form 10-K. The statements contained in this section are based on our current expectations regarding our outlook for our financial results and business strategies. Our expectations take into account, and should be read in conjunction with, our expectations regarding economic trends and analysis of our business as discussed in "Item 1. Business" and "MD&A" of this report. Certain statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those in our forward-looking statements. Forward-looking statements do not reflect (i) any change in current dividend or repurchase strategies, (ii) the effect of any acquisitions, divestitures or similar transactions, except for the forward-looking statements specifically discussing the ING Direct acquisition or the pending acquisition of HSBC's U.S. credit card business, or (iii) any changes in laws, regulations or regulatory interpretations, in each case after the date as of which such statements are made. See "Forward-Looking Statements" in "Item 1. Business" of this report for factors that could materially influence our results.

Total Company Expectations

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

We believe our actions have created a well-positioned balance sheet and capital and liquidity levels which have provided us with investment flexibility to take advantage of attractive opportunities and adjust, where we believe appropriate, to changing market conditions. Our existing loan portfolio returned to growth in the second half of 2011, reflecting seasonal consumer spending trends and increasing balances in our private-label partnerships. We expect loan balances to increase in 2012 with the addition of the ING Direct and HSBC loan portfolios. The timing and pace of expected loan growth, excluding growth from acquired loans, will depend on broader economic trends that impact overall consumer and commercial demand.

The growth in non-interest expenses in the 2011, which was more pronounced in the fourth quarter of 2011, was primarily due to the continued investment in growing our businesses and building our infrastructure. In 2012, we expect that operating expenses will increase significantly as a result of integration and direct operating costs associated with the acquisition of ING Direct and the pending acquisition of HSBC's U.S. credit card business. We believe our marketing investments in 2011 were in equilibrium with current market opportunities. We expect that any changes in marketing expenditures in 2012 would be driven by changes in the level and attractiveness of market opportunities.

As noted above, we closed the acquisition of ING Direct in the first quarter of 2012 and expect to close the acquisition of the U.S. credit card business of HSBC in the second quarter of 2012. We expect these acquisitions will have a material impact on our reported results of operations and financial condition. While we continue to expect that the combined acquisitions will deliver compelling financial performance and strategic benefit in 2013 and beyond, we anticipate a potentially significant negative impact from the acquisitions to our 2012 earnings per share. The expected negative impact will result from, among other things, the impact to common shares outstanding resulting from our settlement of the equity forward sale agreements and the issuance of common stock to the ING Sellers in the first quarter of 2012 as well as an additional planned equity issuance of approximately $1.25 billion discussed below under "Capital Management—Pending HSBC U.S. Credit Card Business Acquisition," integration and other merger related expenses, purchase accounting impacts and provision for loan losses as we build allowance for acquired current revolving credit accounts. Purchase accounting impacts include, for example, amortization of acquired intangible assets (such as core deposit intangibles, purchased credit card relationships and contract intangibles) and the amortization of fair value marks.

Business Segment Expectations

Credit Card Business

In Domestic Card, we returned to modest growth with expected seasonal patterns in the second half of 2011. New account growth is a leading indicator of future growth in loans and revenues as spending and balances build on these accounts over time. Because of the strong growth trends in purchase volumes and new accounts, we expect that our Domestic Card business will continue to post strong returns in 2012, with modest underlying growth reflecting seasonal patterns. We expect to add significant new customer relationships and loan portfolios with the acquisition of the HSBC U.S. credit card business, which we expect to close in the second quarter of 2012. After this initial increase in loan volumes, the HSBC U.S. credit card business acquisition may diminish our Domestic Card growth trajectory due to the expected run-off of portions of the HSBC credit card portfolio.

Consumer Banking Business

In our Consumer Banking business, we expect the strong 2011 trajectory in loans and revenues will continue in our Auto Finance business in 2012. We also believe we have reached a cyclical low point for Auto Finance charge-offs, and that seasonal patterns will drive quarterly credit trends in 2012. Our Retail Banking business added significant new customer relationships, loans and deposits with the acquisition of ING Direct, and we expect the acquisition will have a significant impact on Consumer Banking loan and deposit growth trajectories. We expect that the growth in auto loans will be more than offset by a sizeable run-off of the ING Direct home loan portfolio and the continuing run-off of our legacy home loan portfolio, which will drive a declining trend in Consumer Banking loan volumes.

Commercial Banking Business

Our Commercial Banking business continues to grow loans, deposits, and revenues as we attract new customers and deepen relationships with existing customers. Commercial Banking credit metrics improved and stabilized in 2011. Although we anticipate some quarterly fluctuations in nonperforming loan and charge-off rates, we expect our Commercial Banking business to continue the strong and steady performance trends it delivered throughout 2011.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

- Loan loss reserves
- Representation and warranty reserve
- Asset impairment
- Fair value
- Derivative and hedge accounting
- Income taxes

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them as necessary based on changing conditions. Management has reviewed and approved these critical accounting policies and has discussed these policies with the Audit and Risk Committee of the Board of Directors.

Loan Loss Reserves

We maintain an allowance for loan and lease losses that represents management's estimate of incurred credit losses inherent in our held-for investment loan portfolio as of each balance sheet date. We maintain a separate reserve for the uncollectible portion of billed finance charges and fees on credit card loans.

Allowance for Loan and Lease Losses

We have an established process, using analytical tools, benchmarks and management judgment, to determine our allowance for loan and lease losses. We calculate the allowance for loan and lease losses by estimating incurred losses for segments of our loan portfolio with similar risk characteristics. The allowance totaled $4.3 billion as of December 31, 2011, compared with $5.6 billion as of December 31, 2010.

We generally review and assess our allowance methodologies and adequacy of the allowance for loan and lease losses on a quarterly basis. Our assessment involves evaluating many factors including, but not limited to, historical loss and recovery experience, recent trends in delinquencies and charge-offs, risk ratings, the impact of bankruptcy filings, the value of collateral underlying secured loans, account seasoning, changes in our credit evaluation, underwriting and collection management policies, seasonality, general economic conditions, changes in the legal and regulatory environment and uncertainties in forecasting and modeling techniques used in estimating our allowance for loan and lease losses. Key factors that have a significant impact on our allowance for loan and lease losses include assumptions about unemployment rates, home prices, and the valuation of commercial properties, consumer real estate, and autos.

Although we examine a variety of externally available data, as well as our internal loan performance data, to determine our allowance for loan and lease losses, our estimation process is subject to risks and uncertainties, including a reliance on historical loss and trend information that may not be representative of current conditions and indicative of future performance. Accordingly, our actual credit loss experience may not be in line with our expectations. For example, as a result of improving credit performance trends during 2011 and 2010, charge-offs began to decrease and we recorded significant allowance releases of $1.4 billion in 2011 and $2.8 billion in 2010. We provide additional information on the methodologies and key assumptions used in determining our allowance for loan and lease losses for each of our loan portfolio segments in “Note 1—Summary of Significant Accounting Policies.” We provide information on the components of our allowance, disaggregated by impairment methodology, and changes in our allowance in “Note 6—Allowance for Loan and Lease Losses.”

Finance Charge and Fee Reserve

We recognize finance charges and fees on credit card loans as revenue when the amounts are billed to the customer and include these amounts in the loan balance, net of the estimated uncollectible amount of finance charges and fees. We continue to accrue finance charges and fees on credit card loans until the account is charged-off; however, when we do not expect full payment of billed finance charges and fees, we reduce the balance of our credit card loan receivables by the amount of finance charges billed but not expected to be collected and exclude this amount from revenue. Revenue was reduced by $371 million, $950 million and $2.1 billion in 2011, 2010 and 2009, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled $74 million as of December 31, 2011, compared with $211 million as of December 31, 2010.

Our methodology for estimating the uncollectible portion of billed finance charges and fees is consistent with the methodology we use to estimate the allowance for incurred principal losses on our credit card loan receivables. Accordingly, the estimation process is subject to similar risks and uncertainties, including a reliance on historical loss and trend information that may not be representative of current conditions and indicative of future performance. Changes in key assumptions may have a material impact on the amount of billed finance charges and fees we estimate as uncollectible in each period.

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

Representation and Warranty Reserve

In connection with their sales of mortgage loans, certain 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. We may be required to repurchase the mortgage loan, indemnify the investor or insurer, or reimburse the investor for credit losses incurred on the loan in the event of a material breach of contractual representations or warranties.

We have established representation and warranty reserves for losses that we consider to be both probable and reasonably estimable associated with the mortgage loans sold by each subsidiary, including both litigation and non-litigation liabilities. The reserve-setting process relies heavily on estimates, which are inherently uncertain, and requires the application of judgment. In establishing the representation and warranty reserves, we consider a variety of factors, depending on the category of purchaser and rely on historical data. We evaluate these estimates on a quarterly basis.

During 2010, we made significant refinements to our process for estimating our representation and warranty reserve, due primarily to increased counterparty activity and our ability to extend the timeframe, in most instances, over which we estimate the repurchase liability for mortgage loans sold by our subsidiaries to GSEs and those mortgage loans placed into Active Insured Securitizations to the full life of the mortgage loans. Prior to the second quarter of 2010, we generally estimated the amount of probable repurchase requests to be received over the next 12 months. As a result of these refinements, we recorded a substantial increase in our representation and warranty repurchase reserve in the first and second quarters of 2010. Approximately $407 million of the provision for representation and warranty reserves of $636 million recorded in 2010 resulted from the extension of our repurchase liability estimates to the full life of the loan effective in the second quarter of 2010. The remaining $229 million related primarily to changing counterparty activity in the form of updated estimates around active and probable litigation, most of which occurred in the first quarter of 2010.

Our aggregate representation and warranty mortgage repurchase reserves, which we report as a component of other liabilities in our consolidated balance sheets, totaled $943 million as of December 31, 2011, compared with $816 million as of December 31, 2010. The adequacy of the reserves and the ultimate amount of losses incurred by us or one of our subsidiaries will depend on, among other things, actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rates of claimants, developments in litigation, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices). See “Consolidated Balance Sheet Analysis—Potential Mortgage Representation & Warranty Liabilities” below and “Note 21—Commitments, Contingencies and Guarantees” for additional information.

Asset Impairment

We review other assets for impairment on a regular basis. This process requires significant management judgment and involves various estimates and assumptions. Our investment securities and goodwill and intangible assets represent a significant portion of our other assets. Accordingly, below we describe our process for assessing impairment of these assets and the key estimates and assumptions involved in this process.

Investment Securities

We regularly review investment securities for other-than-temporary impairment using both quantitative and qualitative criteria. If we intend to sell a security in an unrealized loss position or it is more likely than not we will be required to sell a security before its anticipated recovery, the entire difference between the amortized cost basis of the security and its fair value is recognized in earnings. If we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of our amortized cost, we evaluate other qualitative criteria to determine whether a credit loss exists. Our evaluation requires significant management judgment and a consideration of many factors, including, but not limited to, the extent and duration of the impairment; the health of and specific prospects for the issuer, including whether the issuer has failed to make scheduled interest or principal payments; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings; the value of underlying collateral and current market conditions. Quantitative criteria include assessing whether there has been an adverse change in expected future cash flows. For equity securities, our evaluation criteria include the length of time and magnitude of the amount that each security is in an unrealized loss position. See “Note 4—Investment Securities” for additional information.

Goodwill and Other Intangible Assets

As a result of our acquisitions, principally Hibernia Corporation in 2005, North Fork Bancorporation in 2006, and Chevy Chase Bank in 2009, we have goodwill and other intangible assets. Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. We had goodwill of $13.6 billion recorded on our consolidated balance sheets as of December 31, 2011 and 2010, respectively. Other intangible assets consist primarily of core deposit intangibles. Other intangible assets, which we report on our consolidated balance sheets as a component of other assets, totaled $610 million and $733 million as of December 31, 2011 and 2010, respectively. Goodwill and other intangible assets together represented 7% of our total assets as of December 31, 2011 and 2010.

Goodwill is not amortized but must be allocated to reporting units and tested for impairment on an annual basis or in interim periods if events or circumstances indicate potential impairment. A reporting unit is a business segment or one level below. Our reporting units for purposes of goodwill impairment testing are Domestic Card, International Card, Auto Finance, other Consumer Banking and Commercial Banking. We perform our annual goodwill impairment test for all reporting units as of October 1 each year using a two-step process. First, we compare the fair value of each reporting unit to its current carrying amount, including goodwill. If the fair value of the reporting unit is in excess of the carrying value, the related goodwill is considered not to be impaired and no further analysis is necessary. If, however, the carrying value of the reporting unit exceeds the fair value, there is an indication of potential impairment and a second step of testing is performed to measure the amount of impairment, if any, for that reporting unit.

Estimating the fair value of reporting units and the assets, liabilities and intangible assets of a reporting unit is a subjective process that involves the use of estimates and judgments, particularly related to cash flows, the appropriate discount rates and an applicable control premium. Management judgment is required to assess whether the carrying value of the reporting unit can be supported by the fair value of the individual reporting unit. There are widely accepted valuation methodologies, such as the market approach (earnings multiples and/or transaction multiples) and/or discounted cash flow methods, that are used to estimate the fair value of reporting units. In applying these methodologies, we utilize a number of factors, including actual operating results, future business plans, economic projections, and market data. We also may engage an independent valuation specialist to assist in our valuation process.

In estimating the fair value of the reporting units in step one of the goodwill impairment analyses, fair values can be sensitive to changes in the projected cash flows and assumptions. In some instances, minor changes in the assumptions could impact whether the fair value of a reporting unit is greater than its carrying amount. Furthermore, a prolonged decrease or increase in a particular assumption could eventually lead to the fair value of a reporting unit being less than its carrying amount. Also, to the extent step two of the goodwill analyses is required, changes in the estimated fair values of individual assets and liabilities may impact other estimates of fair value for assets or liabilities and result in a different amount of implied goodwill, and ultimately the amount of goodwill impairment, if any.

In conducting our goodwill impairment test for 2011, we determined the fair value of our reporting units using a discounted cash flow analysis, a form of the income approach. Our discounted cash flow analysis required management to make judgments about future loan and deposit growth, revenue growth, credit losses, and capital rates. We relied on each reporting unit’s internal cash flow forecast and calculated a terminal value using a growth rate that reflected the nominal growth rate of the economy as a whole and appropriate discount rates for the respective reporting units. We adjusted cash flows as necessary to maintain each reporting unit’s equity capital requirements. The cash flows were discounted to present value using reporting unit specific discount rates that were largely based on our external cost of equity, adjusted for risks inherent in each reporting unit. We corroborated the key inputs used in our discounted cash flow analysis with market data, where available, to validate that our assumptions were within a reasonable range of observable market data.

Based on the results of step one of our 2011 goodwill impairment test, we determined that the fair value of each of our reporting units, including goodwill, significantly exceeded the carrying value for each reporting unit. Fair value as a percentage of carrying value for our five reporting units ranged from 118% to 243%, with the

International reporting unit being at the low end of this range. As such, none of our reporting units was at risk of failing step one of the impairment test. Accordingly, the goodwill for each of our reporting units was considered not impaired. Therefore, the second step of impairment testing was not required.

As part of the annual goodwill impairment test, we assessed our market capitalization based on the average market price relative to the aggregate fair value of our reporting units and determined that any excess fair value in our reporting units at that time could be attributed to a reasonable control premium compared to historical control premiums seen in the industry. Continued market volatility and uncertainty regarding overall economic conditions have led to a decline in market capitalization in recent years resulting in significantly higher control premiums than what had been seen historically. We will continue to regularly monitor our market capitalization in 2012, overall economic conditions and other events or circumstances that may result in an impairment of goodwill in the future.

Intangible assets with definite useful lives are amortized over their estimated lives and evaluated for potential impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value. We did not recognize impairment on our other intangible assets in 2011, 2010 or 2009.

We provide additional information on the nature of and accounting for goodwill and intangible assets, including the process and methodology used to conduct goodwill impairment testing, in "Note 8—Goodwill and Other Intangible Assets."

Fair Value

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities.

Level 3: Unobservable inputs.

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

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

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

Our financial instruments recorded at fair value on a recurring basis represented approximately 20% of our total reported assets of $206.0 billion as of December 31, 2011, compared with 22% of our total reported assets of $197.5 billion as of December 31, 2010. Financial assets for which the fair value was determined using significant Level 3 inputs represented approximately 2% of these financial instruments (less than 1% of total assets) as of December 31, 2011 and 2010.

We discuss changes in the valuation inputs and assumptions used in determining the fair value of our financial instruments, including the extent to which we have relied on significant unobservable inputs to estimate fair value and our process for corroborating these inputs, in "Note 19—Fair Value of Financial Instruments."

Key Controls Over Fair Value Measurement

We have a governance framework and a number of key controls that are intended to ensure that our fair value measurements are appropriate and reliable. Our governance framework provides for independent oversight and segregation of duties. Our control processes include review and approval of new transaction types, price verification and review of valuation judgments, methods, models, process controls and results.

Groups independent from our trading and investing functions, including our Valuations Group and Valuations Advisory Committee, participate in the review and validation process. The Valuation Advisory Committee includes senior representation from business areas, our Enterprise Risk Oversight division and our Finance division.

Our Valuations Group performs monthly independent verification of fair value measurements by comparing the methodology driven price to other market source data (to the extent available), and uses independent analytics to determine if assigned fair values are reasonable. For example, in cases where we rely on third party pricing services to obtain fair value measures, we analyze pricing variances among different pricing sources and validate the pricing used by comparing the information to additional sources, including dealer pricing indications in transaction results and other internal sources. The Valuations Advisory Committee regularly reviews and approves our valuation methodologies to ensure that our methodologies and practices are consistent with industry standards and adhere to regulatory and accounting guidance.

Derivative Instruments and Hedging Activities

We primarily use derivative instruments to manage our exposure to interest rate risk, and to a lesser extent, foreign currency risk. 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. Although all derivative financial instruments, whether designated for hedge accounting or not, are reported at their fair value on our consolidated balance sheets, the accounting for changes in the fair value of derivative instruments differs based on whether the derivative has been designated as a qualifying accounting hedge and the type of accounting hedge.

To obtain and maintain hedge accounting, we must be able to establish at hedge inception and throughout the hedge term that the hedging instrument is highly effective at offsetting exposures to the hedged risk attributable to the hedged item both retrospectively and prospectively and ensure documentation meets stringent requirements. We apply critical and complex judgment regarding the data and values used in assessing hedge effectiveness and in interpreting the results of tests performed to assess hedge effectiveness especially when the regression analysis method is used. Without hedge accounting, we may experience significant volatility in our earnings as we would be required to recognize all changes in the fair value of our derivative instruments in earnings. We provide detail on derivatives gains and losses recognized in our earnings in 2011, 2010 and 2009 and amounts related to cash flow hedges recorded in AOCI as of December 31, 2011 and 2010 in "Note 11—Derivative Instruments and Hedging Activities."

Income Taxes

Our annual provision for income tax expense is based on our income, statutory tax rates and other provisions of tax law applicable to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions, including evaluating uncertainties. We review our tax positions quarterly and adjust the balances as new information becomes available.

Our income tax expense consists of two components: current and deferred taxes. Our current income tax expense approximates taxes to be paid or refunded for the current period. It also includes income tax expense related to our uncertain tax positions and revisions of our estimate of accrued income taxes resulting from the resolution of income tax controversies. Our deferred income tax expense results from changes in our deferred tax assets and liabilities between periods.

Deferred tax assets and liabilities represent decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. Deferred tax assets are recognized subject to management's judgment that realization is "more likely than not." We evaluate the recoverability of these future tax deductions by assessing the adequacy of expected taxable income from all sources, including taxable income in carryback years, reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely heavily on estimates. We use our historical experience and our short and long-range business forecasts to provide insight.

At December 31, 2011, we have recorded deferred tax assets, net of deferred tax liabilities and valuation allowances, of approximately $2.3 billion, a decrease of $399 million from $2.7 billion at December 31, 2010. We have recorded a valuation allowance of $89 million and $130 million as of December 31, 2011 and 2010, respectively. We expect to fully realize the net deferred tax asset amounts at the end of 2011. If changes in circumstances lead us to change our judgment about our ability to realize deferred tax assets in future years, we will adjust our valuation allowances in the period that our change in judgment occurs and record a corresponding increase or charge to income.

We provide additional information on income taxes in "Consolidated Results of Operations" and in "Note 18—Income Taxes."

CONSOLIDATED RESULTS OF OPERATIONS

As indicated above under "Item 6. Selected Financial Data," our reported results prior to January 1, 2010 are not presented on a basis consistent with our reported results subsequent to January 1, 2010 as a result of our adoption of the new consolidation accounting standards. Our reported results subsequent to January 1, 2010 are more comparable to our managed results because we assumed for our managed based reporting that our securitized loans had not been sold and that the earnings from securitized loans were classified in our results of operations in the same manner as the earnings on loans that we owned. Accordingly, the section below provides a comparative discussion between our reported results of operations for 2011 and 2010 and between our reported results of operations for 2010 and our managed results for 2009. Our net income on a managed basis for 2009 is the same as our reported net income; however, there are differences in the classification of certain amounts in our managed income statement, which we identify in our discussion. See "MD&A-Supplemental Tables" for a reconciliation of our non-GAAP managed based information for periods prior to January 1, 2010 to the most comparable reported U.S. GAAP information.

Net Interest Income

Net interest income represents the difference between the interest income and applicable fees earned on our interest-earning assets, which include loans held for investment and investment securities, and the interest expense on our interest-bearing liabilities, which include interest-bearing deposits, senior and subordinated notes, securitized debt and other borrowings. We include in interest income any past due fees on loans that we deem are collectible. Our net interest margin represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities, including the impact of non-interest bearing funding. Prior to the adoption of the new consolidation accounting standards on January 1, 2010, our reported net interest income did not include interest income from loans in our off-balance sheet securitization trusts or the interest expense on third-party debt issued by these securitization trusts. Beginning January 1, 2010, servicing fees, finance charges, other fees, net charge-offs and interest paid to third party investors related to consolidated securitization trusts are included in net interest income. We expect net interest income and our net interest margin to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities.

Table 2 below presents, for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balances, interest income earned or interest expense incurred, and average yield or cost in 2011, 2010 and 2009 based on our reported results. Table 3 presents this information based on our managed results, which are the same as our reported results for 2011 and 2010.

Table 2: Average Balances, Net Interest Income and Net Interest Yield (Reported Basis)[(1)]

	Year Ended December 31,								
	2011			2010			2009		
(Dollars in millions)	Average Balance	Interest Income/ Expense[(2)]	Yield/ Rate	Average Balance	Interest Income/ Expense[(2)]	Yield/ Rate	Average Balance	Interest Income/ Expense[(2)]	Yield/ Rate
Assets:									
Interest-earning assets:									
Consumer loans:[(3)]									
Domestic[(4)]	**$ 88,769**	**$ 10,948**	**12.33%**	$ 91,451	$ 11,228	12.28%	$ 67,160	$ 6,901	10.28%
International	**8,645**	**1,360**	**15.73**	7,499	1,212	16.16	2,613	348	13.32
Total consumer loans[(4)]	**97,414**	**12,308**	**12.63**	98,950	12,440	12.57	69,773	7,249	10.39
Commercial loans[(4)]	**31,010**	**1,466**	**4.73**	29,576	1,494	5.06	30,014	1,508	5.02
Total loans held for investment	**128,424**	**13,774**	**10.73**	128,526	13,934	10.84	99,787	8,757	8.78
Investment securities	**39,513**	**1,137**	**2.88**	39,489	1,342	3.40	36,910	1,610	4.36
Other interest-earning assets:									
Domestic	**6,756**	**63**	**0.93**	7,140	75	1.05	7,506	290	3.86
International	**648**	**13**	**2.01**	586	2	0.34	1,107	7	0.63
Total other interest earning assets	**7,404**	**76**	**1.03**	7,726	77	1.00	8,613	297	3.45
Total interest-earning assets	**$175,341**	**$ 14,987**	**8.55%**	$175,741	$ 15,353	8.74%	$145,310	$ 10,664	7.34%
Cash and due from banks	**1,926**			2,132			3,481		
Allowance for loan and lease losses	**(4,865)**			(7,257)			(4,470)		
Premises and equipment, net	**2,731**			2,718			2,718		
Other assets	**24,585**			26,780			24,559		
Total assets	**$199,718**			$200,114			$171,598		
Liabilities and Equity:									
Interest-bearing liabilities:									
Deposits:									
Domestic	**$109,644**	**$ 1,187**	**1.08%**	$104,743	$ 1,465	1.40%	$102,337	$ 2,070	2.02%
International[(5)]	**—**	**—**	**—**	—	—	—	741	23	3.10
Total deposits	**109,644**	**1,187**	**1.08**	$104,743	$ 1,465	1.40	$103,078	$ 2,093	2.03
Securitized debt obligations:									
Domestic	**17,012**	**348**	**2.05**	29,275	686	2.34	5,516	282	5.11
International	**3,703**	**74**	**2.00**	4,910	123	2.51	—	—	—
Total securitized debt obligations	**20,715**	**422**	**2.04**	34,185	809	2.37	5,516	282	5.11
Senior and subordinated notes	**9,244**	**300**	**3.25**	8,571	276	3.22	8,607	260	3.02
Other borrowings:									
Domestic	**4,226**	**306**	**7.24**	5,092	333	6.54	7,958	321	4.03
International	**3,837**	**31**	**0.81**	1,772	13	0.73	1,441	11	0.76
Total other borrowings	**8,063**	**337**	**4.18**	6,864	346	5.04	9,399	332	3.53
Total interest-bearing liabilities	**$147,666**	**$ 2,246**	**1.52%**	$154,363	$ 2,896	1.88%	$126,600	$ 2,967	2.34%
Non-interest bearing deposits	**17,050**			14,267			12,523		
Other liabilities	**6,423**			6,543			5,869		
Total liabilities	**171,139**			175,173			144,992		
Stockholders' equity[(6)]	**28,579**			24,941			26,606		
Total liabilities and stockholders' equity	**$199,718**			$200,114			$171,598		
Net interest income/spread		**$ 12,741**	**7.03%**		$ 12,457	6.86%		$ 7,697	5.00%
Impact of non-interest bearing funding			**0.24**			0.23			0.30
Net interest margin			**7.27%**			7.09%			5.30%

[1] Certain prior period amounts have been reclassified to conform to the current period presentation.

[2] Past due fees included in interest income totaled approximately $1.1 billion, $1.1 billion and $652 million for 2011, 2010 and 2009, respectively.

[3] Interest income on credit card, auto, home and retail banking loans is reflected in consumer loans. Interest income generated from small business credit cards also is included in consumer loans.

[4] In the first quarter of 2011, we revised previously reported interest income on interest-earning assets and average yield on loans held for investment for 2010 to conform to the internal management accounting methodology used in our segment reporting. The interest income and average loan yields presented reflect this revision. The previously reported interest income and average yields for 2010 were as follows: domestic consumer loans ($11.4 billion and 12.51%); total consumer loans ($12.7 billion and 12.79%); and commercial loans ($1.3 billion and 4.32%).

[5] The U.K. deposit business, which was included in international deposits, was sold during the third quarter of 2009.

[6] Includes a reduction of $2.9 billion recorded on January 1, 2010, in conjunction with the adoption of the new consolidation accounting guidance.

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Table 3: Average Balances, Net Interest Income and Net Interest Yield (Managed Basis)[1]

	Year Ended December 31,								
	2011			2010			2009		
(Dollars in millions)	Average Balance	Interest Income/ Expense[2]	Yield/ Rate	Average Balance	Interest Income/ Expense[2]	Yield/ Rate	Average Balance	Interest Income/ Expense[2]	Yield/ Rate
Assets:									
Interest-earning assets:									
Consumer loans:[3]									
Domestic[4]	**$ 88,769**	**$ 10,948**	**12.33%**	$ 91,547	$ 11,234	12.27%	$105,095	$ 11,778	11.21%
International	**8,645**	**1,360**	**15.73**	7,499	1,212	16.16	8,405	1,149	13.67
Total consumer loans[4]	**97,414**	**12,308**	**12.63**	99,046	12,446	12.57	113,500	12,927	11.39
Commercial loans[4]	**31,010**	**1,466**	**4.73**	29,576	1,496	5.06	30,014	1,508	5.02
Total loans held for investment	**128,424**	**13,774**	**10.73**	128,622	13,942	10.84	143,514	14,435	10.06
Investment securities	**39,513**	**1,137**	**2.88**	39,489	1,342	3.40	36,910	1,610	4.36
Other interest-earning assets:									
Domestic	**6,756**	**63**	**0.93**	7,118	75	1.05	4,938	65	1.32
International	**648**	**13**	**2.01**	586	2	0.34	614	3	0.49
Total other interest earning assets	**7,404**	**76**	**1.03**	7,704	77	1.00	5,552	68	1.22
Total interest-earning assets	**$175,341**	**$ 14,987**	**8.55%**	$175,815	$ 15,361	8.74%	$185,976	$ 16,113	8.66%
Cash and due from banks	**1,926**			2,133			3,481		
Allowance for loan and lease losses	**(4,865)**			(7,257)			(4,470)		
Premises and equipment, net	**2,731**			2,718			2,718		
Other assets	**24,585**			26,776			24,953		
Total assets	**$199,718**			$200,185			$212,658		
Liabilities and Equity:									
Interest-bearing liabilities:									
Deposits:									
Domestic	**$109,644**	**$ 1,187**	**1.08%**	$104,743	$ 1,465	1.40%	$102,337	$ 2,070	2.02%
International[5]	**—**	**—**	**—**	—	—	—	741	23	3.10
Total deposits	**109,644**	**1,187**	**1.08**	$104,743	$ 1,465	1.40	$103,078	$ 2,093	2.03
Securitized debt obligations:									
Domestic	**17,012**	**348**	**2.05**	29,354	690	2.35	40,931	1,191	2.91
International	**3,703**	**74**	**2.00**	4,910	123	2.51	5,686	148	2.60
Total securitized debt obligations	**20,715**	**422**	**2.04**	34,264	813	2.37	46,617	1,339	2.87
Senior and subordinated notes	**9,244**	**300**	**3.25**	8,571	276	3.22	8,607	260	3.02
Other borrowings:									
Domestic	**4,226**	**306**	**7.24**	5,093	333	6.54	7,957	321	4.03
International	**3,837**	**31**	**0.81**	1,772	13	0.73	1,441	11	0.76
Total other borrowings	**8,063**	**337**	**4.18**	6,865	346	5.04	9,398	332	3.53
Total interest-bearing liabilities	**$147,666**	**$ 2,246**	**1.52%**	$154,443	$ 2,900	1.88%	$167,700	$ 4,024	2.40%
Non-interest bearing deposits	**17,050**			14,267			12,523		
Other liabilities	**6,423**			6,534			5,829		
Total liabilities	**171,139**			175,244			186,052		
Stockholders' equity[6]	**28,579**			24,941			26,606		
Total liabilities and stockholders' equity	**$199,718**			$200,185			$212,658		
Net interest income/spread		**$ 12,741**	**7.03%**		$ 12,461	6.86%		$ 12,089	6.26%
Impact of non-interest bearing funding			**0.24**			0.23			0.24
Net interest margin			**7.27%**			7.09%			6.50%

(1) Certain prior period amounts have been reclassified to conform to the current period presentation.
(2) Past due fees included in interest income on a managed basis totaled approximately $1.1 billion, $1.1 billion and $1.4 billion for 2011, 2010 and 2009, respectively.
(3) Interest income on credit card, auto, home and retail banking loans is reflected in consumer loans. Interest income generated from small business credit cards also is included in consumer loans.
(4) In the first quarter of 2011, we revised previously reported interest income on interest-earning assets and average yield on loans held for investment for 2010 to conform to the internal management accounting methodology used in our segment reporting. The interest income and average loan yields presented reflect this revision. The previously reported interest income and average yields for 2010 were as follows: domestic consumer loans ($11.5 billion and 12.51%); total consumer loans ($12.7 billion and 12.79%); and commercial loans ($1.3 billion and 4.32%).
(5) The U.K. deposit business, which was included in international deposits, was sold during the third quarter of 2009.
(6) Includes a reduction of $2.9 billion recorded on January 1, 2010, in conjunction with the adoption of the new consolidation accounting guidance.

Table 4 presents the variances between our net interest income for 2011, 2010 and 2009, and the extent to which the variance was attributable to: (i) changes in the volume of our interest-earning assets and interest-bearing liabilities or (ii) changes in the interest rates of these assets and liabilities.

Table 4: Rate/Volume Analysis of Net Interest Income[1]

	Reported						Managed		
	2011 vs. 2010			2010 vs. 2009[2]			2010 vs. 2009[2]		
	Total	Variance Due to		Total	Volume		Total	Variance Due to	
(Dollars in millions)	Variance	Volume	Rate	Variance	Volume	Rate	Variance	Volume	Rate
Interest income:									
Loans held-for-investment:									
Consumer loans	**$ (132)**	**$ (194)**	**$ 62**	$ 5,191	$3,455	$1,736	$ (481)	$(1,740)	$1,259
Commercial loans	**(28)**	**71**	**(99)**	(14)	(22)	8	(12)	(22)	10
Total loans held for investment, including past-due fees	**(160)**	**(123)**	**(37)**	5,177	3,433	1,744	(493)	(1,762)	1,269
Investment securities	**(205)**	**—**	**(205)**	(268)	107	(375)	(268)	107	(375)
Other	**(1)**	**(3)**	**2**	(220)	(27)	(193)	9	23	(14)
Total interest income	**(366)**	**(126)**	**(240)**	4,689	3,513	1,176	(752)	(1,632)	880
Interest expense:									
Deposits	**(278)**	**66**	**(344)**	(628)	33	(661)	(628)	33	(661)
Securitized debt obligations	**(387)**	**(286)**	**(101)**	527	752	(225)	(526)	(318)	(208)
Senior and subordinated notes	**24**	**22**	**2**	16	(1)	17	16	(1)	17
Other borrowings	**(9)**	**55**	**(64)**	14	(103)	117	14	(104)	118
Total interest expense	**(650)**	**(143)**	**(507)**	(71)	681	(752)	(1,124)	(390)	(734)
Net interest income	**$ 284**	**$ 17**	**$ 267**	$ 4,760	$2,832	$1,928	$ 372	$(1,242)	$1,614

(1) We calculate the change in interest income and interest expense separately for each item. The change in net interest income attributable to both volume and rates is allocated based on the relative dollar amount of each item.
(2) Certain prior period amounts have been reclassified to conform to the current period presentation.

Our net interest income of $12.7 billion for 2011 increased by $284 million, or 2%, from 2010, driven by a 3% (18 basis points) expansion in our net interest margin to 7.27%, which was partially offset by a modest decrease in average interest-earning assets.

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

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

Our reported net interest income of $12.5 billion in 2010 increased by $368 million, or 3%, from managed net interest income of $12.1 billion in 2009 driven by a 9% (59 basis points) expansion in of our net interest margin to 7.09%, which was partially offset by a 5% decrease in average interest-earning assets.

- *Net Interest Margin:* The increase in net interest margin in 2010 was primarily attributable to a significant reduction in our average cost of funds, coupled with an increase in the average yield on interest-earning assets. Our cost of funds continued to benefit from the shift in the mix of our funding to lower cost consumer and commercial banking deposits from higher cost wholesale sources. Also, the overall interest rate environment, combined with our disciplined pricing, drove a decrease in our average deposit interest rates. The increase in the average yield on our interest-earning assets during 2010 reflected the benefit of pricing changes that we implemented during 2009, which contributed to an increase in the average yield on our loan portfolio, as well as improved credit conditions, which has allowed us to recognize a greater proportion of previously reserved uncollected finance charges into income.
- *Average Interest-Earning Assets:* The decrease in average interest-earning assets resulted from the run-off of loans in businesses that we exited or repositioned, elevated charge-offs and weak consumer demand.

Non-Interest Income

Non-interest income primarily consists of service charges and other customer-related fees, interchange income (net of rewards expense) and other non-interest income. The servicing fees, finance charges, other fees, net of charge-offs and interest paid to third party investors related to our consolidated securitization trusts are reported as a component of non-interest income. Prior to the adoption of the new consolidation accounting standards on January 1, 2010, our reported non-interest income included servicing fees, finance charges, other fees, net charge-offs and interest paid to third party investors related to our securitization trusts as a component of non-interest income. In addition, when we created securitization trusts, we recognized gains or losses on the transfer of loans to these trusts and recorded our initial retained interests in the trusts. Effective January 1, 2010, unless we qualify for sale accounting under the new consolidation accounting standards, we no longer recognize a gain or loss or record retained interests when we transfer loans into securitization trusts. The servicing fees, finance charges, other fees, net of charge-offs and interest paid to third party investors related to our consolidated securitization trusts are now reported as a component of net interest income instead of as a component of non-interest income.

We also record the provision for mortgage repurchase losses related to continuing operations in non-interest income. The "other" component of non-interest income includes gains and losses on derivatives not accounted for in hedge accounting relationships and gains and losses from the sale of investment securities, which we generally do not allocate to our business segments because they relate to centralized asset/liability and market risk management activities undertaken by our Corporate Treasury group.

Table 5 displays the components of non-interest income for 2011, 2010 and 2009.

Table 5: Non-Interest Income

	Year Ended December 31,			
	2011	2010	2009[1]	
(Dollars in millions)	Reported	Reported	Reported	Managed
Non-interest income:				
Servicing and securitizations	**$ 44**	$ 7	$ 2,280	$ (193)
Service charges and other customer-related fees	**1,979**	2,073	1,997	3,025
Interchange	**1,318**	1,340	502	1,408
Net other-than-temporary impairment (“OTTI”)	**(21)**	(65)	(32)	(32)
Provision for mortgage repurchase losses[2]	**(43)**	(204)	(19)	(19)
Other	**261**[3]	563	558	558
Total non-interest income	**$ 3,538**	$ 3,714	$ 5,286	$ 4,747

(1) Effective February 27, 2009, we acquired Chevy Chase Bank. Accordingly, our results for 2009 include only a partial impact from Chevy Chase Bank.

(2) We recorded a total provision for mortgage repurchase losses of $212 million, $636 million and $181 million in 2011, 2010 and 2009, respectively. The remaining portion of the provision for repurchase losses is included in discontinued operations.

(3) Includes a mark-to-market derivative loss of $277 million related to interest-rate swaps we entered into in 2011 to partially hedge the interest rate risk of the net assets associated with the ING Direct acquisition and a gain of $259 million recognized on the sale of investment securities.

Non-interest income of $3.5 billion in 2011 decreased by $176 million, or 5%, from non-interest income of $3.7 billion in 2010. This decrease was attributable to (1) the absence of a one-time pre-tax gain of $128 million recorded in the first quarter of 2010 and net gains on the sale of securities in 2010; and (2) the impact of contra-revenue amounts recorded in the second and fourth quarters of 2011, including a provision of $102 million for anticipated refunds to U.K. customers related to retrospective regulatory requirements pertaining to payment protection insurance (“PPI”) in our U.K. business. The decrease was partially offset by increased customer fees related to treasury management and public financing activities, and the decrease in the provision for mortgage loan repurchases.

Non-interest income of $3.7 billion in 2010 decreased by $1.0 billion, or 22%, from managed non-interest income of $4.7 billion in 2009. This decrease was primarily attributable to a reduction in over-limit fees as a result of provisions under the CARD Act, a decline in the fair value of mortgage servicing rights due to the run-off of our legacy home loan portfolio and an increase in the provision for mortgage loan repurchases.

Provision for Loan and Lease Losses

We build our allowance for loan and lease losses through the provision for loan and lease losses. Our provision for loan and lease losses in each period is driven by charge-offs and the level of allowance for loan and lease losses that we determine is necessary to provide for probable credit losses inherent in our loan portfolio as of each balance sheet date. We recorded a reported provision for loan and lease losses of $2.4 billion in 2011, compared with $3.9 billion in 2010 and $4.2 billion in 2009. The managed provision for loan and lease losses totaled $8.1 billion in 2009.

The decrease in the provision in 2011 and 2010 was largely driven by a substantial decline in net charge-offs across all of our business segments, reflecting the improvement in the credit performance of our loan portfolio. As a result, we recorded significant reductions in our allowance in 2011 and 2010. Our allowance releases were significantly lower in 2011 relative to 2010, reflecting a stabilization of the improvement in credit trends and growth in our loan portfolio.

Table 30 below, under "Credit Risk Profile—Summary of Allowance for Loan and Lease Losses" summarizes changes in our allowance for loan and lease losses and details the provision for loan and lease losses recognized in our consolidated statements of income and the charge-offs recorded against our allowance for loan and lease losses in 2011, 2010 and 2009.

Non-Interest Expense

Non-interest expense consists of ongoing operating costs, such as salaries and associated employee benefits, communications and other technology expenses, supplies and equipment and occupancy costs, and miscellaneous expenses. Marketing expenses are also included in non-interest expense. Table 6 displays the components of non-interest expense for 2011, 2010 and 2009.

Table 6: Non-Interest Expense

	Year Ended December 31,		
(Dollars in millions)	**2011**	**2010**	**2009[1]**
Non-interest expense:			
Salaries and associated benefits	**$3,023**	$2,594	$2,478
Marketing	**1,337**	958	588
Communications and data processing	**681**	693	740
Supplies and equipment	**539**	520	500
Occupancy	**490**	486	451
Restructuring expense	**—**	—	119
Other[2]	**3,262**	2,683	2,541
Total non-interest expense	**$9,332**	$7,934	$7,417

(1) There were no differences between reported and managed non-interest expense amounts in 2009.

(2) Consists of professional services expenses, credit collection costs, fee assessments and intangible amortization expense. See "Note 15—Other Non-Interest Expense" for additional detail on the components included in this expense category.

Non-interest expense of $9.3 billion for 2011 was up $1.4 billion, or 18%, from 2010. The increase is a result of increased marketing expenditures, higher legal expenses and increased operating expenses. We have expanded our marketing efforts to attract and support targeted customers and new business volume through a variety of channels. Our operating costs have increased due in part to the integration of the recent acquisitions of the Sony, HBC and Kohl's loan portfolios and continued investment in our infrastructure.

Non-interest expense of $7.9 billion in 2010 was up $517 million, or 7%, from 2009. The increase was primarily due to increases in marketing expenditures and salaries and associate benefits, partially offset by the absence of restructuring charges.

Income Taxes

Our effective income tax rate based on income from continuing operations was 29.1%, 29.6% and 26.2% in 2011, 2010 and 2009, respectively. The variation in our effective tax rate between periods is due, in part, to fluctuations in our pre-tax earnings, which affects the relative tax benefit of tax-exempt income, tax credits and other permanent tax items.

The decrease in our effective income tax rate in 2011 from 2010 reflected an increase in the amount of one-time tax benefits recorded over the prior year. During 2011, we recorded discrete tax benefits of $121 million related primarily to the release of valuation allowances against certain state deferred tax assets and net operating loss carryforwards and the resolution of certain tax issues and audits. In comparison, in 2010 we recorded discrete tax benefits of $84 million related primarily to adjustments for the resolution of certain tax issues and audits. Our effective income tax rate excluding the benefit from these discrete tax items was 31.7% and 31.5% for 2011 and 2010,

The increase in our effective income tax rate in 2010 from 2009 reflected the reduced relative benefit of tax-exempt income and tax credits as a result of the increase in our pre-tax earnings. The $84 million of discrete tax benefits in 2010 related to the resolution of certain tax issues and audits partially offset the increase in the 2010 effective tax rate compared to 2009.

We provide additional information on items affecting our income taxes and effective tax rate in "Note 18—Income Taxes."

Loss from Discontinued Operations, Net of Tax

Loss from discontinued operations reflects ongoing costs, which primarily consist of mortgage loan repurchase representation and warranty charges, related to the mortgage origination operations of GreenPoint's wholesale mortgage banking unit, which we closed in 2007. We recorded a loss from discontinued operations, net of tax, of $106 million, $307 million and $103 million in 2011, 2010 and 2009, respectively. The variance in the loss from discontinued operations between 2011 and 2010 and between 2010 and 2009 is attributable to the provision for mortgage repurchase losses. We recorded a total pre-tax provision for mortgage repurchase losses of $212 million, $636 million and $181 million in 2011, 2010 and 2009, respectively. The portion of these amounts included in loss from discontinued operations totaled $169 million ($120 million net of tax) in 2011, $432 million ($304 million net of tax) in 2010 and $162 million ($120 million net of tax) in 2009.

We provide additional information on the provision for mortgage repurchase losses and the related reserve for potential representation and warranty claims in "Critical Accounting Polices and Estimates" and in "Consolidated Balance Sheet Analysis—Potential Mortgage Representation and Warranty Liabilities."

BUSINESS SEGMENT FINANCIAL PERFORMANCE

Our principal operations are currently organized into three major business segments, which are defined based on the products and services provided, or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments. Certain activities that are not part of a segment, such as management of our corporate investment portfolio and asset/liability management by our centralized Corporate Treasury group are included in the "Other" category. See "Note 20—Business Segments" for information on the allocation methodologies used to derive our business segment results.

The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. Our business segment results are intended to reflect each segment as if it were a stand-alone business. We use an internal management and reporting process to derive our business segment results. Our internal management and reporting process employs various allocation methodologies, including funds transfer pricing, to assign certain managed balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment.

We refer to the business segment results derived from our internal management accounting and reporting process as our "managed" presentation, which differs in some cases from our reported results prepared based on

U.S. GAAP. There is no comprehensive, authoritative body of guidance for management accounting equivalent to U.S. GAAP; therefore, the managed basis presentation of our business segment results may not be comparable to similar information provided by other financial service companies. In addition, our individual business segment results should not be used as a substitute for comparable results determined in accordance with U.S. GAAP. We provide additional information on our business segments, including the basis of presentation, business segment reporting methodologies, and a reconciliation of our total business segment results to our reported consolidated results in "Note 20—Business Segments."

We summarize our business segment results for 2011, 2010 and 2009 in the tables below and provide a comparative discussion of these results. 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. We provide information on the outlook for each of our business segments above under "Executive Summary and Business Outlook."

Credit Card Business

Our Credit Card business generated income of $2.3 billion in both 2011 and 2010 and income of $978 million in 2009. The primary sources of revenue for our Credit Card business are net interest income and non-interest income from customer and interchange fees. Expenses primarily consist of ongoing operating costs, such as salaries and associated benefits, communications and other technology expenses, supplies and equipment and occupancy costs, as well as marketing expenses.

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

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

Interest income was reduced by $607 million in 2011 for amounts earned by Kohl's. Loss sharing amounts attributable to Kohl's reduced charge-offs by $118 million in 2011. The expected reimbursement from Kohl's, which is netted against our allowance for loan and lease losses, totaled approximately $139 million as of December 31, 2011. The reduction in the provision for loan and lease losses attributable to Kohl's was $257 million for 2011.

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

Table 7: Credit Card Business Results

(Dollars in millions)	Year Ended December 31, 2011	2010	2009	Change 2011 vs. 2010	Change 2010 vs. 2009
Selected income statement data:					
Net interest income	**$ 7,822**	$ 7,894	$ 7,542	**(1)%**	5%
Non-interest income	**2,609**	2,720	3,747	**(4)**	(27)
Total revenue	**10,431**	10,614	11,289	**(2)**	(6)
Provision for loan and lease losses	**1,870**	3,188	6,051	**(41)**	(47)
Non-interest expense	**5,035**	3,951	3,738	**27**	6
Income from continuing operations before income taxes	**3,526**	3,475	1,500	**1**	132
Income tax provision	**1,249**	1,201	522	**4**	130
Income from continuing operations, net of tax	**$ 2,277**	$ 2,274	$ 978	****%**	133%
Selected performance metrics:					
Average loans held for investment	**$ 62,110**	$ 62,632	$ 73,076	**(1)%**	(14)%
Average yield on loans held for investment[1]	**14.36%**	14.63%	12.90%	**(27)bps**	173bps
Revenue margin[2]	**16.79**	16.95	15.45	**(16)**	150
Net charge-off rate[3]	**4.92**	8.79	9.15	**(387)**	(36)
Purchase volume[4]	**$135,120**	$106,912	$102,068	**26%**	5%

	December 31, 2011	2010	Change
Selected period-end data:			
Loans held for investment	**$ 65,075**	$ 61,371	**6%**
30+ day delinquency rate[5]	**3.86%**	4.29%	**(43)bps**
Allowance for loan and lease losses	**$ 2,847**	$ 4,041	**(30)%**

** Change is less than one percent.

(1) Average yield on loans held for investment is calculated by dividing 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 14.36% in 2010.

(2) Revenue margin is calculated by dividing 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 dividing 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.

Key factors affecting the results of our Credit Card business for 2011, compared with 2010 included the following:

- *Net Interest Income:* Net interest income decreased by $72 million, or 1%, in 2011, reflecting the impact of a 1% 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 2011, more than offsetting the additions of the HBC and Kohl's portfolios.
- *Non-Interest Income:* Non-interest income decreased by $111 million, or 4%, in 2011. The decrease reflects the impact of contra-revenue amounts recorded in the second quarter and fourth quarters of 2011, including a provision of $102 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 expenses 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 net interchange fees during 2011, attributable to increased purchase volume.
- *Provision for Loan and Lease Losses:* The provision for loan and lease losses related to our Credit Card business decreased by $1.3 billion in 2011, to $1.9 billion. The significant reduction in the provision was primarily attributable to the continued improvement in credit performance, including reduced delinquency rates and lower bankruptcy losses. 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 $1.2 billion in 2011 compared to $2.3 billion in 2010.
- *Non-Interest Expense:* Non-interest expense increased by $1.1 billion, or 27%, in 2011. The increase in non-interest expense was attributable to increased marketing expenditures, higher legal expenses, and increased operating cost. Additionally, we recorded $40 million in relation to regulatory requirements pertaining to PPI in our U.K. business. 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 $3.7 billion, or 6%, in 2011, to $65.1 billion as of December 31, 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.
- *Charge-off and Delinquency Statistics:* Net charge-off and delinquency rates continued to improve in 2011. The net charge-off rate decreased to 4.92% in 2011 from 8.79% in 2010. The 30+ day delinquency rate decreased to 3.86% as of December 31, 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.

Key factors affecting the results of our Credit Card business for 2010, compared with 2009 included the following:

- *Net Interest Income:* Our Credit Card business experienced an increase in net interest income of $352 million, or 5%, in 2010, which was primarily attributable to higher asset yields that more than offset a decline in average loans held for investment. The increase in the average yield on our credit card loan portfolio reflected the benefit of pricing changes that were implemented during 2009 and a reduction in the level of loans with low introductory promotional rates. Net interest income also reflected the benefit of the recognition into income of an increased amount of previously suppressed billed finance charges and fees as a result of improving credit trends.
- *Non-Interest Income:* Non-interest income decreased by $1.0 billion, or 27%, in 2010. The decrease was primarily attributable to a reduction in penalty fees resulting from the implementation of provisions of the CARD Act and a reduction in customer accounts.

- *Provision for Loan and Lease Losses:* The provision for loan and lease losses related to our Credit Card business decreased by $2.9 billion in 2010, to $3.2 billion. The substantial reduction in the provision was driven by improved credit trends, as evidenced by a reduction in the net charge-off rate and a decrease and stabilization of delinquency rates throughout the year, as well as lower period-end loan balances. As a result of the more positive credit performance trends and reduced loan balances, the Credit Card business recorded a net allowance release (after taking into consideration the $4.2 billion addition to the allowance on January 1, 2010 from the adoption of the new consolidation accounting standards) of $2.3 billion in 2010. In comparison, our Credit Card business recorded an allowance release of $611 million in 2009. The release in 2009 was driven by the reduction in period-end loans, which more than offset the impact of the continued deterioration in the credit performance of our credit card portfolio due to the severe economic downturn.
- *Non-Interest Expense:* Non-interest expense increased by $212 million, or 6%, in 2010. The increase reflects the impact of an increase in marketing expenses, which has been partially offset by a decrease in operating expenses due to the reduction in customer accounts and targeted cost savings across our Credit Card business. As the economy gradually improved, we increased our marketing expenditures during 2010 from suppressed levels in 2009 to attract and support new business volume through a variety of channels.
- *Total Loans:* Period-end loans in the Credit Card business declined by $7.2 billion, or 10%, in 2010, to $61.4 billion as of December 31, 2010, from $68.5 billion as of December 31, 2009. Approximately $3.2 billion of the decrease was due to the run-off of installment loans in our Domestic Card division. The remaining decrease, which was partially offset by the addition of the Sony Card portfolio, was attributable to elevated net charge-offs, weak consumer demand and historically lower marketing expenditures in 2009 and 2010 as result of the severe economic downturn.
- *Charge-off and Delinquency Statistics:* Although net charge-off and delinquency rates remained elevated, these rates continued to improve throughout 2010. The net charge-off rate decreased to 8.79% in 2010, from 9.15% in 2009. The 30+ day delinquency rate decreased to 4.29% as of December 31, 2010, from 5.88% as of December 31, 2009.

Domestic 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 87% of total revenues for our Credit Card business in 2011, compared with 87% in 2010 and 89% in 2009. Income attributable to Domestic Card represented 102% of income for our Credit Card business for 2011, compared with 83% in 2010 and 94% in 2009. 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.

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Table 7.1: Domestic Card Business Results

(Dollars in millions)	Year Ended December 31, 2011	2010	2009	Change 2011 vs. 2010	2010 vs. 2009
Selected income statement data:					
Net interest income	**$ 6,717**	$ 6,912	$ 6,670	**(3)%**	4%
Non-interest income	**2,368**	2,347	3,328	**1**	(29)
Total revenue	**9,085**	9,259	9,998	**(2)**	(7)
Provision for loan and lease losses	**1,317**	2,853	5,329	**(54)**	(46)
Non-interest expense	**4,153**	3,457	3,256	**20**	6
Income from continuing operations before income taxes	**3,615**	2,949	1,413	**23**	109
Income tax provision	**1,287**	1,051	495	**22**	112
Income from continuing operations, net of tax	**$ 2,328**	$ 1,898	$ 918	**23%**	107%
Selected performance metrics:					
Average loans held for investment	**$ 53,464**	$55,133	$ 64,670	**(3)%**	(15)%
Average yield on loans held for investment[1]	**14.14%**	14.42%	12.80%	**(28)bps**	162bps
Revenue margin[2]	**16.99**	16.79	15.46	**20**	133
Net charge-off rate[3]	**4.72**	8.91	9.19	**(419)**	(28)
Purchase volume[4]	**$ 122,366**	$98,344	$ 93,566	**24%**	5%

	December 31, 2011	2010	Change
Selected period-end data:			
Loans held for investment	**$ 56,609**	$53,849	**5%**
30+ day delinquency rate[5]	**3.66%**	4.09%	**(43)bps**
Allowance for loan and lease losses	**$ 2,375**	$ 3,581	**(34)%**

(1) Average yield on loans held for investment is calculated by dividing 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 14.09% for the year ended December 31, 2010.

(2) Revenue margin is calculated by dividing 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 dividing 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.

Domestic Card generated net income from continuing operations of $2.3 billion compared with net income from continuing operations of $1.9 billion in 2010. The increase in Domestic Card net income from continuing operations in 2011, compared with 2010 was driven by 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. This increase was partially offset by a decline in total revenue attributable to lower average loan balances and an increase in non-interest expense attributable to increased marketing expenditures, higher legal expenses and increased operating costs.

Domestic Card generated net income from continuing operations of $1.9 billion in 2010, an increase of $980 million over 2009. The increase in net income in 2010 from 2009 was primarily due to a significant reduction in the provision for loan and lease losses, as we recorded a substantial allowance release in response to more positive credit performance trends. The decrease in the provision was partially offset by a decline in total revenue due in part to lower loan balances as well as a reduction in overlimit and other penalty fees and an increase in non-interest expense attributable to higher marketing expenditures.

International 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 13% of total revenues for our Credit Card business in 2011, compared with 13% in 2010 and 11% in 2009. Loss attributable to International Card represented 2% of income for our Credit Card business for 2011, compared with income of 17% in 2010 and 6% in 2009.

Table 7.2: International Card Business Results

	Year Ended December 31,			Change	
(Dollars in millions)	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Selected income statement data:					
Net interest income	**$ 1,105**	$ 982	$ 872	**13%**	13%
Non-interest income	**241**	373	419	**(35)**	(11)
Total revenue	**1,346**	1,355	1,291	**(1)**	5
Provision for loan and lease losses	**553**	335	722	**65**	(54)
Non-interest expense	**882**	494	482	**79**	2
Income from continuing operations before income taxes	**(89)**	526	87	**(117)**	505
Income tax provision	**(38)**	150	27	**(125)**	456
Income from continuing operations, net of tax	**$ (51)**	$ 376	$ 60	**(114)%**	527%
Selected performance metrics:					
Average loans held for investment	**$ 8,645**	$ 7,499	$ 8,405	**15%**	(11)%
Average yield on loans held for investment[1]	**15.72%**	16.16%	13.71%	**(44)bps**	245bps
Revenue margin[2]	**15.57**	18.07	15.36	**(250)**	271
Net charge-off rate[3]	**6.18**	7.89	8.83	**(171)**	(94)
Purchase volume[4]	**$ 12,754**	$ 8,568	$ 8,502	**49%**	1%

	December 31,		
	2011	2010	Change
Selected period-end data:			
Loans held for investment	**$ 8,466**	$ 7,522	**13%**
30+ day delinquency rate[5]	**5.18%**	5.75%	**(57)bps**
Allowance for loan and lease losses	**$ 472**	$ 460	**3%**

(1) Average yield on loans held for investment is calculated by dividing 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 16.33% in 2010.

(2) Revenue margin is calculated by dividing 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 dividing 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 business generated a net loss from continuing operations of $51 million in 2011, compared with net income from continuing operations of $376 million in 2010. The International Card net loss in 2011, compared with net income in 2010, was driven by: (1) a decrease primarily due to the provision expense of $174 million recorded in revenue and non-interest expense in the second and fourth quarters 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) additional 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 net interest income attributable to higher loan balances.

Our International Card business generated net income from continuing operations of $376 million in 2010, an increase of $316 million from 2009. The most significant driver of the improvement in results was a $387 million decrease in the provision for loan and lease losses in 2010. As a result of decreases in charge-off and delinquency rates, we recorded a substantial allowance release of $246 million in 2010, compared with an allowance release of $20 million in 2009. In addition, total revenue increased by $64 million, primarily due to the impact of pricing changes implemented during 2009 that resulted in increases in average asset yields that were partially offset by a decline in loan balances.

Consumer Banking Business

Our Consumer Banking business generated net income of $809 million in 2011, compared with net income of $905 million in 2010 and $244 million in 2009. The primary sources of revenue for our Consumer Banking business are net interest income from loans and deposits and non-interest income from customer fees. Expenses primarily consist of ongoing operating costs, such as salaries and associated benefits, communications and other technology expenses, supplies and equipment and occupancy costs.

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

Table 8: Consumer Banking Business Results

(Dollars in millions)	Year Ended December 31, 2011	2010	2009	Change 2011 vs. 2010	Change 2010 vs. 2009
Selected income statement data:					
Net interest income	**$ 4,236**	$ 3,727	$ 3,231	**14%**	15%
Non-interest income	**720**	870	755	**(17)**	15
Total revenue	**4,956**	4,597	3,986	**8**	15
Provision for loan and lease losses	**452**	241	876	**88**	(72)
Non-interest expense	**3,244**	2,950	2,734	**10**	8
Income from continuing operations before income taxes	**1,260**	1,406	376	**(10)**	274
Income tax provision	**451**	501	132	**(10)**	280
Income from continuing operations, net of tax	**$ 809**	$ 905	$ 244	**(11)%**	271%
Selected performance metrics:					
Average loans held for investment:					
Auto	**$ 19,419**	$ 17,551	$ 19,950	**11%**	(12)%
Home loan	**11,322**	13,629	14,434	**(17)**	(6)
Retail banking	**4,097**	4,745	5,490	**(14)**	(14)
Total consumer banking	**$ 34,838**	$ 35,925	$ 39,874	**(3)%**	(10)%
Average yield on loans held for investment	**9.60%**	9.11%	8.94%	**49bps**	17bps
Average deposits	**$ 86,883**	$ 78,083	$ 70,862	**11%**	10%
Average deposit interest rate	**0.96%**	1.19%	1.68%	**(23)bps**	(49)bps
Core deposit intangible amortization	**$ 132**	$ 144	$ 169	**(8)%**	(15)%
Net charge-off rate[(1)(2)]	**1.39%**	1.82%	2.74%	**(43)bps**	(92)bps
Auto loan originations	**$ 12,476**	$ 7,764	$ 5,336	**61%**	46%

	December 31, 2011	2010	Change
Selected period-end data:			
Loans held for investment:			
Auto	**$ 21,779**	$ 17,867	**22%**
Home loan	**10,433**	12,103	**(14)**
Retail banking	**4,103**	4,413	**(7)**
Total consumer banking	**$ 36,315**	$ 34,383	**6%**
30+ day performing delinquency rate[(1)(3)]	**4.47%**	4.28%	**19bps**
30+ day delinquency rate[(1)(3)]	**5.99**	5.96	**3**
Nonperforming loan rate[(1)(4)]	**1.79**	1.97	**(18)**
Nonperforming asset rate[(1)(5)]	**1.94**	2.17	**(23)**
Allowance for loan and lease losses	**$ 652**	$ 675	**(3)%**
Deposits	**88,540**	82,959	**7**
Loans serviced for others	**17,998**	20,689	**(13)**

(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.

(2) The net charge-off rate is calculated by loan category by dividing 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 1.60%, 2.16% and 3.17% in 2011, 2010 and 2009, 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 5.06% as of December 31, 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 6.78% as of December 31, 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 2.03% and 2.30% as of December 31, 2011 and 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, REO, and other foreclosed assets for the specified loan category. The nonperforming asset rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 2.20% and 2.54% as of December 31, 2011 and 2010, respectively.

Key factors affecting the results of our Consumer Banking business for 2011, compared with 2010 included the following:

- *Net Interest Income:* Net interest income increased by $509 million, or 14%, in 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. Average interest on deposits decreased to 0.96% in 2011 from 1.19% in 2010 while period end deposits grew by 7% in 2011 compared to 2010.
- *Non-Interest Income:* Non-interest income decreased by $150 million, or 17%, in 2011. The decrease in non-interest income in the 2011 from 2010 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 $211 million in 2011 to $452 million. Although we experienced continued improvement in credit performance in our Consumer Banking business, including reduced net charge-off rates, we recorded a higher provision for loan and lease losses in 2011 relative to 2010 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 $294 million, or 10%, in 2011. The increase was largely attributable to the recognition of expense for contingent payments related to recent acquisitions, higher infrastructure expenditures resulting from investments in our home loan business, growth in auto originations and modestly higher marketing expenditures in our retail banking operations.
- *Total Loans:* Period-end loans in the Consumer Banking business increased by $1.9 billion, or 6%, in 2011 to $36.3 billion as of December 31, 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 2011 to $88.5 billion as of December 31, 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 1.39% in 2011 from 1.82% in 2010. The 30+ day delinquency rate was 5.99% as of December 31, 2011, compared with 5.96% as of December 31, 2010. The improvement in the net charge-off rate 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. Our home loan credit performance remained stable during 2011.

Key factors affecting the results of our Consumer Banking business for 2010, compared with 2009 included the following:

- *Net Interest Income:* Net interest income increased by $496 million, or 15%, in 2010. The primary drivers of the increase in net interest income were improved loan margins, primarily resulting from higher pricing for new auto loan originations, deposit growth resulting from our continued strategy to leverage our banking branches to attract lower cost funding sources and improved deposit spreads. The favorable impact from these factors more than offset the decline in average loans held for investment resulting from the continued run-off of home loans and reduction in auto loans in 2010.
- *Non-Interest Income:* Non-interest income increased by $115 million, or 15%, in 2010. The increase was primarily attributable to a 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.
- *Provision for Loan and Lease Losses:* The provision for loan and lease losses decreased by $635 million in 2010, to $241 million. The substantial reduction in the provision was attributable to continued improvement in credit performance trends and reduced loan balances. Delinquency and charge-off rates declined throughout the year, reflecting the impact of the gradual improvement in economic conditions and the higher credit quality of our most recent auto loan vintages. As a result, the Consumer Banking business recorded a net allowance release (after taking into consideration the impact of the $73 million addition to the allowance on January 1, 2010 from the adoption of the new consolidation accounting standards) of $474 million in 2010. In comparison, the Consumer Banking business recorded an allowance release of $238 million in 2009, primarily due to declining loan balances.
- *Non-Interest Expense:* Non-interest expense increased by $216 million, or 8%, in 2010. This increase was largely attributable to infrastructure expenditures, primarily in our home loan and retail banking operations, made in 2010 to attract and support new business volume and to integrate Chevy Chase Bank, and increased marketing expenditures related to our retail banking operations.
- *Total Loans:* Period-end loans declined by $3.8 billion, or 10%, in 2010 to $34.4 billion as of December 31, 2010, from $38.2 billion as of December 31, 2009, primarily due to the run-off of home loans and a reduction in auto loan balances.
- *Deposits:* Period-end deposits increased by $8.8 billion, or 12%, during 2010 to $83.0 billion as of December 31, 2010, reflecting the impact of our strategy to replace maturing higher cost wholesale funding sources with lower cost funding sources and our increased retail marketing efforts to attract new business to meet this objective.
- *Charge-off and Delinquency Statistics:* The net charge-off and delinquency rates improved during 2010 as a result of the improved economic environment and a tightening of our underwriting standards on new loan originations. The net charge-off rate decreased to 1.82% in 2010, down significantly from the net charge-off rate of 2.74% for 2009. The 30+ day delinquency rate for 2010 also improved from 2009.

Commercial Banking Business

Our Commercial Banking business generated net income from continuing operations of $532 million in 2011, compared with net income from continuing operations of $160 million in 2010 and a net loss from continuing operations of $213 million in 2009. The primary sources of revenue for our Commercial Banking business are net interest income from loans and non-interest income from customer fees. Expenses primarily consist of ongoing operating costs, such as salaries and associated benefits, communications and other technology expenses, supplies and equipment and occupancy costs.

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

Table 9: Commercial Banking Business Results

	Year Ended December 31,			Change	
(Dollars in millions)	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Selected income statement data:					
Net interest income	**$ 1,377**	$ 1,292	$ 1,144	**7%**	13%
Non-interest income	**270**	181	172	**49**	5
Total revenue	**1,647**	1,473	1,316	**12**	12
Provision for loan and lease losses	**31**	429	983	**(93)**	(56)
Non-interest expense	**789**	796	661	**(1)**	20
Income from continuing operations before income taxes	**827**	248	(328)	**233**	176
Income tax provision	**295**	88	(115)	**235**	177
Income from continuing operations, net of tax	**$ 532**	$ 160	$ (213)	**233%**	175%
Selected performance metrics:					
Average loans held for investment:					
Commercial and multifamily real estate	**$ 13,902**	$ 13,497	$ 13,858	**3%**	(3)%
Middle market	**11,325**	10,353	10,098	**9**	3
Specialty lending	**4,111**	3,732	3,567	**10**	5
Total commercial lending	**29,338**	27,582	27,523	**6**	**
Small-ticket commercial real estate	**1,671**	1,994	2,491	**(16)**	(20)
Total commercial banking	**$ 31,009**	$ 29,576	$ 30,014	**5%**	(1)%
Average yield on loans held for investment	**4.73%**	5.06%	5.02%	**(33)bps**	4bps
Average deposits	**$ 24,926**	$ 22,186	$ 17,572	**12%**	26%
Average deposit interest rate	**0.49%**	0.69%	0.81%	**(20)bps**	(12)bps
Core deposit intangible amortization	**$ 40**	$ 55	$ 43	**(27)%**	28%
Net charge-off rate[(1)(2)]	**0.57%**	1.32%	1.45%	**(75)bps**	(13)bps

	December 31,		
(Dollars in millions)	2011	2010	Change
Selected period-end data:			
Loans held for investment:			
Commercial and multifamily real estate	**$ 15,410**	$ 13,396	**15%**
Middle market	**12,684**	10,484	**21**
Specialty lending	**4,404**	4,020	**10**
Total commercial lending	**32,498**	27,900	**16**
Small-ticket commercial real estate	**1,503**	1,842	**(18)**
Total commercial banking	**$ 34,001**	$ 29,742	**14**
Nonperforming loan rate[(1)(3)]	**1.09%**	1.66%	**(57)bps**
Nonperforming asset rate[(1)(4)]	**1.17**	1.80	**(63)**
Allowance for loan and lease losses	**$ 711**	$ 826	**(14)%**
Deposits	**26,532**	22,630	**17**

** Change is less than one percent.

(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.

(2) The net charge-off rate is calculated by loan category by dividing 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 0.58%, 1.35% and 1.48% in 2011, 2010 and 2009, 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 1.11% and 1.69% as of December 31, 2011 and 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 1.19% and 1.83% as of December 31, 2011 and 2010, respectively.

Key factors affecting the results of our Commercial Banking business for 2011, compared with 2010 included the following:

- *Net Interest Income:* Net interest income increased by $85 million, or 7% in 2011. The primary drivers of the increase in net interest income from 2010 were an increase in average loans and average deposits and continued improvement in deposit pricing.
- *Non-Interest Income:* Non-interest income increased by $89 million, or 49% in 2011. The increase in non-interest income was largely attributable to growth in fees in the middle market business 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 provision for loan and lease losses decreased by $398 million in 2011. The lower provision in 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 $146 million. In comparison, we increased the allowance by $41 million in 2010.
- *Non-Interest Expense:* Non-interest expense of $789 million in 2011 was flat relative to 2010 despite an increase in loan volume, reflecting operational efficiency improvements and a reduction in integration costs related to the Chevy Chase Bank acquisition.
- *Total Loans:* Period-end loans increased by $4.3 billion, or 14%, in 2011 to $34.0 billion as of December 31, 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 $3.9 billion, or 17%, in 2011 to $26.5 billion as of December 31, 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 0.57% in 2011, from 1.32% in 2010. The nonperforming loan rate decreased to 1.09% as of December 31, 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.

Key factors affecting the results of our Commercial Banking business for 2010, compared with 2009 included the following:

- *Net Interest Income:* Net interest income increased by $148 million, or 13%, in 2010. The increase was driven by strong average deposit growth, improved deposit spreads resulting from repricing of higher rate deposits to lower rates in response to the overall lower interest rate environment, and stable loan yields despite the lower interest rate environment driven by wider spreads on new originations.

- *Non-Interest Income:* Non-interest income increased by $9 million, or 5%, in 2010 to $181 million, largely attributable to growth in fees in the middle market segment, which was partially offset by a loss on the disposition of a legacy portfolio of small-ticket commercial real estate loans.
- *Provision for Loan and Lease Losses:* The provision for loan and lease losses decreased by $554 million in 2010, to $429 million. The substantial reduction in the provision was attributable to improvements in charge-off and nonperforming loan rates throughout the year, which resulted in a reduction in our allowance build. We recorded an allowance build of $41 million in 2010, compared with an allowance build of $484 million in 2009.
- *Non-Interest Expense:* Non-interest expense increased by $135 million, or 20%, in 2010 to $796 million. The increase was attributable to higher loan workout expenses and losses related to REO, combined with increases in core deposit intangible amortization expense, integration costs related to the Chevy Chase Bank acquisition and expenditures related to risk management activities and enhancing our infrastructure.
- *Total Loans:* Period-end loans increased by $129 million, or less than 1%, to $29.7 billion as of December 31, 2010. The slight increase was due to modest loan growth, which was partially offset by the disposition of the legacy portfolio of small-ticket commercial real estate loans.
- *Deposits:* Period-end deposits increased by $2.1 billion, or 10%, to $22.6 billion as of December 31, 2010, driven by our increased effort to build and expand commercial relationships.
- *Charge-off and Nonperforming Loan Statistics*: Credit metrics remain elevated, but have significantly improved since the second half of 2009 as a result of the improved economic environment and our risk management activities. The net charge-off rate decreased to 1.32% in 2010, from 1.45% in 2009. The nonperforming loan rate declined to 1.66% as of December 31, 2010, from 2.37% as of December 31, 2009.

CONSOLIDATED BALANCE SHEET ANALYSIS

Total assets of $206.0 billion as of December 31, 2011 increased by $8.5 billion, or 4%, from $197.5 billion as of December 31, 2010. Total liabilities of $176.4 billion as of December 31, 2011, increased by $5.4 billion, or 3%, from $171.0 billion as of December 31, 2010. Stockholders' equity increased by $3.1 billion during 2011, to $29.7 billion as of December 31, 2011 from $26.5 billion as of December 31, 2010. The increase in stockholders' equity was primarily attributable to our net income of $3.1 billion in 2011.

Following is a discussion of material changes in the major components of our assets and liabilities during 2011.

Investment Securities

Our investment securities portfolio, which had a fair value of $38.8 billion and $41.5 billion, as of December 31, 2011 and 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, equipment loans and home equity lines of credit; 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 69% of our total investment securities portfolio as of December 31, 2011, compared with 70% as of December 31, 2010.

All of our investment securities were classified as available for sale as of December 31, 2011 and reported in our consolidated balance sheet at fair value. Table 10 presents the amortized cost and fair value for the major categories of our investment securities as of December 31, 2011, 2010 and 2009.

Table 10: Investment Securities

	December 31,					
	2011		2010		2009	
(Dollars in millions)	Amortized Cost	Fair Value	Amortized Cost[1]	Fair Value[1]	Amortized Cost[1]	Fair Value[1]
U.S. Treasury debt obligations	**$ 115**	**$ 124**	$ 373	$ 386	$ 379	$ 392
U.S. Agency debt obligations[2]	**131**	**138**	301	314	428	450
Residential mortgage-backed securities ("RMBS"):						
Agency[3]	**24,980**	**25,488**	27,980	28,504	27,603	28,158
Non-agency	**1,340**	**1,162**	1,826	1,700	2,619	2,164
Total RMBS	**26,320**	**26,650**	29,806	30,204	30,222	30,322
Commercial mortgage-backed securities ("CMBS"):						
Agency[3]	**697**	**711**	44	45	27	27
Non-agency	**459**	**476**	0	0	0	0
Total CMBS	**1,156**	**1,187**	44	45	27	27
Asset-backed securities[4]	**10,119**	**10,150**	9,901	9,966	7,043	7,192
Other securities[5]	**462**	**510**	563	622	440	447
Total securities available for sale	**$ 38,303**	**$ 38,759**	$ 40,988	$ 41,537	$ 38,539	$ 38,830
Securities held to maturity:						
Total securities held to maturity[6]	**$ —**	**$ —**	$ —	$ —	$ 80	$ 80

(1) Certain prior period amounts have been reclassified to conform to the current period presentation.
(2) Consists of debt securities issued by Fannie Mae and Freddie Mac with amortized costs of $130 million, $200 million and $454 million, as of December 31, 2011, 2010 and 2009, respectively, and fair values of $137 million, $213 million and $476 million, as of December 31, 2011, 2010 and 2009, respectively.
(3) Consists of MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae with amortized costs of $12.3 billion, $8.9 billion and $4.5 billion and $17.1 billion, $8.1 billion and $2.9 billion, respectively, as of December 31, 2011 and 2010, respectively, and fair values of $12.6 billion, $9.1 billion and $4.5 billion and $17.3 billion, $8.3 billion and $3.0 billion, respectively, as of December 31, 2011 and 2010, respectively. The book value of Fannie Mae, Freddie Mac and Ginnie Mae investments exceeded 10% of our stockholders' equity as of December 31, 2011 and 2010.
(4) Consists of securities collateralized by credit card loans, auto loans, auto dealer floor plan inventory loans and leases, student loans, equipment loans, and other. The distribution among these asset types was approximately 75% credit card loans, 11% auto dealer floor plan inventory loans and leases, 6% auto loans, 4% student loans, 2% equipment loans, and 2% other as of December 31, 2011. In comparison, the distribution was approximately 78 % credit card loans, 7% student loans, 7% auto loans, 6% auto dealer floor plan inventory loans and leases, and 2% equipment loans as of December 31, 2010. Approximately 86% of the securities in our asset-backed security portfolio were rated AAA or its equivalent as of December 31, 2011, compared with 90% as of December 31, 2010.
(5) Consists of municipal securities and equity investments, primarily related to CRA activities.
(6) Consists of negative amortization mortgage-backed securities.

We sold approximately $9.2 billion of investment securities, consisting predominantly of agency MBS, in 2011. We recorded a gain of $259 million on the sale of these securities. We provide additional information in "Market Risk Profile."

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 $683 million and gross unrealized losses of $227 million on available-for sale securities as of December 31, 2011, compared with gross unrealized gains of $830 million and gross unrealized losses of $281 million on available-for sale securities as of December 31, 2010. The decrease in gross unrealized losses in 2011 was primarily driven by a tightening of credit spreads, attributable to the improvement in credit performance and increased liquidity, and lower interest rates. The substantial majority of the gross unrealized losses as of December 31, 2011 and 2010 related to non-agency residential MBS. Of the $227 million gross unrealized losses as of December 31, 2011, $169 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 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.

Other-than-temporary impairment ("OTTI") is recognized in earnings if one of the following conditions exists: (1) a decision to sell the security has been made; (2) it is more likely than not that we will be required to sell the security before the impairment is recovered; or (3) the amortized cost basis is not expected to be recovered. If, however, we have not made a decision to sell the security and we do not expect that we will be required to sell prior to recovery of the amortized cost basis, only the credit component of other-than-temporary impairment is recognized in earnings. The noncredit component is recorded in AOCI. The credit component is the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted based on the original yield, while the noncredit component is the remaining difference between the security's fair value and amortized cost.

We recognized net OTTI on debt securities of $21 million, $65 million and $32 million in 2011, 2010 and 2009, respectively, due in part to deterioration in the credit performance of certain securities resulting from the continued weaknesses in the housing market, high unemployment, and our decision to sell certain other securities before recovery of the impairment amount.

We provide additional information on our available-for-sale securities 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+. This downgrade lowered the credit ratings of our U.S. Treasury and U.S. Agency securities to AA+. As a result, the percentage of securities in our investment portfolio with an AAA or equivalent rating fell to 24% as of December 31, 2011, from 92% as of December 31, 2010. If the S&P downgrade had not occurred, the securities in our investment portfolio with an AAA or equivalent rating would have been approximately 91% as of December 31, 2011. Approximately 4% of our total investment securities portfolio was below investment grade as of December 31, 2011 and 2010. We categorize the credit ratings of our investment securities based on the lowest credit rating as issued by the rating agencies S&P, Moody’s Investors Service (“Moody’s”), Fitch Ratings (“Fitch”) and Dominion Bond Rating Services (“DBRS”).

Table 11 provides information on the credit ratings of our non-agency residential MBS, non-agency commercial MBS and asset-backed securities, which accounted for the substantial majority of the unrealized losses related to our investment securities portfolio as of December 31, 2011.

Table 11: Non-Agency Investment Securities Credit Ratings

	December 31,							
	2011				2010			
(Dollars in millions)	Amortized Cost	AAA	Other Investment Grade	Below Investment Grade or Not Rated	Amortized Cost	AAA	Other Investment Grade	Below Investment Grade or Not Rated
Non-agency residential MBS	**$ 1,340**	**— %**	**3%**	**97%**	$ 1,826	0%	9%	91%
Non-agency commercial MBS	**459**	**92**	**8**	**—**	—	—	—	—
Asset-backed securities	**10,119**	**86**	**14**	**—**	9,901	90	10	0

Total Loans

Table 12 summarizes loans held for investment, net of the allowance for loan and lease losses, as of December 31, 2011 and 2010.

Table 12: Net Loans Held for Investment

	December 31,					
	2011			2010		
(Dollars in millions)	Total Loans Held for Investment	Allowance	Net Loans Held for Investment	Total Loans Held for Investment	Allowance	Net Loans Held for Investment
Credit card	**$ 65,075**	**$ 2,847**	**$ 62,228**	$ 61,371	$ 4,041	$ 57,330
Consumer banking	**36,315**	**652**	**35,663**	34,383	675	33,708
Commercial banking	**34,001**	**711**	**33,290**	29,742	826	28,916
Other	**501**	**40**	**461**	451	86	365
Total	**$ 135,892**	**$ 4,250**	**$ 131,642**	$ 125,947	$ 5,628	$ 120,319

Total loans held for investment increased by $10.0 billion, or 8%, in 2011 to $135.9 billion as of December 31, 2011, from $125.9 billion as of December 31, 2010. This 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 increased by $4.9 billion, or 4%, in 2011. Partially offsetting the increase in loans was 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. We provide additional information on the composition of our loan portfolio and credit quality below in "Credit Risk Profile."

Deposits

Our deposits have become our largest source of funding for our operations and asset growth. Total deposits increased by $6.0 billion, or 5%, in 2011, to $128.2 billion as of December 31, 2011, from $122.2 billion as of December 31, 2010. 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 Risk Profile."

Senior and Subordinated Notes and Other Borrowings

Senior and subordinated notes and other borrowings increased to $23.0 billion as of December 31, 2011, from $14.9 billion as of December 31, 2010. The $8.2 billion increase in our debt, which excludes securitized debt obligations, was primarily attributable to the proceeds of approximately $3.0 billion from the issuance of senior notes, a $5.8 billion increase in short-term FHLB advances and a decrease of $854 million due to the maturity of one senior note. We provide additional information on our borrowings in "Note 10—Deposits and Borrowings."

The $3.0 billion of senior notes were issued in July 2011 and 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.

Securitized Debt Obligations

Borrowings owed to securitization investors decreased by $10.4 billion to $16.5 billion as of December 31, 2011, from $26.9 billion as of December 31, 2010. This decrease was attributable to pay downs of the loans underlying the consolidated non-credit card securitization trusts, and the scheduled maturities of the debt within our credit card 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 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.

Table 13 presents the original principal balance of mortgage loan originations, by vintage for 2005 through 2008 for the three general categories of purchasers of mortgage loans and the outstanding principal balance as of December 31, 2011 and 2010:

Table 13: Unpaid Principal Balance of Mortgage Loans Originated and Sold to Third Parties Based on Category of Purchaser

	Unpaid Principal Balance December 31,		Original Unpaid Principal Balance				
(Dollars in billions)	**2011**	**2010**	**Total**	**2008**	**2007**	**2006**	**2005**
Government sponsored enterprises (“GSEs”)[1]	**$ 5**	$ 5	$ 11	$ 1	$ 4	$ 3	$ 3
Insured Securitizations	**6**	7	19	—	2	8	9
Uninsured Securitizations and Other	**30**	33	81	3	15	30	33
Total	**$ 41**	$ 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 $19 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 $6 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 $81 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 $50 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 $22 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. Various known and unknown investors purchased the remaining $9 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 $41 billion in unpaid principal balance remains outstanding as of December 31, 2011, approximately $15 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 $9 billion original principal balance of mortgage loans for which we do not have complete information about the current holders or the 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 $2.1 billion original principal balance of mortgage loans as of December 31, 2011, compared with $1.6 billion as of December 31, 2010. As of December 31, 2011, the majority of new repurchase demands received over the last year and, as discussed below, the majority of our $943 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.

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.

Table 14: Open Pipeline All Vintages (all entities)[(1)]

(Dollars in millions) (All amounts are Original Principal Balance)	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	**196**	**359**	**131**	**686**
Loans repurchased/made whole	**(67)**	**(14)**	**(16)**	**(97)**
Demands rescinded	**(85)**	**(6)**	**(30)**	**(121)**
Reclassifications[(3)]	**6**	**72**	**(78)**	**0**
Open claims as of December 31, 2011	**$ 176**	**$ 1,243**	**$ 672**	**$ 2,091**

(1) The open pipeline includes all repurchase requests ever received by our subsidiaries where either 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 the original principal balance amounts of the mortgage loans at issue 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.

(3) Represents adjustments to correct the counterparty category as of December 31, 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 GSEs and Insured Securitizations and a decrease in open claims attributable to Uninsured Securitizations and 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. 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.

For the $6 billion original principal balance of mortgage loans in the Inactive Insured Securitizations category and the $81 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 activity and repurchase rates 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 are currently suing investment banks and securitization sponsors under federal and/or state securities laws. 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 reserves for all three subsidiaries were $943 million as of December 31, 2011, as compared with $816 million as of December 31, 2010. We recorded a total provision for repurchase losses for our representation and warranty repurchase exposure of $212 million for the year ended December 31, 2011, primarily driven by increased repurchase activity from Uninsured Securitizations and other whole loan investors. During 2011, we had settlements of repurchase requests totaling $85 million that were charged against the reserve. The table below summarizes changes in our representation and warranty reserves for the years ended December 31, 2011 and 2010.

The following table summarizes changes in our representation and warranty reserve for the full years of 2011 and 2010.

Table 15: Changes in Representation and Warranty Reserve

(Dollars in millions)	Year Ended December 31, 2011	Year Ended December 31, 2010
Representation and warranty repurchase reserve, beginning of period[1]	**$ 816**	$ 238
Provision for repurchase losses[2]	**212**	636
Net realized losses	**(85)**	(58)
Representation and warranty repurchase reserve, end of period[1]	**$ 943**	$ 816

(1) Reported in our consolidated balance sheets as a component of other liabilities.
(2) The pre-tax portion of the provision for mortgage repurchase claims recognized in our consolidated statements of income as a component of non-interest income totaled $43 million and $204 million in 2011 and 2010, 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 $169 million and $432 million in 2011 and 2010, respectively.

As indicated in the table below, most of the reserves relate 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 16: Allocation of Representation and Warranty Reserves

(Dollars in millions, except for loans sold)	Reserve Liability December 31, 2011	2010	Loans Sold 2005 to 2008[1]
GSEs and Active Insured Securitizations	**$ 778**	$ 796	$ 24
Inactive Insured Securitizations and Others	**165**	20	87
Total	**$ 943**	$ 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 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, the same level as we provided as of September 30, 2011 and an increase of $400 million from the estimate we provided as of December 31, 2010. 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 (“QSPEs”). Accordingly, we considered these trusts to be off-balance sheet arrangements. Effective January 1, 2010, we prospectively adopted two new accounting standards related to the transfer and servicing of financial assets and consolidations that changed how we account for our securitization trusts. The adoption of these new consolidation accounting standards resulted in the consolidation of substantially all of our securitization trusts.

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 $2.3 billion and $319 million, respectively, as of December 31, 2011, and our maximum exposure to loss was $2.5 billion. We provide a discussion of our activities related to these VIEs in "Note 7—Variable Interest Entities and Securitizations."

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 OCC, respectively. The capital adequacy standards set forth minimum risk-based and leverage capital requirements that are based on quantitative and 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 total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4%, 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) in order to be considered adequately capitalized.

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 these 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.

Table 17 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 December 31, 2011 and 2010. Table 18 provides the details of the calculation of our capital ratios.

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Table 17: Capital Ratios Under Basel I(1)

(Dollars in millions)	December 31, 2011 Capital Ratio	2011 Minimum Capital Adequacy	2011 Well Capitalized	2010 Capital Ratio	2010 Minimum Capital Adequacy	2010 Well Capitalized
Capital One Financial Corp:(2)						
Tier 1 common equity(3)	**9.7%**	**N/A**	**N/A**	8.8%	N/A	N/A
Tier 1 risk-based capital(4)	**12.0**	**4.0%**	**6.0%**	11.6	4.0%	6.0%
Total risk-based capital(5)	**14.9**	**8.0**	**10.0**	16.8	8.0	10.0
Tier 1 leverage(6)	**10.1**	**4.0**	**N/A**	8.1	4.0	N/A
Capital One Bank (USA) N.A.						
Tier 1 risk-based capital	**11.2%**	**4.0%**	**6.0%**	13.5%	4.0%	6.0%
Total risk-based capital	**15.0**	**8.0**	**10.0**	23.6	8.0	10.0
Tier 1 leverage	**10.2**	**4.0**	**5.0**	8.3	4.0	5.0
Capital One, N.A.						
Tier 1 risk-based capital	**11.0%**	**4.0%**	**6.0%**	11.1%	4.0%	6.0%
Total risk-based capital	**12.2**	**8.0**	**10.0**	12.4	8.0	10.0
Tier 1 leverage	**8.7**	**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.
(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 December 31, 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 December 31, 2011.

Table 18: Risk-Based Capital Components Under Basel I(1)

(Dollars in millions)	December 31, 2011	December 31, 2010
Total stockholders’ equity	**$ 29,666**	$ 26,541
Less: Net unrealized gains recorded in AOCI(2)	**(289)**	(368)
Net losses on cash flow hedges recorded in AOCI(2)	**71**	86
Disallowed goodwill and other intangible assets(3)	**(13,855)**	(13,953)
Disallowed deferred tax assets	**(534)**	(1,150)
Other	**(2)**	(2)
Tier 1 common equity	**15,057**	11,154
Plus: Tier 1 restricted core capital items(4)	**3,635**	3,636
Tier 1 risk-based capital	**18,692**	14,790
Plus: Long-term debt qualifying as Tier 2 capital	**2,438**	2,827
Qualifying allowance for loan and lease losses	**1,979**	3,748
Other Tier 2 components	**23**	29
Tier 2 risk-based capital	**4,440**	6,604
Total risk-based capital	**$ 23,132**	$ 21,394
Risk-weighted assets(5)	**$155,657**	$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.

In November 2011, the Federal Reserve finalized capital planning rules applicable to large bank holding companies like us (commonly referred to as Comprehensive Capital Analysis and Review or CCAR). Under the rules, bank holding companies with consolidated assets of $50 billion or more must submit capital plans to the Federal Reserve on an annual basis and must obtain approval from the Federal Reserve before making most capital distributions. The purpose of the rules is to ensure that large bank holding companies have robust, forward-looking capital planning processes that account for their unique risks and capital needs to continue operations through times of economic and financial stress. As part of its evaluation of a capital plan, the Federal Reserve will consider the comprehensiveness of the plan, the reasonableness of assumptions and analysis and methodologies used to assess capital adequacy and the ability of the bank holding company to maintain capital above each minimum regulatory capital ratio and above a Tier 1 common ratio of 5% on a pro forma basis under expected and stressful conditions throughout a planning horizon of at least nine quarters.

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 risk-based capital ratio. In January 2010, banking regulators issued regulatory capital rules related to the impact of the new consolidation accounting standards. Under these rules, we are 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 negatively impacted our risk-based regulatory capital ratios as of December 31, 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 and will depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects 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. For additional information on dividends, see "Item 1. Business—Supervision and Regulation—Dividends, Stock Purchases and Transfer of Funds."

Regulatory 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

$2.6 billion and $1.3 billion, respectively, as of December 31, 2011. Although funds are available for dividend payments from the Banks, we would execute a dividend from the Banks in consultation with the OCC. 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.

We submitted a Comprehensive Capital Analysis and Review ("CCAR 2012") to the Federal Reserve on January 9, 2012 along with eighteen other large U.S. banking organizations. We expect to incorporate any feedback from our regulators in response to the CCAR 2012 submission in our ongoing capital management planning.

Settlement of Forward Sale Agreements

On February 16, 2012, we settled forward sale agreements that we entered into with certain counterparties acting as forward purchasers in connection with a public offering of shares of our common stock on July 19, 2011. Pursuant to the forward sale agreements, we issued 40 million shares of our common stock at settlement. After underwriter's discounts and commissions, the net proceeds to the company were at a forward sale price per share of $48.17 for a total of approximately $1.9 billion.

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 a planned capital raise of an estimated $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 closing of the pending HSBC acquisition, 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.

RISK MANAGEMENT

Overview

Risk management is an important part of our business model, as all financial institutions are exposed to a variety of business risks that can significantly affect their financial performance. Our business activities expose us to eight major categories of risks: strategic risk, reputational risk, compliance risk, legal risk, liquidity risk, credit risk, market risk and operational risk.

- *Credit Risk:* Credit risk is the risk of financial loss arising from a borrower's or a counterparty's inability to meet its financial or contractual obligations.
- *Liquidity Risk:* Liquidity risk is the risk that we will not be able to meet our future financial obligations as they come due or invest in future asset growth because of an inability to obtain funds at a reasonable price within a reasonable time period.
- *Market Risk:* Market risk is 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.
- *Compliance Risk:* Compliance risk is the risk of financial loss due to regulatory fines or penalties, sanctions restricting or suspending our business or costs of mandatory corrective action resulting from a failure to

comply with applicable laws, regulations, principles or other supervisory guidance requirements, or our own internal code of conduct and policies intended to ensure compliance with applicable laws and regulations.

- *Operational Risk:* Operational risk is the risk of loss, adverse customer experience, or negative regulatory or reputation impact resulting from inadequate or failed internal process, human factors, systems, or from external events.
- *Legal Risk:* Legal risk represents the risk of material adverse impact due to new or changes in laws and regulations; new interpretations of law; the drafting, interpretation and enforceability of contracts; adverse decisions or consequences arising from litigation or regulatory scrutiny; the establishment, management and governance of our legal entity structure; or the failure to seek or follow appropriate legal counsel when needed.
- *Reputational Risk:* Reputational risk is the risk that negative publicity, whether true or not, could adversely affect our market value, profitability, customer base, funding sources or operations or result in costly litigation.
- *Strategic Risk:* Strategic risk is the risk that results from adverse business decisions, ineffective or inappropriate business plans, or failure to respond to changes in the competitive environment, business cycles, customer preferences, product obsolescence, regulatory environment, business strategy execution, and/or other inherent risks of the business.

We discuss below our overall risk management principles, roles and responsibilities, framework and risk appetite. Following this section, we address in more detail the specific procedures, measures and analysis of the major categories of risks that we manage.

Risk Management Principles

Our risk management framework is intended to identify, assess and mitigate risks that affect or have the potential to affect our business. We target financial returns that compensate us for the amount of risk that we take and avoid excessive risk-taking. Our risk management framework consists of five key risk management principles:

(1) Individual businesses take and manage risk within established tolerance levels in pursuit of strategic, financial and other business objectives.

(2) 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.

(3) 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.

(4) 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.

(5) Independent assurance functions, such as our Internal Audit and Credit Review teams, assess the governance framework and test transactions, business processes and procedures to provide assurance as to whether our risk programs are operating as intended.

Our approach is reflected in five critical risk management practices of particular importance in the financial services industry due to changing regulatory environments and ongoing economic uncertainty.

First, we seek to mitigate liquidity risk strategically and tactically. From a strategic perspective, we have acquired and built deposit gathering businesses and significantly reduced our loan to deposit ratio. From a tactical perspective, we have accumulated a very large liquidity reserve comprising cash, high-quality, unencumbered securities, and committed collateralized credit lines and conduit facilities.

Second, we recognize that we are exposed to cyclical changes in credit quality. Consequently, we try to ensure our credit portfolio is resilient to economic downturns. Our most important tool in this endeavor is sound underwriting, using what we deem to be conservative assumptions. In unsecured consumer loan underwriting, we generally assume that loans will be subject to an environment in which losses are significantly higher than those prevailing at the time of underwriting. In commercial underwriting, we generally require strong cash flow, collateral and covenants and guarantees. In addition to sound underwriting, we continually monitor our portfolio and take steps to collect or work out distressed loans.

Third, we recognize that compliance is becoming more complex and that regulatory and consumer expectations are rising. In the aftermath of the financial crisis, new rules and regulations were and continue to be promulgated and a new agency was created, the Consumer Financial Protection Bureau, to increase focus on consumer protection. In response, we have been and will continue to expand the scope and intensity of our compliance activities including developing requirements, approving new products, establishing procedures and controls, training staff and testing the effectiveness of business controls and the overall program.

Fourth, we recognize that reputational risk is of particular concern for financial institutions as a result of the aftermath of the recent financial crisis and economic downturn, which has resulted in increased regulation and widespread regulatory changes. Consequently, our Chief Executive Officer and executive team manage both tactical and strategic reputation issues and build our relationships with the government, media and other constituencies to help strengthen the reputations of both our company and industry. Our actions include taking public positions in support of better consumer practices in our industry and, where possible, unilaterally implementing those practices in our business.

Finally, we recognize that maintaining a strong capital position is essential to our business strategy and competitive position. We also recognize that regulatory and market expectations for the amount and quality of capital are rising. Understanding and managing risks to our capital position is an underlying objective of all our risk programs. Stress testing and economic capital measurement, both of which incorporate inputs from across the risk spectrum, are key tools for evaluating our capital position and risk adjusted returns. We also consider risks to our reputation and to our ability to access capital markets as part of our process for evaluating our capital plans. See “MD&A—Capital Management” for additional information on our capital adequacy and strength.

Risk Management Roles and Responsibilities

The Board of Directors is responsible for establishing our overall risk framework, approving and overseeing execution of the Enterprise Risk Management Policy and key risk category policies, establishing our risk appetite, and regularly reviewing our risk profile.

The Chief Risk Officer, who reports to the Chief Executive Officer, is responsible for overseeing our risk management program and driving appropriate action to resolve any weaknesses. The risk management program begins with a set of policies and risk appetites approved by the Board that are implemented through a system of risk committees and senior executive risk stewards. We have established risk committees at both the corporate and divisional level to identify and manage risk. In addition, we have assigned a senior executive expert to each of eight risk categories. We refer to these experts as risk stewards. These executive risk stewards work with the Chief Risk Officer and the risk committees to identify and report risks, develop mitigation plans and controls and remediate issues. The Chief Risk Officer aggregates the results of these processes to assemble a view of our risk profile. Both management and the Board of Directors regularly review the risk profile.

Risk Management Framework

We use a consistent risk management framework to manage risk. This framework applies at all levels, from the development of the Enterprise Risk Management Program itself to the tactical operations of the front-line business team. Our risk management framework, which is built around governance, processes and people, consists of the following six key elements:

- Objective Setting

- Risk Assessment
- Control Activities
- Communication and Information
- Program Monitoring
- Organization and Culture

Objective Setting

Our risk management approach begins with objective setting. We establish strategic, financial, operational and other objectives during our strategic and annual planning processes and throughout the year. These objectives cascade through the organization to individual teams of associates. The risk management approach helps identify and manage risks that have the potential to interfere with the achievement of our stated objectives.

Risk Assessment

Risk assessment is the process of identifying risks to our objectives, evaluating the impact of those risks and choosing and executing on a response. Our risk responses include risk avoidance, mitigation or acceptance. Generally, our risk responses are guided by our established risk appetite. For certain risk categories (legal, compliance, liquidity, credit and market risks), risk assessment is largely conducted by central risk groups or jointly between business areas and central groups. For other risk categories (strategic, reputational and operational risks), risk assessment is primarily the responsibility of business areas with less central support.

Control Activities

We consider our control activities to be the day-to-day backbone of our risk management. Controls provide reasonable assurance that legal, regulatory, and business requirements are being met, and identified risks are being mitigated, avoided, or accepted according to our risk response choices and risk appetite. We have practices in place designed to establish key controls and assess their effective in preventing a breakdown. Control activities include the monitoring of adherence to current policy and procedure requirements, sign-offs, and regular reporting to management. They also include the resolution of regulatory and audit findings and issues and the procedures that trigger objective setting and risk assessments when new business opportunities are evaluated or business hierarchy changes occur.

Communication and Information

Communication and information infrastructures must be solid and are necessary to support the objective setting, risk assessment, and control activities described above. Robust risk management requires well-functioning communication channels to inform associates of their responsibilities, alert them to issues or changes that might affect their activities, and to enable an open flow of information up, down, and across our company. Robust risk management also requires management information to enable controls to work effectively and to support the analysis needed to set objectives and assess risk accurately. Our risk governance structure is designed to support solid and ongoing communication. Specific reports and communication infrastructure are defined within our individual risk category policies.

Program Monitoring

Program monitoring is critical to our overall risk management program. Program monitoring involves assessing the accuracy, sufficiency, and effectiveness of current objectives, risk assessments, controls, ownership, communication, and management support. The assessment of a risk program or activity can be qualitative or quantitative. We encourage the use of measurements and metrics where it is possible, recognizing that some risks or programs cannot be measured quantitatively. Where deficiencies are discovered, we seek to update the risk management program to resolve the deficiencies in a timely manner. Significant deficiencies are escalated to the appropriate risk executive or risk committee. Clear accountability is defined when resolving deficiencies so that the desired outcome is achieved. Risk management programs are monitored at every level from the overall Enterprise Risk Management Program to the individual risk management activities in each business area.

Organization and Culture

Our intent is to create and maintain an effective risk management organization and culture. A strong organization and culture promotes risk management as a key factor in making important business decisions and helps drive risk management activities deeper into the company. An effective risk management culture starts with a well-defined risk management philosophy. It requires established risk management objectives that align to business objectives and make targeted risk management activities part of ongoing business management activities. We believe we staff risk functions at the appropriate levels with qualified associates and effective tools that support risk management practices and activities. Senior management and the Board of Directors are ultimately accountable for promoting adherence to sound risk principles and tolerances. We seek to incent associates at all levels to perform according to corporate policies and risk tolerance and in conformity with applicable laws and regulations. Additionally, management establishes performance goals, plans, and incentives that are designed to promote financial performance within the confines of a sound risk management program and within defined risk tolerances.

We have a corporate Code of Business Conduct and Ethics (the "Code") (available on the Corporate Governance page of our website at www.capitalone.com/about) under which each associate is obligated to behave with integrity in dealing with customers and business partners and to comply with applicable laws and regulations. We disclose any waivers to the Code on our website. We also have an associate performance management process that emphasizes achieving business results while ensuring integrity, compliance, and sound business management.

Risk Appetite

We have a defined risk appetite for each of our eight risk categories that is approved by the Board of Directors. Stated risk appetites define the parameters for taking and accepting risks and are used by management and the Board of Directors to make business decisions.

For some risk categories (credit, liquidity, market), our risk appetite statements are translated into largely quantitative limits and guidelines. For other risk categories, our risk appetite is defined more qualitatively and is supported by indicative metrics where appropriate. We communicate risk appetite statements, metrics and limits to the appropriate levels in the organization and monitor adherence.

Primary Risk Categories

Below we provide an overview of how we manage our eight primary risk categories. Following this section, we provide detailed information and metrics about three of our most significant risk exposures: credit, liquidity and market.

Credit Risk Management

The Chief Risk Officer, in conjunction with the Consumer and Commercial Chief Credit Officers, is responsible for establishing credit risk policies and procedures, including underwriting and hold guidelines and credit approval authority, and monitoring credit exposure and performance of our lending-related transactions. These responsibilities are fulfilled by the Chief Consumer Credit Officer and the Chief Commercial Credit Officer. Division Presidents are responsible for managing the credit risk within their division and maintaining processes to control credit risk and comply with credit policies and guidelines. In addition, the Chief Risk Officer establishes policies, delegates approval authority and monitors performance for non-loan credit exposure entered into with financial counterparties or through the purchase of credit sensitive securities in our investment portfolio.

Our credit policies establish standards in five areas: customer selection, underwriting, monitoring, remediation, and portfolio management. The standards in each area provide a framework comprising specific objectives and control processes. These standards are supported by detailed policies and procedures for each component of the credit process. Starting with customer selection, our goal is to provide credit on terms that generate above hurdle returns. We use stress tests in conjunction with our planning process to establish specific limits to help us achieve that goal.

We apply quantitative credit risk limits and guidelines to each of our lines of business. We monitor performance and forecasts relative to these guidelines and report results and any required mitigating actions to the Credit Policy Committee and to the Audit and Risk Committee of the Board.

Liquidity Risk Management

The Chief Financial Officer is responsible for managing liquidity risk. We assess liquidity strength by evaluating several different balance sheet metrics under severe stress scenarios to ensure we can withstand significant funding degradation in both deposits and capital marketing funding sources. Management reports liquidity metrics to the Asset/Liability Management Committee monthly and to the Finance and Trust Oversight Committee of the Board of Directors no less than quarterly. Any policy breach in a liquidity limit is required to be reported to the Treasurer as soon as it is identified and to the Asset/Liability Management Committee at the next regularly scheduled committee meeting, unless the breach activates the Liquidity Contingency Plan, in which case a special meeting may be called. Any policy breach is also required to be reported to the Finance and Trust Oversight Committee no later than the next regularly scheduled meeting. Detailed processes, requirements and controls are contained in our policies and supporting procedures.

Market Risk Management

The Chief Financial Officer is responsible for managing market risk. We manage market risk exposure centrally and establish quantitative limits to control our exposure. We define market risk as 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.

The market risk positions of our banking entities and the company are calculated separately and in total and are reported in comparison to pre-established limits to the Asset/Liability Management Committee monthly and to the Finance and Trust Oversight Committee of the Board no less than quarterly. Management is authorized to utilize financial instruments as outlined in our policy to actively manage market risk exposure. Detailed processes, requirements and controls are contained in our policies and supporting procedures.

Compliance Risk Management

The Chief Compliance Officer is responsible for establishing the compliance management program, for determining specific compliance requirements, and for monitoring performance. Division Presidents are responsible for building and maintaining business processes that meet the requirements of the compliance program.

We ensure compliance by maintaining an effective Compliance Management Program consisting of sound policies, systems, processes, and reports. The Compliance Management Program provides management with guidance, training, and monitoring to provide reasonable assurance of our compliance with internal and external compliance requirements. Additionally, management and the Corporate Compliance department jointly and separately conduct on-going monitoring and assess the state of compliance. The assessment provides the basis for performance reporting to management and the Board, allows business areas to determine if their compliance performance is acceptable, and confirms effective compliance controls are in place. Business areas embed compliance requirements and controls into their business policies, standards, processes and procedures. They regularly monitor and report on the efficacy of their compliance controls. Corporate Compliance, working jointly with the business, defines and validates a standard compliance monitoring and reporting methodology. Compliance results and trends are reported to management's Risk Management Committee and the Audit and Risk Committee of the Board.

Operational Risk Management

The Chief Operational Risk Officer is responsible for the establishment of risk management standards and for governance and monitoring of operational risk at a corporate level. Division Presidents are responsible for managing operational risk within their business areas.

While most operational risks are managed and controlled by business areas, the Operational Risk Management Program establishes requirements and control processes that assure certain consistent practices in the management of operational risk and provides transparency to the corporate operational risk profile. Our Operational Risk Management Program also includes two primary additional functions. Operational Risk Reporting involves independent assessments of the control and sustainability of key business processes at a corporate and business area level, and such assessments are provided to the Chief Risk Officer, management's Risk Management Committee and the Audit and Risk Committee of the Board.

Operational risk results and trends are reported to the Risk Management Committee and the Audit and Risk Committee of the Board.

Legal Risk Management

The General Counsel is responsible for managing legal risk by providing legal evaluation and guidance to the enterprise and business areas. This evaluation and guidance is based on an assessment of the type and degree of legal risk associated with the internal business area practices and activities and of the controls the business has in place to mitigate legal risks. Legal risk is governed by and defined in our Legal Risk Policy.

Reputational Risk Management

The General Counsel is responsible for managing our overall reputational risk. Reputational risks associated with daily interactions are managed by our business areas. Business area activities are controlled by the frameworks set forth in the Reputational Risk Management Policy and other risk management policies. Each business area determines how much risk it is willing to accept and when it is prudent to execute mitigation activities. From time to time, senior management conducts detailed assessments of our business practices and evaluates them in terms of their potential impact on Capital One's reputation. The Reputational Risk Management Policy sets forth the obligation of each business area, with direction and guidance from the Reputational Risk Steward and his or her designee to identify, assess and determine whether and how best to mitigate its reputation risk. The Reputational Risk Steward is responsible for reporting on the assessments of our aggregate reputation risk, as well as the state of our reputation with specific stakeholder groups, to the Chief Risk Officer, the Chief Executive Officer, the Risk Management Committee and the Audit and Risk Committee of the Board of Directors, as appropriate.

Strategic Risk Management

The Chief Executive Officer is responsible for our strategy. The Chief Executive Officer develops an overall corporate strategy and leads alignment of the entire organization with this strategy through definition of strategic imperatives and top-down communication. The Chief Executive Officer and other senior executives spend significant time throughout the entire company sharing our strategic imperatives to promote an understanding of our strategy and connect it to day-to-day associate activities to enable effective execution. Division Presidents are accountable for defining business strategy within the context of the overall corporate level strategy and strategic imperatives. Business strategies are integrated into the corporate strategic plan and are reviewed and approved separately and together on an annual basis by the Chief Executive Officer and the Board of Directors.

CREDIT RISK PROFILE

Our loan portfolio accounts for the substantial majority of our credit risk exposure. Below we provide information about the composition of our loan portfolio, key concentrations and credit performance metrics.

We also engage in certain non-lending activities that may give rise to credit and counterparty settlement risk, including the purchase of securities for our investment securities portfolio, entering into derivative transactions to manage our market risk exposure and to accommodate customers, foreign exchange transactions and deposit overdrafts. These activities are also governed under our credit policy and are subject to independent review and approval. We provide additional information on credit risk related to our investment securities portfolio under “Consolidated Balance Sheet Analysis—Investment Securities” and credit risk related to derivative transactions in “Note 11—Derivative Instruments and Hedging Activities.”

Loan Portfolio Composition

We provide a variety of lending products. Our primary products include credit cards, auto loans, home loans and commercial loans.

- *Credit cards*: We market a range of credit card products across the credit spectrum and through a variety of channels. Our credit cards generally have variable long-term interest rates. Credit card accounts are underwritten using an automated underwriting system based on predictive models that we have developed. The underwriting criteria, which are customized for individual products and marketing programs, are established based on an analysis of the net present value of expected revenues, expenses and losses, subject to a further analysis using a variety of stress conditions. Underwriting decisions are generally based on an applicant’s income, estimated debt burden and credit bureau information. We maintain a credit card securitization program and selectively sell charged-off credit card loans. However, subsequent to the adoption of the consolidation accounting guidance on January 1, 2010, we retain all of our credit card loans on our balance sheet.
- *Auto loans*: We market a range of auto loan products across the credit spectrum. Customers are acquired through a network of auto dealers and direct marketing. Our auto loans generally have fixed interest rates and loan terms of 72 months or less. Loan size limits are customized by program and subject to a current maximum of $75,000. Similar to credit card accounts, the underwriting criteria are customized for individual products and marketing programs and based on analysis of net present value of expected revenues, expenses and losses, subject to maintaining resilience under a variety of stress conditions. Underwriting decisions are generally based on an applicant’s income, estimated debt-to-income ratio, and credit bureau information, along with collateral characteristics such as loan-to-value ratio. We generally retain all of our auto loans, though we have securitized auto loans and sold charged-off auto loans in the past and may do so in the future.
- *Home loans*: Most of the existing home loans in our loan portfolio were originated by banks we acquired. The underwriting standards for these loans were less restrictive than our current underwriting standards.

Currently, we generally originate residential mortgage and home equity loans in our retail branch footprint through our branches, dedicated home loan officers and direct marketing. Our home loan products include conforming and non-conforming fixed rate and adjustable rate mortgage loans, as well as first and second lien home equity loans and lines of credit. Our underwriting standards for conforming loans are designed to meet the underwriting standards required by Fannie Mae, Freddie Mac or FHA/VA (the "agencies") at a minimum, and we sell most of our conforming loans to the agencies. We generally retain non-conforming mortgages and home equity loans and lines of credit. We currently restrict non-conforming loans to properties within our retail branch footprint. Our underwriting policy limits for these loans include (1) a maximum loan-to-value ratio of 80% for loans without mortgage insurance; (2) a maximum loan-to-value ratio of 95% for loans with mortgage insurance or for home equity products; (3) a maximum debt-to-income ratio of 50%; and (4) a maximum loan amount of $2.5 million. Our underwriting procedures are intended to verify the income of applicants and obtain appraisals to determine home values. We may, in limited instances, use automated valuation models to determine home values.

- *Commercial loans.* We offer a range of commercial lending products, including loans secured by commercial real estate and loans to middle market industrial and service companies. Our commercial loans may have a fixed or variable interest rate; however, the majority of our commercial loans have variable rates. Our underwriting standards require an analysis of the borrower's financial condition and prospects, as well as an assessment of the industry in which the borrower operates. Where relevant, we evaluate and appraise underlying collateral and guarantees. We maintain underwriting guidelines and limits for major types of borrowers and loan products that specify, where applicable, guidelines for debt service coverage, leverage, loan-to-value ratio and standard covenants and conditions. We assign a risk rating and establish a monitoring schedule for loans based on the risk profile of the borrower, industry segment, source of repayment, the underlying collateral and guarantees (if any) and current market conditions. Although we generally retain commercial loans, we may syndicate large positions for risk mitigation purposes. In addition, we have sold impaired commercial loans in the past and may do so in the future.

Total loans that we manage consist of held-for-investment loans recorded on our balance sheet and loans held in our securitization trusts. Prior to our January 1, 2010 adoption of the new consolidation standards, a portion of our managed loans were accounted for as off-balance sheet. Loans underlying our securitization trusts are now reported on our consolidated balance sheets in restricted loans for securitization investors. Table 19 presents the composition of our total loan portfolio, by business segments, as of December 31, 2011 and 2010.

Table 19: Loan Portfolio Composition

	December 31,			
	2011		2010	
(Dollars in millions)	Amount	% of Total Loans	Amount	% of Total Loans
Credit Card business:				
Credit card loans:				
Domestic credit card loans	**$ 54,682**	**40.3%**	$ 49,979	39.7%
International credit card loans	**8,466**	**6.2**	7,513	6.0
Total credit card loans	**63,148**	**46.5**	57,492	45.7
Installment loans:				
Domestic installment loans	**1,927**	**1.4**	3,870	3.0
International installment loans	**—**	**—**	9	—
Total installment loans	**1,927**	**1.4**	3,879	3.0
Total credit card	**65,075**	**47.9**	61,371	48.7
Consumer Banking business:				
Auto	**21,779**	**16.0**	17,867	14.2
Home loan	**10,433**	**7.7**	12,103	9.6
Other retail	**4,103**	**3.0**	4,413	3.5
Total consumer banking	**36,315**	**26.7**	34,383	27.3
Commercial Banking business:[1]				
Commercial and multifamily real estate	**15,410**	**11.4**	13,396	10.6
Middle market	**12,684**	**9.3**	10,484	8.3
Specialty lending	**4,404**	**3.2**	4,020	3.2
Total commercial lending	**32,498**	**23.9**	27,900	22.1
Small-ticket commercial real estate	**1,503**	**1.1**	1,842	1.5
Total commercial banking	**34,001**	**25.0**	29,742	23.6
Other:				
Other loans	**501**	**0.4**	451	0.4
Total	**$135,892**	**100.0%**	$125,947	100.0%

[1] Includes construction and land development loans totaling $2.2 billion and $2.4 billion as of December 31, 2011 and 2010, respectively.

Table 20 presents a schedule of our loan maturities as of December 31, 2011.

Table 20: Loan Maturity Schedule

	December 31, 2011			
(Dollars in millions)	Due Up to 1 Year	> 1 Year to 5 Years	> 5 Years	Total
Fixed rate:				
Credit card[1][2]	$ 2,557	$13,846	$ 64	$ 16,467
Consumer	986	14,814	11,539	27,339
Commercial	1,402	6,942	4,981	13,325
Other	13	38	147	198
Total fixed-rate loans	4,958	35,640	16,731	57,329
Variable rate:				
Credit card[1]	48,608	—	—	48,608
Consumer	7,803	1,001	172	8,976
Commercial	18,571	2,021	84	20,676
Other	264	12	27	303
Total variable-rate loans	75,246	3,034	283	78,563
Total	$80,204	$38,674	$17,014	$135,892

(1) Due to the revolving nature of credit card loans, we report all variable-rate credit card loans as due in one year or less. We report fixed-rate credit card loans with introductory rates that expire after a certain period of time as due in one year or less. We assume that our remaining fixed-rate credit card loans will mature within one to three years.

(2) Includes installment loans of $1.9 billion.

We market our credit card products on a national basis throughout the United States, Canada and the United Kingdom. The Credit Card segment accounted for $65.1 billion, or 48% of our total loan portfolio as of December 31, 2011, compared with $61.4 billion, or 49% as of December 31, 2010. Because of the diversity of our credit card products and national marketing approach, no single geographic concentration exists within the credit card portfolio. Table 21 displays the geographic concentration of our credit card loan portfolio as of December 31, 2011 and 2010.

Table 21: Credit Card Concentrations

	December 31,			
	2011		2010	
(Dollars in millions)	Loans	% of Total	Loans	% of Total
Domestic card:				
California	**$ 6,410**	**9.9%**	$ 6,242	10.2%
Texas	**3,862**	**5.9**	3,633	5.9
New York	**3,737**	**5.7**	3,599	5.8
Florida	**3,382**	**5.2**	3,298	5.4
Illinois	**2,664**	**4.1**	2,403	3.9
Pennsylvania	**2,575**	**4.0**	2,389	3.9
Ohio	**2,284**	**3.5**	2,109	3.4
New Jersey	**2,162**	**3.3**	1,971	3.2
Michigan	**1,834**	**2.8**	1,716	2.8
Other	**27,699**	**42.6**	26,489	43.2
Total domestic card	**56,609**	**87.0**	53,849	87.7
International card:				
United Kingdom	**3,828**	**5.9**	4,102	6.7
Canada	**4,638**	**7.1**	3,420	5.6
Total international card	**8,466**	**13.0**	7,522	12.3
Total credit card	**$65,075**	**100.0%**	$61,371	100.0%

Consumer Banking accounted for $36.3 billion, or 27%, of our loan portfolio as of December 31, 2011, compared with $34.4 billion, or 27%, of our loan portfolio as of December 31, 2010. The auto portfolio is originated primarily on a national basis, with additional originations through the retail branch network. The home loan portfolio is concentrated in New York, California and Louisiana which reflects the characteristics of the legacy Hibernia, North Fork and Chevy Chase Bank portfolios that comprise the majority of our home loans. Retail banking includes small business loans and other consumer lending products originated through our branch network. See Table 22 below for additional information.

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Table 22: Consumer Banking Concentrations

	December 31,			
	2011		2010	
(Dollars in millions)	Loans	% of Total	Loans	% of Total
Auto:				
Texas	**$ 3,901**	**10.7%**	$ 3,161	9.2%
California	**1,837**	**5.1**	1,412	4.1
Louisiana	**1,389**	**3.8**	1,334	3.9
Florida	**1,196**	**3.3**	954	2.8
Georgia	**1,124**	**3.1**	908	2.6
Illinois	**950**	**2.6**	843	2.5
New York	**940**	**2.6**	894	2.6
Other	**10,442**	**28.8**	8,361	24.3
Total auto	**21,779**	**60.0**	17,867	52.0
Home loan:				
New York	**2,046**	**5.7**	2,380	6.9
California	**1,896**	**5.2**	2,339	6.8
Louisiana	**1,530**	**4.2**	1,778	5.2
Maryland	**904**	**2.5**	886	2.6
Virginia	**794**	**2.2**	791	2.3
New Jersey	**579**	**1.5**	701	2.0
Other	**2,684**	**7.4**	3,228	9.4
Total home loan	**10,433**	**28.7**	12,103	35.2
Retail banking:				
Louisiana	**1,514**	**4.2**	1,754	5.1
Texas	**930**	**2.6**	1,125	3.3
New York	**896**	**2.5**	909	2.6
New Jersey	**295**	**0.8**	357	1.0
District of Columbia	**261**	**0.7**	20	0.0
Maryland	**72**	**0.2**	89	0.3
Virginia	**42**	**0.1**	52	0.2
Other	**93**	**0.2**	107	0.3
Total retail banking	**4,103**	**11.3**	4,413	12.8
Total consumer banking	**$36,315**	**100.0%**	$34,383	100.0%

Commercial Banking represented $34.0 billion, or 25%, of our loan portfolio as of December 31, 2011, up from 24% as of December 31, 2010. We operate our Commercial Banking business primarily in the geographies in which we maintain retail bank branches. As a result, most of the portfolio is located in New York, Louisiana and Texas, our largest retail banking markets. Our small-ticket commercial real estate portfolio was originated on a national basis through a broker network and is in run-off mode. See Table 23 below for additional information.

Table 23: Commercial Banking Concentrations

	December 31,			
	2011		2010	
(Dollars in millions)	Loans	% of Total	Loans	% of Total
Commercial lending:				
New York	**$13,213**	**38.9%**	$11,997	40.3%
Texas	**4,246**	**12.5**	2,990	10.1
Louisiana	**3,915**	**11.5**	2,968	10.0
New Jersey	**2,031**	**6.0**	2,149	7.2
Maryland	**921**	**2.7**	646	2.2
Massachusetts	**911**	**2.7**	800	2.7
District of Columbia	**763**	**2.2**	389	1.3
Pennsylvania	**743**	**2.2**	594	2.0
Virginia	**730**	**2.1**	534	1.8
California	**654**	**1.9**	598	2.0
Other	**4,371**	**12.9**	4,235	14.2
Total commercial lending	**32,498**	**95.6**	27,900	93.8
Small-ticket commercial real estate:				
New York	**616**	**1.8**	751	2.5
California	**329**	**1.0**	402	1.4
Massachusetts	**117**	**0.3**	146	0.5
New Jersey	**83**	**0.2**	102	0.3
Florida	**57**	**0.2**	76	0.3
Other	**301**	**0.9**	365	1.2
Total small-ticket commercial real estate	**1,503**	**4.4**	1,842	6.2
Total commercial banking	**$34,001**	**100.0%**	$29,742	100.0%

Credit Risk Measurement

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 larger balance, 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 details.

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 24 compares 30+ day performing loan delinquency rates, by loan category, as of December 31, 2011 and 2010. We also present total 30+ day delinquent loans.

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

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

Table 24: 30+ Day Delinquencies

	December 31, 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	**$ 2,073**	**3.66%**	**$2,073**	**3.66%**	$ 2,200	4.09%	$2,200	4.09%
International credit card and installment	**438**	**5.18**	**438**	**5.18**	432	5.75	432	5.75
Total credit card	**2,511**	**3.86**	**2,511**	**3.86**	2,632	4.29	2,632	4.29
Consumer Banking business:								
Auto	**1,498**	**6.88**	**1,604**	**7.36**	1,355	7.58	1,453	8.13
Home loan[2]	**93**	**0.89**	**478**	**4.58**	77	0.64	504	4.16
Retail banking[2]	**34**	**0.83**	**94**	**2.29**	41	0.93	93	2.11
Total consumer banking[2]	**1,625**	**4.47**	**2,176**	**5.99**	1,473	4.28	2,050	5.96
Commercial Banking business:								
Commercial and multifamily real estate[2]	**217**	**1.41**	**341**	**2.21**	147	1.10	302	2.25
Middle market[2]	**58**	**0.46**	**112**	**0.88**	28	0.27	89	0.85
Specialty lending	**20**	**0.44**	**41**	**0.93**	33	0.81	58	1.44
Small-ticket commercial real estate	**104**	**6.94**	**141**	**9.38**	95	5.16	131	7.11
Total commercial banking[2]	**399**	**1.17**	**635**	**1.87**	303	1.02	580	1.95
Other:								
Other loans	**17**	**3.38**	**46**	**9.18**	22	4.88	69	15.30
Total	**$ 4,552**	**3.35%**	**$5,368**	**3.95%**	$ 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 loan, retail banking, total consumer banking, commercial and multifamily real estate, middle market, and total commercial banking was 1.47%, 0.84%, 5.06%, 1.43%, 0.47% and 1.19%, respectively, as of December 31, 2011, compared with 1.06%, 0.97%, 5.01%, 1.12%, 0.28% and 1.04%, respectively, as of December 31, 2010.

(3) In the third quarter of 2011, we revised the manner in which we estimate expected recoveries of finance charge and fee amounts previously considered to be uncollectible. This revision resulted in an increase of 11 basis points in the 30+ day delinquency rate for Domestic Card. For International Card, the change did not have a significant impact on the 30+ day delinquency rate.

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Table 25 presents an aging of 30+ day performing delinquent loans included in the above table.

Table 25: Aging of 30+ Day Delinquent Loans

	December 31,			
	2011		2010	
(Dollars in millions)	Amount	% of Total Loans[1]	Amount	% of Total Loans[1]
Total loan portfolio	**$135,892**	**100.00%**	$125,947	100.00%
Delinquency status:				
30 – 59 days	**$ 2,306**	**1.70%**	$ 2,008	1.59%
60 – 89 days	**1,092**	**0.80**	1,103	0.88
90 + days	**1,970**	**1.45**	2,220	1.76
Total	**$ 5,368**	**3.95%**	$ 5,331	4.23%
Geographic region:				
Domestic	**$ 4,930**	**3.63%**	$ 4,899	3.89%
International	**438**	**0.32**	432	0.34
Total	**$ 5,368**	**3.95%**	$ 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 26 summarizes loans that were 90 days or more past due as to interest or principal and still accruing interest as of December 31, 2011, 2010 and 2009. These loans consist primarily of credit card accounts between 90 days and 179 days past due. As permitted by regulatory guidance issued by the 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 26: 90+ Days Delinquent Loans Accruing Interest

	December 31,					
	2011		2010		2009	
(Dollars in millions)	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
Loan category:[1]						
Credit card[2]	**$1,196**	**1.84%**	$1,379	2.25%	$2,054	3.00%
Consumer	**5**	**0.01**	5	0.01	58	0.15
Commercial	**41**	**0.12**	14	0.05	11	0.04
Total	**$1,242**	**0.91%**	$1,398	1.11%	$2,123	1.55%
Geographic region:[3]						
Domestic	**$1,047**	**0.77%**	$1,195	0.95%	$1,838	1.34%
International	**195**	**0.14**	203	0.16	285	0.21
Total	**$1,242**	**0.91%**	$1,398	1.11%	$2,123	1.55%

(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 $372 million, $950 million and

$2.1 billion in 2011, 2010 and 2009, respectively. The reserve for uncollectible billed finance charges and fees totaled $74 million, $211 million and $624 million as of December 31, 2011, 2010 and 2009, respectively.

(3) Calculated by dividing loans in each geographic region as of the end of the period by the total loan portfolio.

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 do not report loans accounted for under the fair value option and 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 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 account 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 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 when the loan is 90 days past due for auto, home loans, and unsecured small business revolving lines of credit and 120 days past due for all other non-credit card consumer loans.
- *Commercial loans*: We classify commercial loans as nonperforming as of the date 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 troubled debt restructurings ("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 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.

Table 27 presents comparative information on nonperforming loans, by loan category, as of December 31, 2011 and 2010, and the ratio of nonperforming loans to our total loans. Nonperforming loans held for sale are excluded from nonperforming loans, as they are recorded at lower of cost or fair value.

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Table 27: Nonperforming Loans and Other Nonperforming Assets[1][2]

	December 31,			
	2011[3]		2010	
(Dollars in millions)	Amount	% of Total HFI Loans	Amount	% of Total HFI Loans
Nonperforming loans held for investment:				
Consumer Banking business:				
Auto	**$ 106**	**0.48%**	$ 99	0.55%
Home loan	**456**	**4.37**	486	4.01
Retail banking	**90**	**2.18**	91	2.07
Total consumer banking	**652**	**1.79**	676	1.97
Commercial Banking business:				
Commercial and multifamily real estate	**206**	**1.34**	276	2.06
Middle market	**92**	**0.73**	133	1.27
Specialty lending	**33**	**0.74**	48	1.20
Total commercial lending	**331**	**1.02**	457	1.64
Small-ticket commercial real estate	**40**	**2.63**	38	2.04
Total commercial banking	**371**	**1.09**	495	1.66
Other:				
Other loans	**36**	**7.28**	54	12.12
Total nonperforming loans held for investment[4]	**$1,059**	**0.78%**	$1,225	0.97%
Other nonperforming assets:				
Foreclosed property[5]	**$ 169**	**0.13%**	$ 306	0.24%
Repossessed assets	**20**	**0.01**	20	0.02
Total other nonperforming assets	**189**	**0.14**	326	0.26
Total nonperforming assets	**$1,248**	**0.92%**	$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 loan, retail banking, total consumer banking, commercial and multifamily real estate, middle market, total commercial banking, and total nonperforming loans held for investment were 7.22%, 2.21%, 2.03%, 1.35%, 0.75%, 1.11% and 0.81%, respectively, as of December 31, 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 0.95% and 1.29% as of December 31, 2011 and 2010, respectively.

(3) We recognized interest income for loans classified as nonperforming of $31 million in 2011. Interest income foregone related to nonperforming loans was $44 million in 2011. 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 1.50% and 1.90% as of December 31, 2011 and 2010, respectively.

(5) Includes $86 million and $201 million of foreclosed properties related to loans acquired from Chevy Chase Bank, as of December 31, 2011 and 2010, respectively.

Total nonperforming loans, including, TDRs totaling $170 million and $96 million as of December 31, 2011 and 2010, respectively. The decrease in our nonperforming loan ratio to 0.78% as of December 31, 2011, from 0.97% as of December 31, 2010 was primarily attributable to the improvement in the credit quality our commercial banking loans.

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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. 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 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 home loans and unsecured small business lines of credit and 120 days for auto and other non-credit card consumer loans. We calculate the charge-off amount for home 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 home loans are charged-off. Consumer loans in bankruptcy, except for auto and home 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 home loans regardless of the bankruptcy notification date. Consumer loans of deceased account holders are charged-off within 60 days of receipt of notification.
- *Commercial 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 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. We record charge-offs on purchased credit-impaired loans only if actual losses exceed estimated losses incorporated into the fair value recorded at acquisition.

Table 28 presents our net charge-off amounts and rates, by business segment, for 2011, 2010 and 2009. We provide information on charge-off amounts by loan category below in Table 30.

Table 28: Net Charge-Offs

	Year Ended December 31,					
	2011		2010		2009	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]
Managed:						
Credit card[2]	**$ 3,056**	**4.92%**	$ 5,505	8.79%	$ 6,688	9.15%
Consumer banking[3][4]	**484**	**1.39**	655	1.82	1,094	2.74
Commercial banking[3][4]	**177**	**0.57**	390	1.32	434	1.45
Other	**54**	**11.52**	107	21.18	205[5]	37.11
Total charge-offs[4]	**$ 3,771**	**2.94%**	$ 6,657	5.18%	$ 8,421	5.87%
Average loans held for investment[6]	**$128,424**		$128,622		$143,514	
Reported:						
Total charge-offs	**$ 3,771**	**2.94%**	$ 6,651	5.18%	$ 4,568	4.58%
Average loans held for investments[6]	**128,424**		128,526		99,787	

(1) Calculated for each loan category by dividing 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 $257 million for 2011. Loss sharing amounts attributable to Kohl's reduced net charge-offs by $118 million in 2011. The expected reimbursement from Kohl's netted in our allowance for loan and lease losses was approximately $139 million as of December 31, 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 3.06%, 5.44% and 6.09% for 2011, 2010 and 2009, respectively.
(5) During the first quarter of 2009, loans acquired from Chevy Chase Bank were included in the "Other" category.
(6) 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, $6.3 billion and $6.8 billion for 2011, 2010 and 2009, respectively.

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 monthly or quarterly 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 TDRs. We also classify loan modifications that involve a trial period as TDRs.

In the third quarter of 2011, we adopted 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.

Table 29 presents the loan balances as of December 31, 2011 and 2010 of loan modifications made as part of our loss mitigation efforts, all of which are considered to be TDRs. Table 29 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 29: Loan Modifications and Restructurings[(1)]

(Dollars in millions)	December 31, 2011	December 31, 2010[(2)]
Modified and restructured loans:		
Credit card[(3)]	**$ 898**	$ 913
Auto[(4)]	**58**	—
Home loan	**104**	57
Retail banking	**80**	13
Commercial	**426**	162
Total	**$1,566**	$1,145
Status of modified and restructured loans:		
Performing	**$1,396**	$1,049
Nonperforming	**170**	96
Total	**$1,566**	$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 loan modifications made to assist borrowers experiencing financial difficulties increased to $1.6 billion as of December 31, 2011, from $1.1 billion as of December 31, 2010. Of these modifications, approximately $170 million, or 11%, were classified as nonperforming as of December 31, 2011, compared with $96 million, or 8%, as of December 31, 2010.

Credit card loan modifications have accounted for the majority of our TDR loan modifications, representing $898 million, or 57%, of the outstanding balance of total TDR loans as of December 31, 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 $104 million, or 7%, of the outstanding balance of total modified loans as of December 31, 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 home loans involve a combination of an interest rate reduction, term extension or principal reduction.

Retail banking loan modifications represented $80 million, or 5% of the outstanding balance of total modified loans as of December 31, 2011 compared with $13 million or 1% of the outstanding balance of total loans as of December 31, 2010. Small business loan modifications represent $60 million or 75% of the outstanding Retail banking loan modifications as of December 31, 2011. Approximately, 50% of the Small Business TDRs in 2011 were added as a result of the adoption of the accounting guidance clarifying TDRs.

Commercial loan modifications represented $426 million, or 27%, of the outstanding balance of total modified loans as of December 31, 2011, compared with $162 million, or 14%, of the outstanding balance of total modified loans as of December 31, 2010. As a result of the adoption of the accounting guidance clarifying TDRs, $120 million or 40% of Commercial TDRs were added in 2011. 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 December 31, 2011, compared with $1.5 billion as of December 31, 2010. TDRs accounted for $1.6 billion and $1.1 billion of impaired loans as of December 31, 2011 and 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."

Purchased Credit-Impaired Loans

Purchased credit-impaired loans decreased to $4.7 billion as of December 31, 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. We reduced the allowance related to this pool of loans by $6 million for the year ended December 31, 2011. We recorded impairment through our provision for loan and losses of $33 million for the year ended December 31, 2010. The cumulative impairment recognized on PCI loans totaled $27 million as of December 31, 2011 and $33 million as of December 31, 2010. 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. We describe our process for determining our allowance for loan and lease losses in "Note 1—Summary of Significant Accounting Policies."

Table 30, which displays changes in our allowance for loan and lease losses for 2011, 2010 and 2009, details, by loan type, the provision for credit losses recognized in our consolidated statements of income each period and the charge-offs recorded against our allowance for loan and lease losses.

Table 30: Summary of Allowance for Loan and Lease Losses

(Dollars in millions)	December 31, 2011	2010	2009
Balance at beginning of period, as reported	**$ 5,628**	$ 4,127	$ 4,524
Impact from January 1, 2010 adoption of new consolidation accounting standards	**—**	4,317[1]	—
Balance at beginning of period, as adjusted	**5,628**	8,444	4,524
Provision for loan and lease losses[2] [3]	**2,401**	3,895	4,230
Charge-offs:			
Credit Card business:[3]			
Domestic credit card and installment	**(3,558)**	(6,020)	(3,050)
International credit card and installment	**(752)**	(761)	(284)
Total credit card	**(4,310)**	(6,781)	(3,334)
Consumer Banking business:			
Auto	**(529)**	(672)	(1,110)
Home loan	**(104)**	(97)	(87)
Retail banking	**(99)**	(129)	(160)
Total consumer banking	**(732)**	(898)	(1,357)
Commercial Banking business:			
Commercial and multifamily real estate	**(76)**	(207)	(208)
Middle market	**(40)**	(101)	(53)
Specialty lending	**(21)**	(36)	(49)
Total commercial lending	**(137)**	(344)	(310)
Small-ticket commercial real estate	**(77)**	(100)	(134)
Total commercial banking	**(214)**	(444)	(444)
Other loans	**(59)**	(115)	(207)
Total charge-offs	**(5,315)**	(8,238)	(5,342)
Recoveries:			
Credit Card business:			
Domestic credit card and installment	**1,036**	1,113	447
International credit card and installment	**218**	169	52
Total credit card	**1,254**	1,282	499
Consumer Banking business:			
Auto	**195**	215	238
Home loan	**27**	4	3
Retail banking	**26**	24	22
Total consumer banking	**248**	243	263

(Dollars in millions)	December 31, 2011	2010	2009
Commercial Banking business:			
Commercial and multifamily real estate	**12**	20	2
Middle market	**14**	24	3
Specialty lending	**6**	8	3
Total commercial lending	**32**	52	8
Small-ticket commercial real estate	**5**	2	2
Total commercial banking	**37**	54	10
Other loans	**5**	8	2
Total recoveries	**1,544**	1,587	774
Net charge-offs	**(3,771)**	(6,651)	(4,568)
Impact from acquisitions, sales and other changes	**(8)**[(4)]	(60)[(5)]	(59)
Balance at end of period[(3)]	**$ 4,250**	$ 5,628	$ 4,127
Allowance for loan and lease losses as a percentage of loans held for investment	**3.13**%	4.47%	4.55%

	December 31, 2011	2010	2009
Allowance for loan and lease losses by geographic distribution:			
Domestic	**$ 3,778**	$ 5,168	$ 3,928
International	**472**	460	199
Total allowance for loan and lease losses	**$ 4,250**	$ 5,628	$ 4,127
Allowance for loan and lease losses by loan category:			
Domestic card	**$ 2,375**	$ 3,581	$ 1,927
International card	**472**	460	199
Consumer banking	**652**	675	1,076
Commercial banking	**711**	826	785
Other	**40**	86	140
Allowance for loan and lease losses	**$ 4,250**	$ 5,628	$ 4,127

(1) Includes an adjustment of $53 million made in the second quarter of 2010 for the impact as of January 1, 2010 of impairment on consolidated loans accounted for as TDRs.

(2) Excludes a negative provision for unfunded lending commitments of $41 million and a provision for unfunded lending commitments of $12 million for 2011 and 2010, respectively.

(3) The reduction in the provision for loan and lease losses attributable to Kohl’s was $257 million for 2011. Loss sharing amounts attributable to Kohl’s reduced charge-offs by $118 million in 2011. The expected reimbursement from Kohl’s netted in our allowance for loan and lease losses was approximately $139 million as of December 31, 2011.

(4) Includes foreign translation adjustment of $8 million for 2011.

(5) Includes a reduction in our allowance for loan and lease losses of $73 million during 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 31 presents an allocation of our allowance for loan and lease losses by loan category as of December 31, 2011 and 2010.

Table 31: Allocation of the Allowance for Loan and Lease Losses

	December 31,			
	2011		2010	
(Dollars in millions)	Amount	% of Total Loans[1]	Amount	% of Total Loans[1]
Credit Card:				
Domestic credit card and installment[2]	**$ 2,375**	**4.20%**	$ 3,581	6.65%
International credit card and installment	**472**	**5.58**	460	6.12
Total credit card[2]	**2,847**	**4.37**	4,041	6.58
Consumer Banking:				
Auto	**391**	**1.80**	353	1.98
Home loan	**98**	**0.94**	112	0.93
Retail banking	**163**	**3.97**	210	4.76
Total consumer banking	**652**	**1.80**	675	1.96
Commercial Banking:				
Commercial and multifamily real estate	**411**	**2.67**	495	3.70
Middle market	**128**	**1.01**	162	1.55
Specialty lending	**71**	**1.61**	91	2.26
Total commercial lending	**610**	**1.88**	748	2.68
Small-ticket commercial real estate	**101**	**6.72**	78	4.23
Total commercial banking	**711**	**2.09**	826	2.78
Other loans	**40**	**7.98**	86	19.07
Total[2]	**$ 4,250**	**3.13%**	$ 5,628	4.47%
Total allowance coverage ratios:				
Period-end loans	**$135,892**	**3.13%**	$125,947	4.47%
Nonperforming loans[3]	**1,059**	**401.32**	1,225	459.43
Allowance coverage ratios by loan category:				
Credit card (30 + day delinquent loans)	**$ 2,511**	**113.38%**	$ 2,632	153.53%
Consumer banking (30 + day delinquent loans)	**2,176**	**29.96**	2,050	32.93
Commercial banking (nonperforming loans)	**371**	**191.64**	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 $257 million for 2011. Loss sharing amounts attributable to Kohl's reduced net charge-offs by $118 million in 2011. The expected reimbursement from Kohl's netted in our allowance for loan and lease losses was approximately $139 million as of December 31, 2011.

(3) As permitted by regulatory guidance issued by the FFEIC, 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 132.48% as of December 31, 2011 and 129.55% as of December 31, 2010.

The reduction in our allowance reflected the continued improvement in credit performance trends across our portfolios as a result of the slowly improving economy coupled with actions we have taken over the past several years to tighten our underwriting standards and exit certain portfolios. While we reduced the amount of our allowance for loan and lease losses in 2011, our allowance as a percentage of our total loan portfolio also decreased to 3.13% as of December 31, 2011, from 4.47% as of December 31, 2010.

LIQUIDITY RISK PROFILE

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, unencumbered available-for-sale securities and undrawn committed securitization borrowing facilities. Table 32 below presents the composition of our liquidity reserves as of December 31, 2011 and 2010. Our liquidity reserves decreased by $3.1 billion in 2011 to $35.8 billion as of December 31, 2011.

Table 32: Liquidity Reserves

(Dollars in millions)	December 31, 2011	December 31, 2010
Cash and cash equivalents	**$ 5,838**	$ 5,249
Securities available for sale[1]	**38,759**	41,537
Less: Pledged available for sale securities	**(8,762)**	(8,088)
Unencumbered available-for-sale securities	**29,997**	33,449
Undrawn committed securitization borrowing facilities	**—**	207
Total liquidity reserves	**$35,835**	$38,905

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

Deposits

Our deposits provide a stable and relatively low cost of funds and are 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 33 presents the composition of our deposits by type as of December 31, 2011 and 2010.

Table 33: Deposits

(Dollars in millions)	December 31, 2011	December 31, 2010
Non-interest bearing	**$ 18,281**	$ 15,048
NOW accounts	**15,038**	13,536
Money market deposit accounts	**46,496**	44,485
Savings accounts	**31,433**	26,077
Other consumer time deposits	**11,471**	15,753
Total core deposits	**122,719**	114,899
Public fund certificates of deposit $100,000 or more	**85**	177
Certificates of deposit $100,000 or more	**4,501**	6,300
Foreign time deposits	**921**	834
Total deposits	**$ 128,226**	$ 122,210

Total deposits increased by $6.0 billion, or 5%, in 2011 to $128.2 billion as of December 31, 2011. Of our total deposits, approximately $921 million and $834 million were held in foreign banking offices as of December 31, 2011 and 2010, respectively. Large domestic denomination certificates of deposits of $100,000 or more represented $4.6 billion and $6.5 billion of our total deposits as of December 31, 2011 and 2010, respectively.

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 33 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 December 31, 2011, and therefore permitted to maintain brokered deposits. Our brokered deposits totaled $13.0 billion, or 10% of total deposits, as of December 31, 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.

Table 34 presents the future contractual maturities of large denomination time deposits. Our funding and liquidity planning factors into the maturities of these deposits. Based on past activity, we expect to retain a portion of these deposits as they mature. Accordingly, the expected net cash outflows will be less than the amounts reported based on the contractual maturities.

Table 34: Maturities of Large Domestic Denomination Certificates—$100,000 or More

	December 31,			
	2011		2010	
(Dollars in millions)	Amount	Percent	Amount	Percent
Three months or less	**$ 496**	**10.8%**	$ 707	10.9%
Over 3 through 6 months	**460**	**10.0**	650	10.0
Over 6 through 12 months	**643**	**14.0**	1,612	24.9
Over 12 months through 10 years	**2,987**	**65.2**	3,508	54.2
Total	**$4,586**	**100.0%**	$6,477	100.0%

Table 35 provides a summary of the composition of period end, average deposits, interest expense and the average deposit rate paid for the periods presented.

Table 35: Deposit Composition and Average Deposit Rates

	December 31, 2011				
(Dollars in millions)	Period End Balance	Average Balance	Interest Expense	% of Average Deposits	Average Deposit Rate
Non-interest bearing	**$ 18,281**	**$ 17,051**	**N/A**	**13.5%**	**N/A**
NOW accounts	**15,038**	**13,285**	**$ 41**	**10.5**	**0.31%**
Money market deposit accounts	**46,496**	**46,455**	**396**	**36.6**	**0.85**
Savings accounts	**31,433**	**29,640**	**218**	**23.4**	**0.74**
Other consumer time deposits	**11,471**	**13,855**	**351**	**10.9**	**2.53**
Total core deposits	**122,719**	**120,286**	**1,006**	**94.9**	**0.84**
Public fund certificates of deposit of $100,000 or more	**85**	**108**	**2**	**0.1**	**1.85**
Certificates of deposit of $100,000 or more	**4,501**	**5,526**	**175**	**4.4**	**3.17**
Foreign time deposits	**921**	**774**	**4**	**0.6**	**0.52**
Total deposits	**$128,226**	**$126,694**	**$1,187**	**100.0%**	**0.94%**

(Dollars in millions)	December 31, 2010 Period End Balance	Average Balance	Interest Expense	% of Average Deposits	Average Deposit Rate
Non-interest bearing	$ 15,048	$ 14,267	N/A	12.0%	N/A
NOW accounts	13,536	12,032	$ 36	10.1	0.30%
Money market deposit accounts	44,485	42,159	409	35.4	0.97
Savings accounts	26,077	21,854	188	18.4	0.86
Other consumer time deposits	15,753	20,655	585	17.4	2.83
Total core deposits	114,899	110,967	1,218	93.3	1.10
Public fund certificates of deposit of $100,000 or more	177	265	5	0.2	2.03
Certificates of deposit of $100,000 or more	6,300	6,912	237	5.8	3.43
Foreign time deposits	834	866	5	0.7	0.57
Total deposits	$122,210	$119,010	$1,465	100.0%	1.23%

Short-Term Borrowings

We also have access to and utilize various other short-term borrowings to support our operations. These borrowings are generally in the form of federal funds purchased and resale agreements, most of which are overnight borrowings. Other short- term borrowings do not represent a significant portion of our overall funding. Table 36 provides information on our short-term borrowing during 2011 and 2010.

Table 36: Short-Term Borrowings

(Dollars in millions)	Maximum Month-End Outstanding Amount	Year-End Outstanding Amount	Average Outstanding Amount	Average Interest Rate	Year-End Weighted Average Interest Rate
2011:					
Federal funds purchased and resale agreements	**$ 2,111**	**$ 1,464**	**$ 2,186**	**0.21%**	**0.35%**
FHLB advances	**5,385**	**5,835**	**1,110**	**0.17**	**0.13**
2010:					
Federal funds purchased and resale agreements	$ 2,469	$ 1,517	$ 1,731	0.23%	0.13%

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 repurchase, 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 certain of our loan portfolios and investment securities.

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 $23.0 billion as of December 31, 2011, up from $14.9 billion as of December 31, 2010. We had no open committed loan securitization conduit lines as of December 31, 2011. The $8.1 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, a $5.8 billion increase in short term FHLB advances, and a decrease of $854 million due to the maturity of one senior note.

The $3.0 billion of senior notes were issued in July 2011 and 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.

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 $362 million as of December 31, 2011.

Table 37 presents our short-term borrowings and long-term debt and the maturity profile based on expected maturities as of December 31, 2011. We provide additional information on our short-term borrowings and long-term debt in "Note 10—Deposits and Borrowings."

Table 37: 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	$ 1,464	$ —	$ —	$ —	$ —	$ —	$ 1,464
FHLB advances	5,835	—	—	—	—	—	5,835
Total short-term borrowings	7,299	—	—	—	—	—	7,299
Long-term debt:							
Securitized debt obligations	5,163	2,649	2,869	501	1,325	4,020	16,527
Senior and subordinated notes:							
Unsecured senior debt	283	292	2,332	411	748	3,034	7,100
Unsecured subordinated debt	357	519	106	—	1,195	1,757	3,934
Total senior and subordinated notes	640	811	2,438	411	1,943	4,791	11,034
Other long-term borrowings:							
Junior subordinated debt	—	—	—	—	—	3,642	3,642
FHLB advances	17	18	946	22	20	36	1,059
Other long-term borrowings	17	18	946	22	20	3,678	4,701
Total long-term debt[(1)]	5,820	3,478	6,253	934	3,288	12,489	32,262
Total short-term borrowings and long-term debt	$13,119	$3,478	$ 6,253	$ 934	$ 3,288	$12,489	$39,561
Percentage of total	33%	9%	16%	2%	8%	32%	100%

(1) Includes fair value adjustments of $817 million and net unamortized discount of $28 million as of December 31, 2011.

Borrowing Capacity

As of December 31, 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.

In addition to issuance capacity under the shelf registration statement, we also have access to FHLB Advances and Letters of Credit with a maximum borrowing capacity of $11.2 billion as of December 31, 2011. We had $6.6 billion outstanding as of December 31, 2011, and $4.6 billion still available to us to borrow against under this program. This funding source is non-revolving, and funding availability is subject to market conditions. The ability to draw down funding is based on membership status, and the amount is dependent upon the Banks' ability to post collateral.

Covenants

The terms of certain lease and credit facility agreements related to other borrowings and operating leases include several financial covenants that require performance measures and equity ratios to be met. If these covenants are not met, there may be an acceleration of the payment due dates noted in Table 38. As of December 31, 2011, we were not in default of any such covenants.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that may require future cash payments that affect our short- and long-term liquidity and capital resource needs. Our primary future cash outflows primarily relate to deposits, borrowings and operating leases. Table 38 summarizes, by remaining contractual maturity, our significant contractual cash obligations based on the undiscounted future cash payments as of December 31, 2011. The actual timing and amounts of future cash payments may differ from the amounts presented below due to a number of factors, such as discretionary debt repurchases. Table 38 excludes certain obligations where the obligation is short-term or subject to valuation based on market factors, such as trade payables and trading liabilities. The table also excludes the representation and warranty reserve of $943 million as of December 31, 2011 and obligations for pension and postretirement benefit plans, which are discussed in more detail in "Note 17—Employee Benefit Plans."

Table 38: Contractual Obligations

	December 31, 2011				
(Dollars in millions)	**Up to 1 Year**	**> 1 Year to 3 Years**	**> 3 Years to 5 Years**	**> 5 Years**	**Total**
Interest-bearing time deposits[1]	$ 6,505	$ 7,008	$ 2,133	$ 411	$16,057
Senior and subordinated notes	640	3,249	2,354	4,791	11,034
Other borrowings[2]	12,480	6,481	1,869	7,697	28,527
Operating leases	172	330	282	806	1,590
Purchase obligations[3][4]	323	121	86	37	567
Total obligations	$20,120	$17,189	$ 6,724	$13,742	$57,775

(1) Includes only those interest bearing deposits which have a contractual maturity date.

(2) Other borrowings includes secured borrowings for our on-balance sheet auto loan securitizations, junior subordinated capital securities and debentures, FHLB advances and other short-term borrowings.

(3) Represents agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms. The purchase obligations are included through the termination date of the agreements even if the contract is renewable. These include capital expenditures, contractual commitments to purchase equipment and services, software

acquisition/license commitments, contractual minimum media commitments and any contractually required cash payments for acquisitions.

(4) Excludes funding commitments entered into in the ordinary course of business. See “Note 21—Commitments, Contingencies and Guarantees” for further details.

Credit Ratings

Our credit ratings have a significant impact on our ability to access capital markets and our borrowing costs. Rating agencies base their ratings on numerous factors, including liquidity, capital adequacy, asset quality, quality of earnings and the probability of systemic support. Significant changes in these factors could result in different ratings. Our equity capital and funding strategies are designed, among other things, to maintain appropriate and stable unsecured debt ratings from the major credit ratings agencies, Moody’s, S&P, Fitch and DBRS. Such ratings help to support our cost effective unsecured funding as part of our overall financing programs. Table 39 provides a summary of the credit ratings for the senior unsecured debt of Capital One Financial Corporation, COBNA and CONA as of December 31, 2011, and as of the date of this Report.

Table 39: Senior Unsecured Debt Credit Ratings

	December 31, 2011		
(Dollars or dollar equivalents in millions)	Capital One Financial Corporation	Capital One Bank (USA), N.A.	Capital One, N.A.
Moody’s	**Baa1**	**A3**	**A3**
S&P	**BBB**	**BBB+**	**BBB+**
Fitch	**A-**	**A-**	**A-**
DBRS	**BBB****	**A***	**A***

* low

** high

As of February 21, 2012, DBRS and Moody’s had us on a stable outlook, while Fitch and S&P had us on negative outlook.

MARKET RISK PROFILE

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 provide additional information about 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.

We are exposed to changes in foreign exchange rates, which may impact the earnings of our foreign operations. Our asset/liability management policy requires that we use derivatives to hedge material foreign currency denominated transactions to limit our earnings exposure to foreign exchange risk. The estimated reduction in our 12-month earnings due to adverse foreign exchange rate movements corresponding to a 95% probability was less than 2% as of December 31, 2011 and 2010. The precision of this estimate is limited due to the inherent uncertainty of the underlying forecast assumptions.

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 totaled $73.2 billion as of December 31, 2011, compared with $50.7 billion as of December 31, 2010. This increase was primarily attributable to actions we took to manage the anticipated impact of the ING Direct acquisition on our market risk exposure and regulatory capital requirements.

From the date we entered into the agreement to acquire ING Direct to early August 2011, interest rates declined substantially, which resulted in an increase in the estimated fair value of the ING Direct net assets and liabilities. In order to capture some of the anticipated benefits to regulatory capital on the closing date attributable to this decline in interest rates, in early August 2011, we entered into various interest-rate swap transactions with a total notional principal amount of approximately $23.8 billion. We subsequently rebalanced the hedge in October 2011 adding an additional $1 billion in notional principal for a total combined notional principal amount of approximately $24.8 billion. These combined swap transactions were intended 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 early 2012. Although the interest-rate swaps represented economic hedges, they were not designated for hedge accounting under U.S. GAAP. Therefore, we recorded changes in the fair value of these interest-rate swaps in earnings. In 2011, we recorded a mark-to-market loss of $277 million related to these interest-rate swaps, which was attributable to the decline in interest rates. In conjunction with the acquisition of ING Direct on February 17, 2012, we terminated the $24.8 billion in interest-rate swaps related to the acquisition. At termination, the fair value of the swaps was a net loss of $355 million. Based on current estimates, we believe the interest-rate swaps related to the acquisition were effective in meeting our hedging objective. See "Note 11—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 2011. Given the level of short-term rates as of December 31, 2011 and 2010, a scenario where interest rates would decline by 200 basis points is not plausible. In 2008, we temporarily revised our customary declining interest rate scenario of 200 basis points to a 50 basis point decrease, except in scenarios where a 50 basis point decline would result in a rate less than 0% (in which case we assume a rate scenario of 0%), to compensate for the continued low rate environment. 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 40 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 December 31, 2011 and 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 twelve months. 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.

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Table 40: Interest Rate Sensitivity Analysis

	December 31, 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%**	**13.7%**	(0.7)%
- 50 basis points	**(0.5)**	**(3.9)**	(0.2)
Impact on economic value of equity:			
+ 200 basis points	**(1.0)**	**3.2**	(3.8)%
- 50 basis points	**(0.4)**	**(1.5)**	0.1

(1) Calculated excluding the impact of the interest-rate swap transactions of approximately $24.8 billion entered into to mitigate some of the interest rate risk related to the 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 $24.8 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 $24.8 billion swap transactions, our interest rate sensitivity measures reflect that we became more asset sensitive between December 31, 2010 and December 31, 2011. Our asset sensitivity position is larger when factoring in the effect of the $24.8 billion of swaps, given their net pay-fixed structure and non-designation for hedge accounting in accordance with GAAP. Our projected net interest income and economic value of equity sensitivity measures, both including and excluding the impact of the ING Direct related swap transactions, were within our prescribed asset/liability policy limits as of December 31, 2011 and 2010. As noted above, in conjunction with our close of the ING Direct acquisition on February 17, 2012, we terminated the ING Direct related swap transactions in February 2012.

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.

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.

SUPPLEMENTAL TABLES

TABLE A—LOAN PORTFOLIO COMPOSITION

(Dollars in millions)	December 31, 2011	2010	2009	2008	2007
Reported loans held for investment:					
Credit Card business:					
Credit card loans:					
Domestic credit card loans	**$ 54,682**	$ 49,979	$ 13,374	$ 20,624	$ 17,447
International credit card loans	**8,466**	7,513	2,229	2,872	3,657
Total credit card loans	**63,148**	57,492	15,603	23,496	21,104
Installment loans:					
Domestic installment loans	**1,927**	3,870	6,693	10,131	10,474
International installment loans	**—**	9	44	119	355
Total installment loans	**1,927**	3,879	6,737	10,250	10,829
Total credit card business	**65,075**	61,371	22,340	33,746	31,933
Consumer Banking business:					
Auto	**21,779**	17,867	18,186	21,495	25,018
Home loan	**10,433**	12,103	14,893	10,098	11,562
Retail banking	**4,103**	4,413	5,135	5,604	5,659
Total consumer banking business	**36,315**	34,383	38,214	37,197	42,239
Total consumer loans	**101,390**	95,754	60,554	70,943	74,172
Commercial Banking business:					
Commercial and multifamily real estate	**15,410**	13,396	13,843	13,303	12,414
Middle market	**12,684**	10,484	10,062	10,082	8,289
Specialty lending	**4,404**	4,020	3,555	3,547	2,948
Total commercial lending	**32,498**	27,900	27,460	26,932	23,651
Small-ticket commercial real estate	**1,503**	1,842	2,153	2,609	3,396
Total commercial banking business	**34,001**	29,742	29,613	29,541	27,047
Other:					
Other loans[(1)]	**501**	451	452	534	586
Total reported loans held for investment	**$135,892**	$ 125,947	$ 90,619	$ 101,018	$ 101,805
Securitization adjustments:					
Credit Card business:					
Credit card loans:					
Domestic credit card loans	**$ —**	$ —	$ 39,827	$ 39,254	$ 39,833
International credit card loans	**—**	—	5,951	5,729	7,645
Total credit card loans	**—**	—	45,778	44,983	47,478
Installment loans:					
Domestic installment loans	**—**	—	406	936	1,969
Consumer Banking business:					
Auto	**—**	—	—	—	110
Total consumer banking business	**—**	—	—	—	110
Total securitization adjustments	**$ —**	$ —	$ 46,184	$ 45,919	$ 49,557

(Dollars in millions)	December 31, 2011	2010	2009	2008	2007
Managed loans held for investment:					
Credit Card business:					
Credit card loans:					
Domestic credit card loans	**$ 54,682**	$ 49,979	$ 53,201	$ 59,878	$ 57,280
International credit card loans	**8,466**	7,513	8,180	8,601	11,302
Total credit card loans	**63,148**	57,492	61,381	68,479	68,582
Installment loans:					
Domestic installment loans	**1,927**	3,870	7,099	11,067	12,443
International installment loans	**—**	9	44	119	355
Total installment loans	**1,927**	3,879	7,143	11,186	12,798
Total credit card business	**65,075**	61,371	68,524	79,665	81,380
Consumer Banking business:					
Auto	**21,779**	17,867	18,186	21,495	25,128
Home loan	**10,433**	12,103	14,893	10,098	11,562
Retail banking	**4,103**	4,413	5,135	5,604	5,659
Total consumer banking business	**36,315**	34,383	38,214	37,197	42,349
Total consumer loans	**101,390**	95,754	106,738	116,862	123,729
Commercial Banking business:					
Commercial and multifamily real estate	**15,410**	13,396	13,843	13,303	12,414
Middle market	**12,684**	10,484	10,062	10,082	8,289
Specialty lending	**4,404**	4,020	3,555	3,547	2,948
Total commercial lending	**32,498**	27,900	27,460	26,932	23,651
Small-ticket commercial real estate	**1,503**	1,842	2,153	2,609	3,396
Total commercial banking business	**34,001**	29,742	29,613	29,541	27,047
Other:					
Other loans	**501**	451	452	534	586
Total managed loans held for investment	**$ 135,892**	$ 125,947	$ 136,803	$ 146,937	$ 151,362

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TABLE B—PERFORMING DELINQUENCIES

	December 31,									
	2011(2)		2010(2)		2009(2)		2008		2007	
(Dollars in millions)	Loans	% of Total Loans(3)	Loans	% of Total Loans(3)	Loans	% of Total Loans(3)	Loans	% of Total Loans(3)	Loans	% of Total Loans(3)
Reported:(1)										
Loans held for investment	**$135,892**	**100.00%**	$125,947	100.00%	$ 90,619	100.00%	$101,018	100.00%	$101,805	100.00%
Delinquent loans:										
30-59 days	**$ 2,267**	**1.67%**	$ 1,968	1.56%	$ 1,908	2.10%	$ 2,325	2.30%	$ 2,052	2.02%
60-89 days	**1,043**	**0.77**	1,064	0.85	985	1.09	1,094	1.08	869	0.86
90-119 days	**497**	**0.36**	559	0.44	356	0.39	410	0.41	290	0.28
120-149 days	**390**	**0.29**	446	0.36	190	0.21	230	0.23	195	0.19
150 or more days	**355**	**0.26**	393	0.31	164	0.18	194	0.19	155	0.15
Total	**$ 4,552**	**3.35%**	$ 4,430	3.52%	$ 3,603	3.98%	$ 4,253	4.21%	$ 3,561	3.50%
By geographic area:										
Domestic	**$ 4,114**	**3.03%**	$ 3,998	3.18%	$ 3,460	3.82%	$ 4,107	4.07%	$ 3,433	3.37%
International	**438**	**0.32**	432	0.34	143	0.16	146	0.14	128	0.13
Total	**$ 4,552**	**3.35%**	$ 4,430	3.52%	$ 3,603	3.98%	$ 4,253	4.21%	$ 3,561	3.50%
Managed:(1)										
Loans held for investment	**$135,892**	**100.00%**	$125,947	100.00%	$136,803	100.00%	$146,937	100.00%	$151,362	100.00%
Delinquent loans:										
30-59 days	**$ 2,267**	**1.67%**	$ 1,968	1.56%	$ 2,623	1.92%	$ 2,987	2.03%	$ 2,738	1.81%
60-89 days	**1,043**	**0.77**	1,064	0.84	1,576	1.15	1,582	1.08	1,343	0.89
90-119 days	**497**	**0.36**	559	0.44	895	0.65	817	0.56	681	0.45
120-149 days	**390**	**0.29**	446	0.35	660	0.48	569	0.39	513	0.34
150 or more days	**355**	**0.26**	393	0.31	568	0.42	476	0.32	429	0.28
Total	**$ 4,552**	**3.35%**	$ 4,430	3.52%	$ 6,322	4.62%	$ 6,431	4.38%	$ 5,704	3.77%
By geographic area:										
Domestic	**$ 4,114**	**3.03%**	$ 3,998	3.18%	$ 5,783	4.23%	$ 5,915	4.03%	$ 5,112	3.38%
International	**438**	**0.32**	432	0.34	539	0.39	516	0.35	592	0.39
Total	**$ 4,552**	**3.35%**	$ 4,430	3.52%	$ 6,322	4.62%	$ 6,431	4.38%	$ 5,704	3.77%

(1) Includes credit card loans that continue to accrue finance charges and fees until the account is charged-off at 180 days. The amounts reported for credit card loans are net of uncollectible billed finance charges and fees. In accordance with our finance charge and fee revenue recognition policy, amounts billed but not included in revenue totaled $372 million, $950 million, $2.1 billion, $1.9 billion and $1.1 billion in 2011, 2010, 2009, 2008 and 2007, respectively.

(2) The Chevy Chase Bank acquired loan portfolio is included in loans held for investment, but excluded from delinquent loans as these loans are considered performing in accordance with our expectations as of the purchase date, as we recorded these loans at estimated fair value when we acquired them. As of December 31, 2011, 2010 and 2009, the acquired loan portfolio's contractual 30 to 89 day delinquencies total $162 million, $199 million and $294 million, respectively. For loans 90+ days past due, see Table C—Nonperforming Assets.

(3) 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 C—NONPERFORMING ASSETS

	December 31,				
(Dollars in millions)	**2011**	**2010**	**2009**	**2008**	**2007**
Nonperforming loans held for investment:(1)(2)					
Consumer Banking business:					
Auto	**$ 106**	$ 99	$ 143	$ 165	$ 157
Home loan	**456**	486	323	104	98
Retail banking(3)	**126**	145	121	150	58
Total consumer banking business	**688**	730	587	419	313
Commercial Banking business:					
Commercial and multifamily real estate	**206**	276	429	142	29
Middle market	**92**	133	104	39	29
Specialty lending	**33**	48	74	37	6
Total commercial lending	**331**	457	607	218	64
Small-ticket commercial real estate	**40**	38	95	167	16
Total commercial banking business	**371**	495	702	385	80
Total nonperforming loans held for investment	**1,059**	1,225	1,289	804	393
Other nonperforming assets:					
Foreclosed property(4)	**169**	306	234	89	48
Repossessed assets	**20**	20	24	66	57
Total nonperforming assets	**$1,248**	$1,551	$1,547	$ 959	$ 498
Nonperforming loans as a percentage of loans held for investment(2)	**0.78%**	0.97%	0.94%	0.80%	0.39%
Nonperforming assets as a percentage of loans held for investment plus total other nonperforming assets(2)	**0.92%**	1.23%	1.13%	0.95%	0.49%

(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) Our calculation of nonperforming loan and asset ratios includes the impact of loans acquired from Chevy Chase Bank. However, we do not report loans acquired from Chevy Chase Bank as nonperforming unless they do not perform in accordance with our expectations as of the purchase date, as we recorded these loans at estimated fair value when we acquired them. The nonperforming loan ratios, excluding the impact of loans acquired from Chevy Chase Bank, for commercial and multifamily real estate, middle market, total commercial banking, home loan, retail banking, total consumer banking, and total nonperforming loans held for investment were 1.35%, 0.75%, 1.11%, 7.22%, 2.21%, 2.03% and 0.81%, respectively, as of December 31, 2011, compared with 2.11%, 1.30%, 1.69%, 6.67%, 2.16%, 2.30% and 1.02%, respectively, as of December 31, 2010. The nonperforming asset ratio, excluding loans acquired from Chevy Chase Bank, was 0.95% and 1.29% as of December 31, 2011 and 2010, respectively.

(3) Other loans are included in retail banking for all years presented.

(4) Includes $86 million and $201 million of foreclosed properties related to loans acquired from Chevy Chase Bank, as of December 31, 2011 and 2010, respectively.

TABLE D—NET CHARGE-OFFS[1]

(Dollars in millions)	Year Ended December 31, 2011	2010	2009	2008	2007
Reported:					
Average loans held for investment[2]	**$128,424**	$128,526	$ 99,787	$ 98,971	$ 93,542
Net charge-offs	**3,771**	6,651	4,568	3,478	1,961
Net charge-offs rate[3]	**2.94%**	5.18%	4.58%	3.51%	2.10%
Managed:					
Average loans held for investment[2]	**$128,424**	$128,622	$143,514	$147,812	$144,727
Net charge-offs	**3,771**	6,657	8,421	6,425	4,162
Net charge-off rate[3]	**2.94%**	5.18%	5.87%	4.35%	2.88%

(1) Net charge-offs reflect charge-offs, net of recoveries, related to our total held-for-investment loan portfolio, which we previously referred to as our "managed" loan portfolio. The total held-for-investment loan portfolio includes loans recorded on our balance sheet and loans held in our securitization trusts.

(2) 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 , $6.3 billion and $6.8 billion for 2011, 2010 and 2009, respectively.

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

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TABLE E—SUMMARY OF ALLOWANCE FOR LOAN AND LEASE LOSSES

	December 31,				
(Dollars in millions)	**2011**	**2010**	**2009**	**2008**	**2007**
Balance as of beginning of period, as reported	**$ 5,628**	$ 4,127	$ 4,524	$ 2,963	$ 2,180
Impact from January 1, 2010 adoption of new consolidation accounting standards	**—**	4,317[1]	—	—	—
Balance at beginning of period, as adjusted	**5,628**	8,444	4,524	2,963	2,180
Provision for loan and lease losses[2][3]	**2,401**	3,895	4,230	5,101	2,717
Charge-offs:					
Domestic credit card and installment[3]	**(3,558)**	(6,020)	(3,050)	(2,244)	(1,315)
International credit card and installment	**(752)**	(761)	(284)	(255)	(253)
Consumer banking	**(732)**	(898)	(1,357)	(1,396)	(965)
Commercial banking	**(214)**	(444)	(444)	(87)	(17)
Other loans	**(59)**	(115)	(207)	(169)	(31)
Total charge-offs	**(5,315)**	(8,238)	(5,342)	(4,151)	(2,581)
Recoveries:					
Domestic credit card and installment	**1,036**	1,113	447	425	393
International credit card and installment	**218**	169	52	65	72
Consumer banking	**248**	243	263	178	151
Commercial banking	**37**	54	10	4	4
Other loans	**5**	8	2	1	—
Total recoveries	**1,544**	1,587	774	673	620
Net charge-offs	**(3,771)**	(6,651)	(4,568)	(3,478)	(1,961)
Impact from acquisitions, sales and other changes[4]	**(8)**	(60)	(59)	(62)	27
Balance as of end of period	**$ 4,250**	$ 5,628	$ 4,127	$ 4,524	$ 2,963
Allowance for loan and lease losses as a percentage of loans held for investment	**3.13%**	4.47%	4.55%	4.48%	2.91%
Allowance for loan and lease losses by geographic distribution:					
Domestic	**$ 3,778**	$ 5,168	$ 3,928	$ 4,331	$ 2,754
International	**472**	460	199	193	209
Total	**$ 4,250**	$ 5,628	$ 4,127	$ 4,524	$ 2,963
Allowance for loan and lease losses by loan category:					
Domestic card	**$ 2,375**	$ 3,581	$ 1,927	$ 2,544	$ 1,429
International card	**472**	460	199	193	209
Consumer banking	**652**	675	1,076	1,314	1,005
Commercial banking	**711**	826	785	301	153
Other	**40**	86	140	172	167
Total	**$ 4,250**	$ 5,628	$ 4,127	$ 4,524	$ 2,963

(1) Includes an adjustment of $53 million made in the second quarter of 2010 for the impact as of January 1, 2010 of impairment on consolidated loans accounted for as TDRs.

(2) Excludes a negative provision for unfunded lending commitments of $41 million and a provision for unfunded lending commitments of $12 million for 2011 and 2010, respectively.

(3) The reduction in the provision for loan and lease losses attributable to Kohl's was $257 million for 2011. Loss sharing amounts attributable to Kohl's reduced charge-offs by $118 million in 2011. The expected reimbursement from Kohl's netted in our allowance for loan and lease losses was approximately $139 million as of December 31, 2011.

(4) Includes a reduction in our allowance for loan and lease losses of $73 million during 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.

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TABLE F—RECONCILIATION OF NON-GAAP MEASURES AND CALCULATION OF REGULATORY CAPITAL MEASURES

(Dollars in millions)	December 31, 2011	2010	2009	2008	2007
Stockholders' equity to non-GAAP tangible common equity					
Total stockholders' equity	**$ 29,666**	$ 26,541	$ 26,590	$ 26,611	$ 24,294
Less: Intangible assets[1]	**(13,908)**	(13,983)	(14,107)	(12,445)	(13,480)
Tangible common equity	**$ 15,758**	$ 12,558	$ 12,483	$ 14,166	$ 10,814
Total assets to tangible assets					
Total assets	**$206,019**	$197,503	$169,646	$165,913	$150,590
Less: Assets from discontinued operations	**(305)**	(362)	(24)	—	—
Total assets from continuing operations	**205,714**	197,141	169,622	165,913	150,590
Less: Intangible assets[1]	**(13,908)**	(13,983)	(14,107)	(12,445)	(13,480)
Tangible assets	**$191,806**	$183,158	$155,515	$153,468	$137,110
Non-GAAP TCE ratio					
Tangible common equity	**$ 15,758**	$ 12,558	$ 12,483	$ 14,166	$ 10,814
Tangible assets	**191,806**	183,158	155,515	153,468	137,110
TCE ratio[2]	**8.2%**	6.9%	8.0%	9.2%	7.9%
Regulatory capital and non-GAAP Tier 1 common equity ratios					
Total stockholders' equity	**$ 29,666**	$ 26,541	$ 26,590	$ 26,611	$ 24,294
Less: Net unrealized gains recorded in AOCI[3]	**(289)**	(368)	(200)	783	(9)
Net losses on cash flow hedges recorded in AOCI[3]	**71**	86	92	215	73
Disallowed goodwill and other intangible assets[4]	**(13,855)**	(13,953)	(14,125)	(12,482)	(13,580)
Disallowed deferred tax assets	**(534)**	(1,150)	—	—	—
Other	**(2)**	(2)	(10)	(2)	(1)
Tier 1 common equity	**$ 15,057**	$ 11,154	$ 12,347	$ 15,125	$ 10,777
Plus: Tier 1 restricted core capital items[5]	**3,635**	3,636	3,642	1,642	1,632
Tier 1 capital	**$ 18,692**	$ 14,790	$ 15,989	$ 16,767	$ 12,409
Plus: Long-term debt qualifying as Tier 2 capital	**2,438**	2,827	3,018	1,813	1,934
Qualifying allowance for loan and lease losses	**1,979**	3,748	1,581	1,630	1,634
Other Tier 2 components	**23**	29	4	1	—
Tier 2 capital	**$ 4,440**	$ 6,604	$ 4,603	$ 3,444	$ 3,568
Total risk-based capital[6]	**$ 23,132**	$ 21,394	$ 20,592	$ 20,211	$ 15,977
Risk-weighted assets[7]	**$155,657**	$127,043	$116,309	$121,380	$122,456
Tier 1 common equity ratio[8]	**9.7%**	8.8%	10.6%	12.5%	8.8%
Tier 1 risk-based capital ratio[9]	**12.0**	11.6	13.8	13.8	10.1
Total risk-based capital ratio[10]	**14.9**	16.8	17.7	16.7	13.1

(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.
(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.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

For a discussion of the quantitative and qualitative disclosures about market risk, see "MD&A—Risk Management—Market Risk Management" and "MD&A—Market Risk Profile."

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Capital One Financial Corporation (the "Company" or "Capital One") is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

Capital One's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management completed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011, based on the framework in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, management concluded that, as of December 31, 2011, the Company's internal control over financial reporting was effective based on the criteria established by COSO in "Internal Control—Integrated Framework." Additionally, based upon management's assessment, the Company determined that there were no material weaknesses in its internal control over financial reporting as of December 31, 2011.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2011, has been audited by Ernst and Young LLP, an independent registered public accounting firm, as stated in their accompanying report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2011.

/s/ RICHARD D. FAIRBANK

Richard D. Fairbank
Chairman of the Board, Chief Executive Officer and President

/s/ GARY L. PERLIN

Gary L. Perlin
Chief Financial Officer

February 28, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Capital One Financial Corporation:

We have audited Capital One Financial Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Capital One Financial Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Capital One Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Capital One Financial Corporation as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2011 of Capital One Financial Corporation and our report dated February 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 28, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Capital One Financial Corporation:

We have audited the accompanying consolidated balance sheets of Capital One Financial Corporation as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital One Financial Corporation at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for transfers of financial assets and consolidations effective January 1, 2010.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Capital One Financial Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 28, 2012

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Item 8. Financial Information and Supplementary Data

CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
(Dollars in millions, except per share-related data)	**2011**	**2010**	**2009**
Interest income:			
Loans held for investment, including past-due fees	**$ 13,774**	$ 13,934	$ 8,757
Investment securities	**1,137**	1,342	1,610
Other	**76**	77	297
Total interest income	**14,987**	15,353	10,664
Interest expense:			
Deposits	**1,187**	1,465	2,093
Securitized debt obligations	**422**	809	282
Senior and subordinated notes	**300**	276	260
Other borrowings	**337**	346	332
Total interest expense	**2,246**	2,896	2,967
Net interest income	**12,741**	12,457	7,697
Provision for loan and lease losses	**2,360**	3,907	4,230
Net interest income after provision for loan and lease losses	**10,381**	8,550	3,467
Non-interest income:			
Servicing and securitizations	**44**	7	2,280
Service charges and other customer-related fees	**1,979**	2,073	1,997
Interchange fees, net	**1,318**	1,340	502
Total other-than-temporary losses	**(131)**	(128)	(287)
Less: Non-credit component of other-than-temporary losses recorded in AOCI	**110**	63	255
Net other-than-temporary impairment losses recognized in earnings	**(21)**	(65)	(32)
Other	**218**	359	539
Total non-interest income	**3,538**	3,714	5,286
Non-interest expense:			
Salaries and associate benefits	**3,023**	2,594	2,478
Marketing	**1,337**	958	588
Communications and data processing	**681**	693	740
Supplies and equipment	**539**	520	500
Occupancy	**490**	486	451
Restructuring expense	**0**	0	119
Other	**3,262**	2,683	2,541
Total non-interest expense	**9,332**	7,934	7,417
Income from continuing operations before income taxes	**4,587**	4,330	1,336
Income tax provision	**1,334**	1,280	349
Income from continuing operations, net of tax	**3,253**	3,050	987
Loss from discontinued operations, net of tax	**(106)**	(307)	(103)
Net income	**3,147**	2,743	884
Preferred stock dividends, accretion of discount and other	**(26)**	0	(564)
Net income available to common stockholders	**$ 3,121**	$ 2,743	$ 320
Basic earnings per common share:			
Income from continuing operations	**$ 7.08**	$ 6.74	$ 0.99
Loss from discontinued operations	**(0.23)**	(0.67)	(0.24)
Net income per basic common share	**$ 6.85**	$ 6.07	$ 0.75
Diluted earnings per common share:			
Income from continuing operations	**$ 7.03**	$ 6.68	$ 0.98
Loss from discontinued operations	**(0.23)**	(0.67)	(0.24)
Net income per diluted common share	**$ 6.80**	$ 6.01	$ 0.74
Dividends paid per common share	**$ 0.20**	$ 0.20	$ 0.53

See Notes to Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share data)	December 31, 2011	December 31, 2010
Assets:		
Cash and due from banks	**$ 2,097**	$ 2,067
Interest-bearing deposits with banks	**3,399**	2,776
Federal funds sold and securities purchased under agreements to resell	**342**	406
Cash and cash equivalents	**5,838**	5,249
Restricted cash for securitization investors	**791**	1,602
Securities available for sale, at fair value	**38,759**	41,537
Loans held for investment:		
Unsecuritized loans held for investment, at amortized cost	**88,242**	71,921
Restricted loans for securitization investors	**47,650**	54,026
Total loans held for investment	**135,892**	125,947
Less: Allowance for loan and lease losses	**(4,250)**	(5,628)
Net loans held for investment	**131,642**	120,319
Loans held for sale, at lower-of-cost-or-fair value	**201**	228
Accounts receivable from securitizations	**94**	118
Premises and equipment, net	**2,748**	2,749
Interest receivable	**1,029**	1,070
Goodwill	**13,592**	13,591
Other	**11,325**	11,040
Total assets	**$206,019**	$197,503
Liabilities:		
Interest payable	**$ 466**	$ 488
Customer deposits:		
Non-interest bearing deposits	**18,281**	15,048
Interest bearing deposits	**109,945**	107,162
Total customer deposits	**128,226**	122,210
Securitized debt obligations	**16,527**	26,915
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	**1,464**	1,517
Senior and subordinated notes	**11,034**	8,650
Other borrowings	**10,536**	4,714
Total other debt	**23,034**	14,881
Other liabilities	**8,100**	6,468
Total liabilities	**176,353**	170,962
Stockholders' equity:		
Preferred stock, par value $.01 per share; authorized 50,000,000 shares; zero shares issued or outstanding as of December 31, 2011 and 2010	**0**	0
Common stock, par value $.01 per share; authorized 1,000,000,000 shares; 508,594,308 and 504,801,064 issued as of December 31, 2011 and 2010, respectively	**5**	5
Paid-in capital, net	**19,274**	19,084
Retained earnings	**13,462**	10,406
Accumulated other comprehensive income	**169**	248
Less: Treasury stock, at cost; 48,647,091 and 47,787,697 shares as of December 31, 2011 and 2010, respectively	**(3,244)**	(3,202)
Total stockholders' equity	**29,666**	26,541
Total liabilities and stockholders' equity	**$206,019**	$197,503

See Notes to Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Preferred	Additional Paid-In	Retained	Accumulated Other Comprehensive Income	Treasury	Total Stockholders'
(Dollars in millions, except per share data)	**Shares**	**Amount**	**Stock**	**Capital**	**Earnings**	**(Loss)**	**Stock**	**Equity**
Balance as of December 31, 2008	438,434,235	$ 4	$ 3,096	$ 17,278	$ 10,621	$ (1,222)	$ (3,166)	$ 26,611
Comprehensive income:								
Net income					884			884
Other comprehensive income (loss), net of tax:								
Unrealized gains on securities, net of taxes of $520 million						996		996
Postretirement benefit plan adjustments, net of taxes of $7 million						13		13
Net change in foreign currency translation adjustments						202		202
Net unrealized gains related to cash flow hedge relationships, net of taxes of $61 million						94		94
Other comprehensive income						1,305		1,305
Total comprehensive income								2,189
Cash dividends—common stock $0.53 per share					(214)			(214)
Cash dividends—preferred stock 5% per annum			(23)		(82)			(105)
Purchases of treasury stock							(14)	(14)
Issuances of common stock and restricted stock, net of forfeitures	61,041,008	1		1,535				1,536
Exercise of stock options and tax benefits of exercises and restricted stock vesting	358,552			(6)				(6)
Accretion of preferred stock discount			34		(34)			0
Redemption of preferred stock			(3,107)		(448)			(3,555)
Compensation expense for restricted stock awards and stock options				116				116
Issuance of common stock for acquisition	2,560,601			31				31
Allocation of ESOP shares				1				1
Balance as of December 31, 2009	502,394,396	$ 5	$ 0	$ 18,955	$ 10,727	$ 83	$ (3,180)	$ 26,590
Cumulative effect from January 1, 2010 adoption of new consolidation accounting standards, net of taxes					(2,957)	(16)		(2,973)
Cumulative effect from July 1, 2010 adoption of new embedded credit derivatives accounting standard, net of taxes					(16)			(16)
Comprehensive income:								
Net income					2,743			2,743
Other comprehensive income (loss), net of tax:								
Unrealized gains on securities, net of taxes of $48 million						134		134
Other-than-temporary impairment not recognized in earnings on securities, net of taxes of $27 million						49		49
Foreign currency translation adjustments						(10)		(10)
Unrealized gains in cash flow hedge instruments, net of taxes of $5 million						8		8
Other comprehensive income						181		181
Total comprehensive income								2,924
Cash dividends—common stock $0.20 per share					(91)			(91)
Purchases of treasury stock							(22)	(22)
Issuances of common stock and restricted stock, net of forfeitures	1,823,652			30				30
Exercise of stock options and tax benefits of exercises and restricted stock vesting	583,016			3				3
Compensation expense for restricted stock awards and stock options				96				96
Balance as of December 31, 2010	504,801,064	$ 5	$ 0	$ 19,084	$ 10,406	$ 248	$ (3,202)	$ 26,541

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in millions, except per share data)	Common Stock Shares	Common Stock Amount	Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Comprehensive income:								
Net income					3,147			3,147
Other comprehensive income (loss), net of tax:								
Unrealized losses on securities, net of tax benefit of $15 million						(39)		(39)
Other-than-temporary impairment not recognized in earnings on securities, net of tax benefit of $26 million						(39)		(39)
Defined benefit plans, net of income tax benefit of $7 million						(14)		(14)
Foreign currency translation adjustments						(13)		(13)
Unrealized gains in cash flow hedge instruments, net of taxes of $18 million						26		26
Other comprehensive income						(79)		(79)
Total comprehensive income								3,068
Cash dividends—common stock $0.20 per share					(91)			(91)
Cash dividends—preferred stock 5% per annum								
Purchases of treasury stock							(42)	(42)
Issuances of common stock and restricted stock, net of forfeitures	2,606,736			40				40
Exercise of stock options and tax benefits of exercises and restricted stock vesting	1,186,508			57				57
Compensation expense for restricted stock awards and stock options				93				93
Balance as of December 31, 2011	**508,594,308**	**$ 5**	**$ 0**	**$ 19,274**	**$ 13,462**	**$ 169**	**$ (3,244)**	**$ 29,666**

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)	Year Ended December 31, 2011	2010	2009
Operating activities:			
Income from continuing operations, net of tax	**$ 3,253**	$ 3,050	$ 987
Loss from discontinued operations, net of tax	**(106)**	(307)	(103)
Net income	**3,147**	2,743	884
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for loan and lease losses	**2,360**	3,907	4,230
Depreciation and amortization, net	**600**	582	683
Net gains on sales of securities available for sale	**(259)**	(141)	(218)
Net gains on deconsolidation	**0**	(177)	0
Loans held for sale:			
Originations/Transfers in	**(1,031)**	(180)	(1,194)
(Gains) losses on sales	**(28)**	(1)	0
Proceeds from sales	**1,086**	241	1,228
Stock plan compensation expense	189	149	146
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	**41**	(137)	(108)
(Increase) decrease in accounts receivable from securitizations(1)	**24**	(475)	(2,015)
(Increase) decrease in other assets(1)	**(150)**	1,432	339
Decrease in interest payable	**(22)**	(21)	(167)
Increase (decrease) in other liabilities(1)	**1,403**	(133)	(1,709)
Net cash provided by (used in) operating activities attributable to discontinued operations	**95**	353	(17)
Net cash provided by operating activities	**7,455**	8,142	2,082
Investing activities:			
Increase in restricted cash for securitization investors(1)	**811**	2,897	727
Purchases of securities available for sale	**(16,060)**	(26,378)	(27,827)
Proceeds from paydowns and maturities of securities available for sale	**9,710**	11,567	9,541
Proceeds from sales of securities available for sale	**9,169**	12,466	13,410
Proceeds from securitizations of loans	**0**	0	12,068
Proceeds from sale of interest-only bonds	**0**	57	0
Net (increase) decrease in loans held for investment(1)	**(13,777)**	2,607	1,934
Principal recoveries of loans previously charged off	**1,543**	1,587	774
Additions of premises and equipment	**(315)**	(340)	(243)
Net cash provided by (payment for) companies acquired	**(1,444)**	0	778
Net cash provided by (used in) investing activities	**(10,363)**	4,463	11,162
Financing activities:			
Net increase (decrease) in deposits	**6,010**	6,401	(6,369)
Net decrease in securitized debt obligations	**(10,388)**	(21,385)	(3,557)
Net decrease in other borrowings(1)	**5,774**	(293)	(2,356)
Maturities of senior notes	**(855)**	(666)	(1,447)
Redemptions of acquired debt and noncontrolling interests	**0**	0	(464)
Issuance of senior and subordinated notes and junior subordinated debentures	**2,992**	0	4,500
Purchases of treasury stock	**(42)**	(22)	(14)
Dividends paid on common stock	**(91)**	(91)	(214)
Dividends paid on preferred stock	**0**	0	(105)
Net proceeds from issuances of common stock	**40**	30	1,536
Net payments from redemption of preferred stock and warrants	**0**	0	(3,555)
Proceeds from share-based payment activities	**57**	3	(6)
Net cash provided by (used in) financing activities attributable to discontinued operations	**0**	(18)	1
Net cash provided by (used in) financing activities	**3,497**	(16,041)	(12,050)
Increase in cash and cash equivalents	**589**	(3,436)	1,194
Cash and cash equivalents at beginning of the period	**5,249**	8,685	7,491
Cash and cash equivalents at end of the period	**$ 5,838**	$ 5,249	$ 8,685
Supplemental cash flow information:			
Non-cash items:			
Impact of the net fair value of assets acquired and liabilities assumed for acquisitions	**$ 3**	$ 0	$ 0
Cumulative effect from adoption of new consolidation accounting standards	**0**	2,973	0

(1) Excludes the initial impact from the January 1, 2010 adoption of the new consolidation accounting standards.

See Notes to Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Capital One Financial Corporation, which was established in 1995, is a diversified financial services holding company headquartered in McLean, Virginia. Capital One Financial Corporation and its subsidiaries (the "Company") offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. Our principal subsidiaries include Capital One Bank (USA), National Association ("COBNA") and Capital One, National Association ("CONA"). The Company and its subsidiaries are hereafter collectively referred to as "we", "us" or "our." CONA and COBNA are hereafter collectively referred to as the "Banks." As one of the top 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 currently 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.

- *Credit Card:* Consists of our domestic consumer and small business credit card lending, domestic small business lending, national closed end installment lending and the international credit card lending businesses in Canada and the United Kingdom.
- *Consumer Banking:* Consists of our branch-based lending and deposit gathering activities for consumer and small businesses, national deposit gathering, national auto 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 and $1.0 billion.

Certain activities that are not part of a segment are included in the "Other" category. The results of our individual businesses are prepared based on our internal management accounting system and reflect the manner in which management measures and evaluates performance. The accounting policies with respect to activities specifically attributable to each business segment are generally the same as those used in preparation of our consolidated financial statements. However, the preparation of business line results requires management to allocate funding costs and benefits, expenses and other financial elements to each line of business. For details of our business segment accounting policies, allocation methodologies and business segment results, see "Note 20—Business Segments."

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. 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.

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. We determine whether we have a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE").

Voting Interest Entities

Voting interest entities are entities that have sufficient equity and provide the equity investors voting rights that give them the power to make significant decisions relating to the entity's operations. The usual condition for a controlling financial interest in a voting interest entity is ownership of a majority voting interest. Accordingly, we consolidate our majority-owned subsidiaries and other voting interest entities in which we hold, directly or indirectly, more than 50% of the voting rights or where we exercise control through other contractual rights.

Investments in entities where we do not have a controlling financial interest but we have significant influence over the entity's financial and operating decisions (generally defined as owning a voting interest of 20% to 50%) are accounted for under the equity method. If we own less than 20% of a voting interest entity, we generally carry the investment at cost, except marketable equity securities, which we carry at fair value with changes in fair value included in accumulated other comprehensive income. We typically report investments accounted for under the equity or cost method in other assets on our consolidated balance sheets, and include our share of income or loss in other non-interest income in our consolidated statements of income.

Variable Interest Entities ("VIEs")

VIEs are entities that lack one or more of the characteristics of a voting interest entity. Either the entity does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties or the entity has equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity. 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.

In determining whether we are the primary beneficiary of a VIE, we consider both qualitative and quantitative factors regarding the nature, size and form of our involvement with the VIE, such as our role in establishing the VIE and our ongoing rights and responsibilities; our economic interests, including debt and equity investments, servicing fees, and other arrangements deemed to be variable interests in the VIE; the design of the VIE, including the capitalization structure, subordination of interests, payment priority, relative share of interests held across various classes within the VIE's capital structure and the reasons why the interests are held by us.

We perform on-going reassessments of whether entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain events, and are therefore subject to the VIE consolidation framework and whether changes in the facts and circumstances regarding our involvement with a VIE result in a change in our consolidation conclusion. Our reassessment process considers whether we have acquired or divested the power to direct the activities of the VIE through changes in governing documents or other circumstances. The reassessment also considers whether we have acquired or disposed of a financial interest that could be significant to the VIE, or whether an interest in the VIE has become significant or is no longer significant. The consolidation status of the VIEs with which we are involved may change as a result of such reassessments.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, federal funds sold and resale agreements and interest-bearing deposits at other banks, all of which, if applicable, have stated maturities of three months or less when acquired. Cash payments for interest expense totaled $2.3 billion, $2.9 billion and $3.1 billion in 2011, 2010 and 2009, respectively. Cash payments for income taxes totaled $982 million, $350 million and $409 million in 2011, 2010 and 2009, respectively.

Resale and Repurchase Agreements

Securities purchased under agreements to resell and securities sold under agreements to repurchase, principally U.S. government and agency obligations, are not accounted for as sales but as collateralized financing transactions and recorded at the amounts at which the securities were acquired or sold, plus accrued interest. We receive securities purchased under agreements to resell, make delivery of securities sold under agreements to repurchase, continually monitor the market value of these securities and deliver or obtain additional collateral as appropriate.

Investment Securities

Our investment securities consist primarily of fixed-income debt securities and equity securities. The accounting and measurement framework for our investment securities differs depending on the security classification. We classify securities as available for sale or held to maturity based on our investment strategy and management's assessment of our intent and ability to hold the securities until maturity. Securities that we intend to hold for an indefinite period of time and may sell prior to maturity in response to changes in our investment strategy, liquidity needs, interest rate risk profile or for other reasons are classified as available for sale. All of our investment securities were classified as available for sale as of December 31, 2011 and 2010. Although we currently do not have any securities classified as held-to-maturity, we may elect to do so in the future.

Available-for-sale securities are carried at fair value with unrealized net gains or losses, net of taxes, recorded in accumulated other comprehensive income in stockholders' equity. For most of our investment securities, interest income is recognized using the effective interest method. Deferred items, including unamortized premiums, discounts and other basis adjustments, are recognized in interest income over the contractual lives of the securities using the effective interest method. We record purchases and sales of securities on a trade date basis. Realized gains and losses from the sale of debt securities are computed using the specific identification method and included in non-interest income in our consolidated statements of income.

We regularly evaluate our securities whose value has declined below amortized cost to assess whether the decline in fair value is other-than-temporary. Amortized cost reflects historical cost adjusted for amortization of premiums, accretion of discounts and other-than-temporary impairment writedowns. We discuss our assessment of and accounting for other-than-temporary impairment in "Note 4—Investment Securities." We discuss the techniques we use in determining the fair value of our investment securities in "Note 19—Fair Value of Financial Instruments."

Loans

Our loan portfolio consists of credit card, other consumer and commercial loans. Other consumer loans consist of auto, home, and retail banking loans. Commercial loans consist of commercial and multifamily real estate, middle market, specialty lending and small-ticket commercial real estate loans. We historically have securitized credit card loans, auto loans, home loans and installment loans through trusts we established to purchase the loans. The primary purposes of these securitization transactions were to satisfy investor demand and generate liquidity. Prior to January 1, 2010, the transfers of these loans to securitization trusts were generally accounted for as sales and the sold assets were removed from our consolidated balance sheets, which resulted in favorable regulatory capital treatment. As a result of our January 1, 2010 adoption of the new consolidation accounting standards, we have consolidated these securitization trusts. The loans underlying consolidated trusts are reported on our consolidated balance sheet under restricted loans for securitization investors.

Loan Classification

We classify loans as held for investment or held for sale based on our investment strategy and management's assessment of our intent and ability to hold loans for the foreseeable future or until maturity. Management's intent and ability with respect to certain loans may change from time to time depending on a number of factors, including economic, liquidity and capital conditions. The accounting and measurement framework for loans differs depending on the loan classification and whether the loans are originated or purchased. The accounting for purchased loans also differs depending on whether the loan is considered credit-impaired at the date of acquisition. The classification criteria and accounting and measurement framework for loans held for investment, loans held for sale and purchased-credit impaired loans are described below.

Loans Held for Investment

Loans that we have the ability and intent to hold for the foreseeable future and loans associated with on-balance sheet securitization transactions accounted for as secured borrowings are classified as held for investment. The substantial majority of our loans, which include unrestricted loans and restricted loans for securitization investors, are classified as held for investment.

Credit card loans classified as held for investment are reported at their outstanding unpaid principal balance plus uncollected billed interest and fees net of billed interest and fees deemed uncollectible. Other loans classified as held for investment, except for purchased credit-impaired loans, are reported at amortized cost. Amortized cost is measured based on the outstanding unpaid principal amount, net of unearned income, unamortized deferred fees and costs and charge-offs. We generally defer certain loan origination fees and direct loan origination costs on originated loans, premiums and discounts on purchased loans and loan commitment fees and recognize these amounts in interest income as yield adjustments over the life of the loan and/or commitment period or, for credit card loans, over a twelve-month period, using the effective interest method. Interest income is recognized on loans held for investment, other than purchased credit-impaired loans, on an accrual basis. We establish an allowance for loan losses for probable losses inherent in our held for investment loan portfolio as of each balance sheet date.

Cash flows related to unrestricted loans held for investment are included in cash flows from investing activities in our consolidated statements of cash flows regardless of a subsequent change in intent. Because our securitization transactions are accounted for as secured borrowings, the cash flows from these transactions are presented as cash flows from financing activities rather than as cash flows from operating or investing activities in our consolidated statement of cash flows beginning in 2010.

Loans Held for Sale

Loans that we intend to sell or for which we do not have the ability and intent to hold for the foreseeable future are classified as held for sale. Prior to January 1, 2010 we classified credit card loans necessary to support new securitization transactions expected to take place in the next three months as held for sale. Management limited the timeframe in which it believed it could reasonably estimate the amount of existing credit card loans to support securitization transactions to three months because of the uncertainty of customer repayment behavior and the revolving nature of credit cards.

Loans classified as held for sale are reported at the lower of amortized cost or fair value as determined on an aggregate homogeneous portfolio basis, with any write-downs or recoveries in fair value up to the amortized cost recorded in our consolidated statements of income as a component of other non-interest income. We recognize interest on loans held for sale classified as performing on an accrual basis. Because loans held for sale are reported at lower of cost or fair value, an allowance for loan losses is not established for loans held for sale. The fair value of loans held for sale is estimated based on secondary market prices for loan portfolios with similar characteristics.

In certain circumstances, we may transfer loans to/from held for sale or held for investment based on a change in strategy. We transfer these loans at the lower of cost or fair value on the date of transfer and establish a new cost basis upon transfer. Write-downs on loans transferred from held for investment to held for sale are recorded as charge-offs at the time of transfer.

We execute whole loan sales with either servicing rights released to the buyer or retained. When loans are sold and the servicing rights are released to the buyer, the gain or loss recognized on the sale is calculated based on the difference between the proceeds received and the carrying value of the loans sold. When loans are sold and the servicing rights are retained, the fair value attributed to the retained servicing rights impacts the gain or loss recognized on the sale. We report gains or losses on loans held for sale when realized in other non-interest income.

We originated $954 million and $1.2 billion of conforming residential mortgage loans for the years ended December 31, 2011 and 2010, respectively. We retained servicing on approximately 91% and 82% of the conforming residential mortgage loans we sold for the years ended December 31, 2011 and 2010, respectively and recognized gains of $28 million, $1 million, and less than $1 million of the sale of held-for-sale loans for the years ended December 31, 2011, 2010, and 2009, respectively.

Loans Acquired

All purchased loans, including loans transferred in a business combination, acquired on or after January 1, 2009, are recorded at fair value at the date of acquisition. Accordingly, any related allowance for loan losses is not carried over.

Loans acquired with evidence of credit deterioration since origination and for which it is probable at the date of acquisition that we will not collect all contractually required principal and interest payments are considered purchased credit impaired (“PCI”) loans. Evidence of credit deterioration may include statistics such as delinquency and accrual status, current loan-to-value ratio, the geographic location of the borrower or collateral and internal risk ratings. In connection with the acquisition of Chevy Chase Bank on February 27, 2009, we concluded that the substantial majority of loans we acquired from Chevy Chase Bank were PCI loans. See “Note 2—Acquisitions and Restructuring Activities” and “Note 5—Loans” for additional information.

In accounting for PCI loans we first determine the contractually required payments due, which represent the total undiscounted amount of all uncollected principal and interest payments, adjusted for the effect of estimated prepayments. We then estimate the undiscounted cash flows we expect to collect. We incorporate several key assumptions to estimate cash flows expected to be collected, including default rates, loss severities and the amount and timing of prepayments. We estimate the fair value by discounting the estimated cash flows we expect to collect using an observable market rate of interest, when available, adjusted for factors that a market participant would consider in determining fair value. We are permitted to aggregate PCI loans acquired in the same fiscal quarter into one or more pools if the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate fair value and expected cash flows.

The difference between contractually required payments due and the cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the nonaccretable difference. The nonaccretable difference, which is neither accreted into income nor recorded on our consolidated balance sheet, reflects estimated future credit losses expected to be incurred over the life of the loan. The excess of cash flows expected to be collected over the estimated fair value of PCI loans is referred to as the accretable yield. This amount is not recorded on our consolidated balance sheet, but is accreted into interest income over the remaining life of the loan, or pool of loans, using the effective interest method.

Subsequent to acquisition, we complete quarterly evaluations of expected cash flows. Decreases in expected cash flows attributable to credit will generally result in an impairment charge to the provision for loan and lease losses and the establishment of an allowance for loan and lease losses. Increases in expected cash flows will generally result in a reduction in any allowance for loan and lease losses established subsequent to acquisition and an increase in the accretable yield through a reclassification from the nonaccretable difference. The adjusted accretable yield is recognized in interest income over the remaining life of the loan, or pool of loans. Disposals of loans, which may include sales of loans to third parties, receipt of payments in full or part by the borrower, and foreclosure of the collateral result in removal of the loan from the PCI loan portfolio at its carrying amount.

Because the initial fair value of PCI loans recorded at acquisition includes an estimate of credit losses expected to be realized over the remaining lives of the loans, we separately track and report PCI loans and exclude these loans from our delinquency and nonperforming loan statistics. Even though substantially all of these loans are 90 days or more contractually past due, they are considered to be accruing since we have a reasonable expectation about the timing and amount of cash flows expected to be collected.

For acquired loans that are not deemed impaired at acquisition, subsequent to acquisition we recognize the difference between the initial fair value at acquisition and the undiscounted expected cash flows in interest income over the life of the loans using the effective interest method.

Loan Modifications and Restructurings

As part of our loss mitigation efforts, we may make loan modifications that are intended to minimize the economic loss and to 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 a borrower experiencing financial difficulty to improve long-term loan performance and collectability. Our modifications typically include a reduction in the borrower’s initial monthly or quarterly principal and interest payment through an extension of the loan term, a reduction in the interest rate, or a combination of both. For credit card loan agreements, such modifications may include canceling the customer’s available line of credit on the credit card, reducing the interest rate on the card, and placing the customer on a fixed payment plan not exceeding 60 months. 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.

A loan modification in which a concession is granted to a borrower experiencing financial difficulty is accounted for as a troubled debt restructuring (“TDR”). We describe our accounting for and measurement of impairment on restructured loans below under “Impaired Loans.” See “Note 5—Loans” for additional information on our loan modifications and restructurings.

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 accounted for under the fair value option and 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 account by the estimated uncollectible portion of any billed finance charges and fees and exclude this amount from revenue.
- *Consumer 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 auto, home loans, and unsecured small business revolving lines of credit and 120 days past due for all other non-credit card consumer loans, including installment loans.
- *Commercial loans*: We classify commercial loans as nonperforming as of the date 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 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 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.

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 with insignificant delays or insignificant short falls 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 identifying loans as individually impaired, by loan category, are as follows:

- *Credit card loans:* Credit card loans that have been modified in a troubled debt restructuring are identified and accounted for as individually impaired.
- *Consumer loans:* Consumer loans that have been modified in a troubled debt restructuring are identified and accounted for as individually impaired.
- *Commercial loans:* Commercial loans classified as nonperforming and commercial loans 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 troubled debt restructuring, 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 either a direct write-down or establishing an allowance for the loan or by adjusting an allowance for the impaired loan. See "Note 6—Allowance for Loan and Lease Losses" for additional information on the asset-specific component of our allowance.

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-offs within 60 days. Credit card loans of deceased account holders are charged-off within 60 days of receipt of notification.
- *Consumer 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 home loans and unsecured small business lines of credit and 120 days for auto and other non-credit card consumer loans. We calculate the charge-off amount for home 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 home loans are charged-off. Consumer loans in bankruptcy, except for auto and home 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 home regardless of the bankruptcy notification date. Consumer loans of deceased account holders are charged-off within 60 days of receipt of notification.
- *Commercial 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.

Foreclosed Property and Repossessed Assets

Foreclosed property and repossessed assets are comprised of any asset or property acquired through loan restructurings, workouts, foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Acquired property may include commercial and residential real estate properties or personal property, such as autos.

Upon repossession of property acquired in satisfaction of a loan, we reclassify the loan to repossessed assets and record the acquired property at the lower of the recorded investment in the loan or the estimated fair value of the underlying collateral less estimated selling costs. We estimate fair values primarily based on appraisals, when available, or quoted market prices on liquid assets. Anticipated recoveries from private mortgage insurance and government guarantees are also considered in evaluating the potential impairment of loans at the date of transfer. When the anticipated future cash flows associated with a loan are less than its net carrying value, a charge-off is recognized against the allowance for loan losses.

We regularly evaluate the fair value of acquired property and subsequently record at the lower of the amount recorded at acquisition or the current fair value less estimated disposition costs. Any valuation adjustments on acquired property or gains or losses realized from disposition of the property are reflected in non-interest expense.

Foreclosed property and repossessed assets, which we report in our consolidated balance sheet under other assets, totaled $169 million and $20 million, respectively, as of December 31, 2011, compared with $306 million and $20 million, respectively, as of December 31, 2010.

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.

Our consumer loan portfolio consists of smaller-balance, homogeneous loans, divided into four primary portfolio segments: credit card loans, auto loans, residential home loans and retail banking loans. Each of these portfolios is further divided by our business units into pools based on common risk characteristics, such as origination year, contract type, interest rate and geography that are collectively evaluated for impairment. The commercial loan portfolio is primarily composed of larger-balance, non-homogeneous loans. These loans are subject to individual reviews that result in risk ratings. In assessing the risk rating of a particular loan, among the factors we consider are the financial condition of the borrower, geography, collateral performance, historical loss experience, and industry-specific information that management believes is relevant in determining the occurrence of a loss event and measuring impairment. These factors are based on an evaluation of historical and current information, and involve subjective assessment and interpretation. Emphasizing one factor over another or considering additional factors could impact the risk rating assigned to that loan.

The formula-based component of the allowance for credit card and other consumer loans that we collectively evaluate for impairment is based on a statistical calculation. Because of the homogenous nature of our consumer loan portfolios, the allowance is based on the aggregated portfolio segment evaluations. The allowance is established through a process that begins with estimates of incurred losses in each pool based upon various statistical analyses. Loss forecast models are utilized to estimate incurred losses and consider several portfolio indicators including, but not limited to, historical loss experience, account seasoning, the value of collateral underlying secured loans, estimated foreclosures or defaults based on observable trends, delinquencies, bankruptcy filings, unemployment and credit bureau scores, and general economic and business trends. Management believes these factors are relevant in estimating incurred losses and also considers an evaluation of overall portfolio credit quality based on indicators such as changes in our credit evaluation, underwriting and collection management policies, changes in the legal and regulatory environment, general economic conditions and business trends and uncertainties in forecasting and modeling techniques used in estimating our allowance. We update our consumer loss forecast models and portfolio indicators on a quarterly basis to incorporate information reflective of the current economic environment.

The formula-based component of the allowance for commercial loans that we collectively evaluate for impairment is based on our historical loss experience for loans with similar risk characteristics and consideration of the current credit quality of the portfolio, supplemented by management judgment and interpretation. We apply internal risk ratings to commercial loans, which we use to assess credit quality and derive a total loss estimate based on an estimated probability of default (default rate) and loss given default (loss severity). We generally use the prior three-year actual portfolio credit loss experience to develop our estimate of credit losses inherent in the portfolio as of each balance sheet date. Management may also apply judgment to adjust the loss factors derived, taking into consideration both quantitative and qualitative factors, including general economic conditions, specific industry and geographic trends, portfolio concentrations, trends in internal credit quality indicators and current and past underwriting standards that have occurred but are not yet reflected in the historical data underlying our loss estimates.

The asset-specific component of the allowance covers smaller-balance homogenous credit card and consumer loans whose terms have been modified in a TDR and larger balance nonperforming, non-homogenous commercial loans. As discussed above under "Impaired Loans," we generally measure the asset-specific component of the allowance based on the difference between the recorded investment of individually impaired loans and the present value of expected future cash flows. When the present value is lower than the carrying value of the loan, impairment is recognized through the provision for loan and lease losses. 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. The asset specific component of the allowance for smaller-balance impaired loans is calculated on a pool basis using historical loss experience for the respective class of assets. The asset-specific component of the allowance for larger-balance, commercial loans is individually calculated for each loan. Key considerations in determining the allowance include the borrower's overall financial condition, resources and payment history, prospects for support from financially responsible guarantors, and when applicable, the estimated realizable value of any collateral.

Purchased credit-impaired loans are recorded at fair value at acquisition and applicable accounting guidance prohibits the carry over or creation of valuation allowances in the initial accounting for impaired loans acquired in a transfer. Subsequent to acquisition, decreases in expected principal cash flows of purchased impaired loans are recorded as a valuation allowance included in the allowance for loan and lease losses. Subsequent increases in expected principal cash flows result in a recovery of any previously recorded allowance for loan and lease losses, to the extent applicable. Write-downs on purchased impaired loans in excess of the nonaccretable difference are charged against the allowance for loan and lease losses. See "Note 5—Loans" for information on purchased credit-impaired portfolios associated with acquisitions.

In addition to the allowance for loan and lease losses, we also estimate probable losses related to unfunded lending commitments, such as letters of credit and financial guarantees, and binding unfunded loan commitments. The provision for unfunded lending commitments is included in the provision for loan and lease losses on our consolidated statements of income and the related reserve for unfunded lending commitments is included in other liabilities on our consolidated balance sheets. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to our internal risk rating scale. We assess these risk classifications, in conjunction with historical loss experience, utilization assumptions, current economic conditions, performance trends within specific portfolio segments and other pertinent information to estimate the reserve for unfunded lending commitments.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowances for loan and lease losses and reserve for unfunded lending commitments in future periods.

Special Purpose Entities and Variable Interest Entities

Effective January 1, 2010, we prospectively adopted two accounting standards that had a significant impact on our accounting for entities previously considered to be off-balance sheet arrangements. The adoption of these new accounting standards resulted in the consolidation of our credit card securitization trusts, one of our installment loan trusts and certain option-adjustable rate mortgages (“option-ARM”) loan trusts originated by Chevy Chase Bank. Prior to January 1, 2010, transfers of our credit card receivables, installment loans and certain option-adjustable rate mortgage loans to our securitization trusts were accounted for as sales and treated as off-balance sheet. At the adoption of these new accounting standards on January 1, 2010, we added to our reported consolidated balance sheet $41.9 billion of assets, consisting primarily of credit card loan receivables underlying the consolidated securitization trusts, along with $44.3 billion of related debt issued by these trusts to third-party investors. We also recorded an after-tax charge to retained earnings on January 1, 2010 of $2.9 billion, reflecting the net cumulative effect of adopting these new accounting standards. This charge primarily related to the addition of $4.3 billion to our allowance for loan and lease losses for the newly consolidated loans and the recording of $1.6 billion in related deferred tax assets. The initial recording of these amounts on our reported balance sheet as of January 1, 2010 had no impact on our reported income.

Securitization of Loans

We primarily securitize credit card loans, auto loans, home loans and installment loans. Securitizations have historically been utilized for liquidity and funding purposes. See “Note 7—Variable Interest Entities and Securitizations” and “Note 8—Goodwill and Other Intangible Assets” for additional details. Loan securitization involves the transfer of a pool of loan receivables from our portfolio to a trust from which the trust sells an undivided interest in the pool of loan receivables to third-party investors through the issuance of debt securities. The debt securities are collateralized by the transferred receivables from our portfolio, and we receive proceeds from the third-party investors in consideration for the loans transferred. We remove loans from our consolidated balance sheet when securitizations qualify as sales to non-consolidated VIEs, recognize assets retained and liabilities assumed at fair value and record a gain or loss on the transferred loans. Alternatively, when the transfer does not qualify as a sale but instead is considered a secured borrowing or when the sale is to a consolidated VIE, the asset will remain on our consolidated financial statements with an offsetting liability recognized for the amount of proceeds received.

Goodwill and Other Intangible Assets

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date.

Goodwill is not amortized but is tested for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill is the only intangible asset with an indefinite life on our consolidated balance sheets. We have elected October 1 as the date to perform our annual goodwill impairment test. Intangible assets with definite useful lives are amortized either on a straight-line or on an accelerated basis over their estimated useful lives and evaluated for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable.

Other Assets

We report our investment in Federal Home Loan Bank ("FHLB") stock, which totaled $362 million and $269 million as of December 31, 2011 and 2010, respectively, and our investment in Federal Reserve stock, which totaled $863 million and $861 million, as of December 31, 2011 and 2010, respectively, in other assets on our consolidated balance sheets. We carry these investments at cost and assess for other-than-temporary impairment in accordance with applicable accounting guidance for evaluating impairment. We did not recognize any impairment on these investments in 2011 or 2010.

Mortgage Servicing Rights

Mortgage servicing rights ("MSRs") are initially recorded 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. Subsequently, MSRs are carried at fair value on our consolidated balance sheet with changes in fair value recognized in other income. In measuring the fair value of our MSRs, we stratify the underlying loans based on certain risk characteristics, including loan type, note rate and investor servicing requirements. We determine the fair value of MSRs based on the present value of the estimated future cash flows of net servicing income. We use assumptions in the valuation model that market participants use when estimating future net servicing income, including prepayment speeds, discount rates, default rates, cost to service, escrow account earnings, contractual servicing fee income, ancillary income and late fees. This model is highly sensitive to changes in certain assumptions. Different anticipated prepayment speeds, in particular, can result in substantial changes in the estimated fair value of MSRs. If actual prepayment experience differs from the anticipated rates used in the model, this difference could result in a material change in the value of our MSRs.

MSRs, which are included in other assets on our consolidated balance sheets, totaled $93 million and $141 million as of December 31, 2011 and 2010, respectively. Our acquisition of Chevy Chase Bank resulted in additional mortgage servicing rights of $110 million as of the acquisition date. See "Note 8—Goodwill and Other Intangible Assets" and "Note 7—Variable Interest Entities and Securitizations" for additional information.

Upon adoption of the accounting consolidation guidance, certain mortgage loans that had been securitized and accounted for as a sale were subject to consolidation and accounted for as a secured borrowing. Accordingly, effective January 1, 2010, mortgage securitization trusts that contain approximately $1.6 billion of mortgage loans and related debt securities issued to third party investors were consolidated and the retained interests and mortgage servicing rights related to these newly consolidated trusts were eliminated in consolidation. See “Note 1—Summary of Significant Accounting Policies” and “Note 8—Goodwill and Other Intangible Assets” for additional information.

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.

Under the fair value accounting guidance, an entity has 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 thereafter, with any changes in fair value recorded in current earnings. We did not make any material fair value option elections as of and for the years ended December 31, 2011 and 2010. See “Note 19—Fair Value of Financial Instruments” for additional information.

Representation and Warranty Reserve

In connection with their sales of mortgage loans, our 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. We may be required to repurchase the mortgage loan, indemnify the investor or insurer, or reimburse the investor for credit losses incurred on the loan in the event of a material breach of contractual representations or warranties.

We have established representation and warranty reserves for losses that we consider to be both probable and reasonably estimable associated with the mortgage loans sold by each subsidiary, including both litigation and non-litigation liabilities. The reserve-setting process relies heavily on estimates, which are inherently uncertain, and requires the application of judgment. In establishing the representation and warranty reserves, we consider a variety of factors, depending on the category of purchaser and rely on historical data. We evaluate these estimates on a quarterly basis.

Losses incurred on loans that we are required to either repurchase or make payments to the investor under the indemnification provisions are charged against the reserve. The representation and warranty reserve is included in other liabilities. Changes to the representation and warranty reserve related to GreenPoint are reported as discontinued operations for all periods presented. See “Note 21—Commitments, Contingencies and Guarantees” for additional information related to our representation and warranty reserve.

Rewards Liability

We offer products, primarily credit cards, that offer reward program members with various rewards, such as airline tickets, cash, or merchandise, based on account activity. We generally recognize rewards cost as an offset to interchange income when the rewards are earned by the customer and record the corresponding rewards liability. The rewards liability is computed based on points earned to date that are expected to be redeemed and the average cost per point redemption. The rewards liability is reduced as points are redeemed. In estimating the rewards liability, we consider historical rewards redemption behavior, the terms of the current rewards programs and card purchase activity. The rewards liability is sensitive to changes in the reward redemption type and redemption rate, which is based on the expectation that the vast majority of all points earned will eventually be redeemed. The rewards liability, which is included in other liabilities in our consolidated balance sheets, totaled $1.7 billion and $1.5 billion as of December 31, 2011 and 2010, respectively.

Derivative Instruments and Hedging Activities

In accordance with applicable accounting standards, all derivative financial instruments, whether designated for hedge accounting or not, are reported at their fair value on our consolidated balance sheets as either assets or liabilities. Derivatives in a net asset position are included on in other assets, and derivatives in a net liability position are included in other liabilities. Our policy is not to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments recognized at fair value executed with the same counterparty under master netting arrangements. As of December 31, 2011 and 2010, we had recorded $353 million and $229 million, respectively, for the right to retain cash collateral and $894 million and $668 million, respectively, for the obligation to return cash collateral.

The accounting for changes in the fair value (i.e., gains and losses) of a derivative instrument differs based on whether the derivative has been designated as a qualifying accounting hedge and the type of accounting hedge. For those derivative instruments that are designated and qualify as hedging instruments we must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation.

For derivative instruments that are designated and qualify as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk is recognized in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. For derivative instruments that are designated and qualify as hedges of a net investment in a foreign operation, the gain or loss is reported in other comprehensive income as part of the cumulative translation adjustment to the extent it is effective. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change in the fair value.

We also enter into derivative agreements with our customers to transfer, modify or reduce their interest rate or foreign exchange risks. As part of this process, we consider the customers' suitability for the risk involved, and the business purpose for the transaction. These derivatives do not qualify for hedge accounting and are considered trading derivatives with changes in fair value recognized in current period earnings. See "Note 11—Derivative Instruments and Hedging Activities" for additional detail.

Revenue Recognition

We recognize earned finance charges, interest income and fees on loans in interest and non-interest income in accordance with the contractual provisions of the credit arrangements. As discussed above under "Loans—Delinquent and Nonperforming Loans," interest and fees continue to accrue on past due loans until the date the loan is placed on nonaccrual status, if applicable. Interest and fees accrued but not collected at the date a loan is placed on nonaccrual status are reversed against earnings.

Finance charges and fees on credit card loans are included in loan receivables when billed to the customer. We continue to accrue finance charges and fees on credit card loans until the account is charged-off. However, when we do not expect full payment of billed finance charges and fees, we reduce the balance of our credit card loan receivables by the amount of finance charges billed but not expected to be collected and exclude this amount from revenue. Our methodology for estimating the uncollectible portion of billed finance charges and fees is consistent with the methodology we use to estimate the allowance for incurred principal losses on our credit card loan receivables. Revenue was reduced by $372 million, $950 million and $2.1 billion in 2011, 2010 and 2009, respectively, for the estimated uncollectible portion of billed finance charges and fees.

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

Interchange income is a discount on the payment due from the card-issuing bank to the merchant bank through the interchange network. Interchange rates are set by MasterCard International Inc. ("MasterCard") and Visa U.S.A. Inc. ("Visa") and are based on cardholder purchase volumes. We recognize interchange income as earned. Annual membership fees and direct loan origination costs specific to credit card loans are deferred and amortized over one year on a straight-line basis. Fees and origination costs and premiums and discounts are deferred and amortized over the average life of the related loans using the effective interest method for qualifying consumer and commercial loan originations. Direct loan origination costs consist of both internal and external costs associated with the origination of a loan.

Marketing Expense

We expense marketing costs as incurred. Television advertising costs are expensed during the period in which the advertisements are aired. We recognized marketing expense of $1.3 billion, $1.0 billion and $0.6 billion in 2011, 2010 and 2009, respectively.

Fraud Losses

We experience fraud losses from the unauthorized use of credit cards, debit cards and customer bank accounts. Additional fraud losses may be incurred when loans are obtained through fraudulent means. Transactions suspected of being fraudulent are charged to non-interest expense after an investigation period. Recoveries of fraud losses also are also included in non-interest expense. See “Note 15—Other Non-Interest Expense” for additional information.

Income Taxes

We account for income taxes in accordance with the accounting guidance for income taxes, recognizing the current and deferred tax consequences of all transactions that have been recognized in the financial statements using the provisions of the enacted tax laws. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. See “Note 18—Income Taxes” for additional details.

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. For purposes of measuring impairment for these receivables, the guidance is applied prospectively for the first interim or annual period beginning on or after June 15, 2011 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 Financial Accounting Standards Board (“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

Offsetting Financial Assets and Liabilities

In December 2011, the FASB issued guidance intended to enhance current disclosure requirements on offsetting financial assets and liabilities. The new disclosures will enable financial statement users to compare balance sheets prepared under U.S. GAAP and IFRS, which are subject to different offsetting models. Upon adoption, entities will be required to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The disclosures will be required irrespective of whether such instruments are presented gross or net on the balance sheet. The guidance is effective for annual and interim reporting periods beginning on or after January 1, 2013, with comparative retrospective disclosures required for all periods presented. Our adoption of the guidance will have no effect on our financial condition, results of operations or liquidity since it impacts disclosures only.

Goodwill 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 intend to adopt the amended guidance on January 1, 2012. We had $13.6 billion in goodwill as of December 31, 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 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 during interim and annual periods beginning 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. 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 AND RESTRUCTURING ACTIVITIES

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 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 provides 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 is deductible for tax purposes. The goodwill was assigned to the International Credit Card reporting unit of our Credit Card segment, and the acquired loan portfolio is reflected in the operations of our International Credit 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 $607 million for the year ended December 31, 2011, for amounts earned by Kohl's. Loss sharing amounts attributable to Kohl's reduced charge-offs by $118 million in 2011. In addition, the expected reimbursement from Kohl's netted in our allowance for loan and lease losses was approximately $139 million as of December 31, 2011. The reduction in the provision for loan and lease losses attributable to Kohl's was $257 million for the year ended December 31, 2011.

Restructuring Activities

In 2009, we completed the broad-based initiative started in 2007 to reduce expenses and improve our competitive cost position. Restructuring initiatives leveraged the capabilities of infrastructure projects in several of our businesses. The scope and timing of the cost reductions were the result of an ongoing, comprehensive review of operations within and across our businesses.

Total incurred charges exceeded the original estimate of $300 million by $63 million. The increase occurred because we extended the initiative past the original timeline due to the continued economic deterioration. Approximately half of these charges were related to severance benefits, while the remaining charges were associated with items such as contract and lease terminations and consolidation of facilities and infrastructure. We recognized restructuring expense of $119 million in 2009. We did not recognize any restructuring expense in 2011 and 2010.

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 in 2011, 2010 and 2009. We have no significant continuing involvement in these operations.

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

	Year Ended December 31,		
(Dollars in millions)	**2011**	**2010**	**2009**
Net interest expense	**$ 0**	$ (1)	$ (2)
Non-interest expense	**(168)**	(475)	(157)
Loss from discontinued operations before taxes	**(168)**	(476)	(159)
Income tax benefit	**62**	169	56
Loss from discontinued operations, net of taxes	**$(106)**	$(307)	$(103)

The loss from discontinued operations includes an expense of $169 million ($120 million net of tax), $432 million ($304 million net of tax) and $162 million ($120 million net of tax) for the years ended December 31, 2011, 2010 and 2009, 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.

The discontinued mortgage origination operations of our wholesale home loan banking unit had remaining assets of $304 million and $362 million as of December 31, 2011 and 2010, respectively, which consisted primarily of income tax receivables. Liabilities totaled $680 million and $585 million as of December 31, 2011 and 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 $38.8 billion and $41.5 billion, as of December 31, 2011 and 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 and leases, 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 69% of our total investment securities portfolio as of December 31, 2011, compared with 70% as of December 31, 2010.

Securities Amortized Cost and Fair Value

All of our investment securities were classified as available-for-sale as of December 31, 2011 and 2010, 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 December 31, 2011 and 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").

	December 31, 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**	**$ 9**	**$ 0**	**$ 0**	**$ 0**	**$ 124**
U.S. Agency debt obligations[3]	**131**	**7**	**0**	**0**	**0**	**138**
Residential mortgage-backed securities ("RMBS"):						
Agency[4]	**24,980**	**539**	**0**	**(31)**	**(31)**	**25,488**
Non-agency	**1,340**	**1**	**(170)**	**(9)**	**(179)**	**1,162**
Total RMBS	**26,320**	**540**	**(170)**	**(40)**	**(210)**	**26,650**
Commercial mortgage-backed securities ("CMBS"):						
Agency[4]	**697**	**14**	**0**	**0**	**0**	**711**
Non-agency	**459**	**17**	**0**	**0**	**0**	**476**
Total CMBS	**1,156**	**31**	**0**	**0**	**0**	**1,187**
Asset-backed securities ("ABS")[5]	**10,119**	**45**	**0**	**(14)**	**(14)**	**10,150**
Other[6]	**462**	**51**	**0**	**(3)**	**(3)**	**510**
Total securities available for sale	**$ 38,303**	**$ 683**	**$ (170)**	**$ (57)**	**$ (227)**	**$ 38,759**

	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

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

(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.

(3) Consists of debt securities issued by Fannie Mae and Freddie Mac, which had amortized cost of $130 million and $200 million, as of December 31, 2011 and 2010, respectively, and fair value of $137 million and $213 million, as of December 31, 2011 and 2010, respectively.

(4) Consists of mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae with amortized cost of $12.3 billion, $8.9 billion and $4.5 billion, respectively, and fair value of $12.6 billion, $9.1 billion and $4.5 billion, respectively, as of December 31, 2011. The book value of Fannie Mae, Freddie Mac and Ginnie Mae investments exceeded 10% of our stockholders' equity as of December 31, 2011.

(5) Consists of securities collateralized by credit card loans, auto loans, auto dealer floor plan inventory loans and leases, student loans, equipment loans, and other. The distribution among these asset types was approximately 75% credit card loans, 11% auto dealer floor plan inventory loans and leases, 6% auto loans, 4% student loans, 2% equipment loans, and 2% other as of December 31, 2011. In comparison, the distribution was approximately 78% credit card loans, 7% student loans, 7% auto loans, 6% auto dealer floor plan inventory loans and leases, and 2% equipment loans as of December 31, 2010. Approximately 86% of the securities in our asset-backed security portfolio were rated AAA or its equivalent as of December 31, 2011, compared with 90% as of December 31, 2010.

(6) Consists of municipal securities and equity investments, primarily related 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 December 31, 2011 and 2010.

	December 31, 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]	$ 4,731	$ (30)	$ 334	$ (1)	$ 5,065	$ (31)
Non-agency	151	(17)	986	(162)	1,137	(179)
Total RMBS	4,882	(47)	1,320	(163)	6,202	(210)
CMBS:						
Agency[1]	100	0	0	0	100	0
Non-agency	67	0	0	0	67	0
Total CMBS	167	0	0	0	167	0
Total ABS	2,084	(11)	81	(3)	2,165	(14)
Other	198	0	85	(3)	283	(3)
Total securities available-for-sale in a gross unrealized loss position	$ 7,331	$ (58)	$ 1,486	$ (169)	$ 8,817	$ (227)

	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)
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 $227 million as of December 31, 2011 relate to 397 individual securities. Our investments in non-agency MBS and non-agency asset-backed securities accounted for $193 million, or 85%, of total gross unrealized losses as of December 31, 2011. Of the $227 million gross unrealized losses as of December 31, 2011, $169 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 December 31, 2011:

	December 31, 2011	
(Dollars in millions)	Amortized Cost	Fair Value
Due in 1 year or less	**$ 3,495**	**$ 3,508**
Due after 1 year through 5 years	**6,708**	**6,750**
Due after 5 years through 10 years	**1,764**	**1,810**
Due after 10 years[1]	**26,336**	**26,691**
Total	**$ 38,303**	**$ 38,759**

(1) Investments with no stated maturities, which consist of equity securities, are included with contractual maturities due after 10 years.

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

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 summarizes, by major security type, the expected maturities and the weighted average yields of our investment securities as of December 31, 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.

	December 31, 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%	$ 124	4.27%	$ 0	0%	$ 0	0%	$ 124	4.27%
U.S. Agency debt obligations[2]	31	4.43	107	4.59	0	0	0	0	138	4.56
RMBS:										
Agency[3]	1,556	4.64	22,591	3.40	1,341	3.16	0	0	25,488	3.47
Non-agency	19	5.93	577	5.53	562	6.28	4	6.58	1,162	5.91
Total RMBS	1,575	4.65	23,168	3.47	1,903	4.21	4	6.58	26,650	3.59%
CMBS:										
Agency[3]	0	0	405	2.25	306	2.58	0	0	711	2.39
Non-agency	0	0	171	2.85	305	4.01	0	0	476	3.58
Total CMBS	0	0	576	2.43	611	3.29	0	0	1,187	2.87
Total ABS	3,600	2.26	6,262	1.54	288	4.20	0	0	10,150	1.87
Other[4]	300	1.81	57	4.22	2	4.86	151	4.66	510	2.32
Total securities available for sale	$5,506	2.93%	$30,294	3.05%	$2,804	4.02%	$ 155	4.73%	$38,759	3.11%
Amortized cost of securities available-for-sale	$5,482		$29,845		$2,871		$ 105		$38,303	

(1) Yields are calculated based on the amortized cost of each security.
(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 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 in 2011, 2010 and 2009:

	Year Ended December 31,		
(Dollars in millions)	**2011**	**2010**	**2009**
Total OTTI losses	**$ 131**	$ 128	$ 287
Less: Non-credit component of OTTI losses recorded in AOCI	**(110)**	(63)	(255)
Net OTTI losses recognized in earnings	**$ 21**	$ 65	$ 32

As indicated in the table above, we recorded credit related losses in earnings totaling $21 million, $65 million and $32 million in 2011, 2010 and 2009, respectively. The cumulative non-credit related portion of OTTI on these securities recorded in AOCI totaled $170 million and $105 million in 2011 and 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 borrower characteristics.

We believe the gross unrealized losses related to all other securities of $57 million and $176 million as of December 31, 2011 and 2010, respectively, are attributable to issuer specific credit spreads and 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 is not other-than-temporary.

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

The table below presents activity for the years ended December 31, 2011, 2010 and 2009, related to the credit component of OTTI recognized in earnings on investment debt securities for which a portion of the OTTI losses, the non-credit component, was recorded in AOCI:

	Year Ended December 31,		
(Dollars in millions)	**2011**	**2010**	**2009**
Credit loss component, beginning of period	**$ 49**	$ 32	$ 0
Additions:			
Initial credit impairment	**3**	12[2]	25
Subsequent credit impairment	**18**	17	7
Total additions	**21**	29	32
Reductions:			
Sales of credit-impaired securities	**(2)**	(4)	0
Change in intent to sell or requirement to sell[1]	**0**	(8)	0
Total reductions	**(2)**	(12)	0
Ending balance	**$ 68**	$ 49	$ 32

(1) We recognized $36 million of OTTI losses on securities for which no portion of the OTTI losses remained in AOCI in 2010. We did not recognize OTTI losses on securities for which no portion of the OTTI losses remained in AOCI in 2011 and 2009.

(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) represent 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.

	Year Ended December 31,		
(Dollars in millions)	**2011**	**2010**	**2009**
Beginning balance AOCI related to securities available for sale, net of tax[1]	**$ 369**	$ 186	$ (725)
Net unrealized holding gains (losses), net of tax[2]	**33**	221	861
Net realized losses (gains) reclassified from AOCI into earnings, net of tax[3]	**(116)**	(38)	50
Ending balance AOCI related to securities available for sale, net of tax	**$ 286**	$ 369	$ 186

(1) Net of tax benefit (expense) of $203 million, $102 million and $(404) million in 2011, 2010 and 2009, respectively.

(2) Net of tax benefit (expense) of $18 million, $122 million and $480 million in 2011, 2010 and 2009, respectively.

(3) Net of tax (benefit) expense of $(64) million, $(21) million and $28 million in 2011, 2010 and 2009, respectively.

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 in 2011, 2010 and 2009. 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 $9.2 billion of investment securities, consisting predominantly of agency MBS, in 2011. We recorded a net realized gain of $259 million on the sale of these securities.

	Year Ended December 31,		
(Dollars in millions)	2011	2010	2009
Gross realized investment gains	**$ 259**	$ 141	$ 231
Gross realized investment losses	**0**	0	(13)
Net realized gains	**$ 259**	$ 141	$ 218
Total proceeds from sales	**$9,169**	$12,466	$13,410

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 $8.8 billion and $8.1 billion as of December 31, 2011 and 2010, respectively. The fair value of non-cash collateral accepted related to our secured borrowing was $4 million as of December 31, 2011, none of which was sold or repledged. We did not accept any non cash collateral as of December 31, 2010.

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 December 31, 2011 and 2010. Our loan portfolio consists of credit card, consumer banking and commercial banking loans. Credit card loans consist of domestic and international credit card loans as well as installment loans. Consumer banking loans consist of auto, 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.

	December 31,	
(Dollars in millions)	2011	2010
Credit card business:		
Domestic credit card loans	**$ 54,682**	$ 49,979
International credit card loans	**8,466**	7,513
Total credit card loans	**63,148**	57,492
Domestic installment loans	**1,927**	3,870
International installment loans	**0**	9
Total installment loans	**1,927**	3,879
Total credit card	**65,075**	61,371
Consumer Banking business:		
Auto	**21,779**	17,867
Home loan	**10,433**	12,103
Other retail	**4,103**	4,413
Total consumer banking	**36,315**	34,383
Commercial Banking business:[(1)]		
Commercial and multifamily real estate	**15,410**	13,396
Middle market	**12,684**	10,484
Specialty lending	**4,404**	4,020
Total commercial lending	**32,498**	27,900
Small-ticket commercial real estate	**1,503**	1,842
Total commercial banking	**34,001**	29,742
Other:		
Other loans	**501**	451
Total loans	**$ 135,892**	$ 125,947

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

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

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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 larger balance, commercial loans.

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 December 31, 2011 and 2010.

Loans 90 days or more past due totaled approximately $2.0 billion and $2.2 billion as of December 31, 2011 and 2010, respectively. Loans classified as nonperforming totaled $1.1 billion and $1.2 billion as of December 31, 2011 and 2010, respectively.

	December 31, 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	$ 54,536	$ 627	$ 445	$1,001	$ 2,073	$ 0	$ 56,609	$ 1,001	$ 0
International credit card	8,028	145	98	195	438	0	8,466	195	0
Total credit card	62,564	772	543	1,196	2,511	0	65,075	1,196	0
Consumer Banking:									
Auto	20,128	1,075	423	106	1,604	47	21,779	0	106
Home loan	5,843	89	43	346	478	4,112	10,433	1	456
Retail banking	3,964	24	17	53	94	45	4,103	4	90
Total consumer banking	29,935	1,188	483	505	2,176	4,204	36,315	5	652
Commercial Banking:									
Commercial and multifamily real estate	14,906	172	23	146	341	163	15,410	34	206
Middle market	12,254	46	11	55	112	318	12,684	6	92
Specialty lending	4,363	18	5	18	41	0	4,404	1	33
Total commercial lending	31,523	236	39	219	494	481	32,498	41	331
Small-ticket commercial real estate	1,362	97	19	25	141	0	1,503	0	40
Total commercial banking	32,885	333	58	244	635	481	34,001	41	371
Other:									
Other loans	455	13	8	25	46	0	501	0	36
Total	$125,839	$2,306	$1,092	$1,970	$ 5,368	$4,685	$135,892	$ 1,242	$ 1,059
% of Total loans	92.60%	1.70%	0.80%	1.45%	3.95%	3.45%	100.00%	0.91%	0.78%

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

	December 31, 2010								
(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	$ 51,649	$ 558	$ 466	$1,176	$ 2,200	$ 0	$ 53,849	$ 1,176	$ 0
International credit card	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 loan	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	91.36%	1.59%	0.88%	1.76%	4.23%	4.41%	100.00%	1.11%	0.97%

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

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 December 31, 2011 and 2010. We also present comparative net-charge offs for the years ended December 31, 2011 and 2010.

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

Credit Card: Risk Profile by Geographic Region and Delinquency Status

	December 31,			
	2011		2010	
(Dollars in millions)	Amount	% of Total[1]	Amount	% of Total[1]
Domestic credit card and installment loans:				
California	**$ 6,410**	**9.9%**	$ 6,242	10.2%
Texas	**3,862**	**5.9**	3,633	5.9
New York	**3,737**	**5.7**	3,599	5.8
Florida	**3,382**	**5.2**	3,298	5.4
Illinois	**2,664**	**4.1**	2,403	3.9
Pennsylvania	**2,575**	**4.0**	2,389	3.9
Ohio	**2,284**	**3.5**	2,109	3.4
New Jersey	**2,162**	**3.3**	1,971	3.2
Michigan	**1,834**	**2.8**	1,716	2.8
Other	**27,699**	**42.6**	26,489	43.2
Total domestic credit card and installment loans	**56,609**	**87.0**	53,849	87.7
International credit card and installment loans:				
United Kingdom	**3,828**	**5.9**	4,102	6.7
Canada	**4,638**	**7.1**	3,420	5.6
Total international credit card and installment loans	**8,466**	**13.0**	7,522	12.3
Total Credit Card	**$65,075**	**100.0%**	$61,371	100.0%
Selected credit metrics:				
30+ day delinquencies[2]	**$ 2,511**	**3.86%**	$ 2,632	4.29%
90+ day delinquencies[2]	**1,196**	**1.84**	1,379	2.25

	December 31,			
	2011		2010	
(Dollars in millions)	Amount	Rate	Amount	Rate
Net charge-offs:				
Domestic credit card	**$ 2,522**	**4.72%**	$ 4,907	8.91%
International credit card	**534**	**6.18**	592	7.89
Total[3]	**$ 3,056**	**4.92%**	$ 5,499	8.79%

(1) Percentages by geographic region within the domestic and international credit card portfolios are calculated based on the total held-for-investment credit card loans as of the end of the reported period.

(2) Delinquency rates calculated by dividing delinquent credit card loans by the total balance of credit card loans held for investment as of the end of the reported period.

(3) Calculated by dividing net charge-offs by average credit card loans held for investment during 2011 and 2010.

The 30+ day delinquency rate for our entire credit card loan portfolio, decreased to 3.86% as of December 31, 2011, from 4.29% as of December 31, 2010, reflecting strong underlying credit improvement trends.

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, gross domestic product (“GDP”) growth, and home values, as well as customer

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

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 December 31, 2011 and 2010, and net-charge offs for the years ended December 31, 2011 and 2010.

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

	December 31, 2011					
	Non-PCI Loans		PCI Loans		Total	
(Dollars in millions)	Loans	% of Total[1]	Loans	% of Total[1]	Loans	% of Total[1]
Auto:						
Texas	$ 3,901	10.7%	$ 0	0.0%	$ 3,901	10.7%
California	1,837	5.1	0	0.0	1,837	5.1
Louisiana	1,389	3.8	0	0.0	1,389	3.8
Florida	1,196	3.3	0	0.0	1,196	3.3
Georgia	1,124	3.1	0	0.0	1,124	3.1
Illinois	950	2.6	0	0.0	950	2.6
New York	940	2.6	0	0.0	940	2.6
Other	10,395	28.7	47	0.1	10,442	28.8
Total auto	$21,732	59.9%	$ 47	0.1%	$21,779	60.0%
Home loan:						
New York	$ 1,770	4.9%	$ 276	0.8%	$ 2,046	5.7%
California	768	2.1	1,128	3.1	1,896	5.2
Louisiana	1,528	4.2	2	0.0	1,530	4.2
Maryland	286	0.8	618	1.7	904	2.5
Virginia	206	0.6	588	1.6	794	2.2
New Jersey	344	0.9	235	0.6	579	1.5
Other	1,419	3.9	1,265	3.5	2,684	7.4
Total home loan	$ 6,321	17.4%	$4,112	11.3%	$10,433	28.7%
Retail banking:						
Louisiana	$ 1,514	4.2%	$ 0	0.0%	$ 1,514	4.2%
Texas	930	2.6	0	0.0	930	2.6
New York	896	2.5	0	0.0	896	2.5
New Jersey	295	0.8	0	0.0	295	0.8
District of Columbia	254	0.7	7	0.0	261	0.7
Maryland	49	0.1	23	0.1	72	0.2
Virginia	30	0.1	12	0.0	42	0.1
Other	90	0.2	3	0.0	93	0.2
Total retail banking	$ 4,058	11.2%	$ 45	0.1%	$ 4,103	11.3%
Total consumer banking	$32,111	88.5%	$4,204	11.5%	$36,315	100.0%

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

	December 31, 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	**$1,604**	**7.36%**	**$ 478**	**4.58%**	**$ 94**	**2.29%**	**$2,176**	**5.99%**
90+ day delinquencies	**106**	**0.48**	**346**	**3.32**	**53**	**1.29**	**505**	**1.39**
Nonperforming loans	**106**	**0.48**	**456**	**4.37**	**90**	**2.18**	**652**	**1.79**

	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 loan	$ 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
District of Columbia	13	0.0	7	0.0	20	0.0
Other	60	0.2	47	0.1	107	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

	December 31, 2011							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
(Dollars in millions)	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs[3]	**$ 334**	**1.72%**	**$ 77**	**0.68%**	**$ 73**	**1.78%**	**$ 484**	**1.39%**

	December 31, 2010							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
(Dollars in millions)	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs[3]	$ 457	2.61%	$ 93	0.68%	$ 105	2.20%	$ 655	1.82%

(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 net charge-offs by average loans held for investment during 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 loan portfolio, we continually monitor a variety of mortgage loan characteristics that may affect the default experience on our overall home loan 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 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 loan portfolio as of December 31, 2011 and 2010, based on selected key risk characteristics.

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

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

	December 31, 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	$4,113	39.4%	$1,675	16.1%	$ 5,788	55.5%
2006	699	6.7	908	8.7	1,607	15.4
2007	508	4.9	1,114	10.7	1,622	15.6
2008	243	2.3	325	3.1	568	5.4
2009	178	1.7	27	0.3	205	2.0
2010	237	2.3	49	0.4	286	2.7
2011	343	3.3	14	0.1	357	3.4
Total	$6,321	60.6%	$4,112	39.4%	$10,433	100.0%
Geographic concentration:(2)						
New York	$1,770	17.0%	$ 276	2.6%	$ 2,046	19.6%
California	768	7.4	1,128	10.8	1,896	18.2
Louisiana	1,528	14.6	2	0.1	1,530	14.7
Maryland	286	2.7	618	5.9	904	8.6
Virginia	206	2.0	588	5.6	794	7.6
New Jersey	344	3.3	235	2.3	579	5.6
Texas	460	4.4	32	0.3	492	4.7
Florida	107	1.0	212	2.0	319	3.0
District of Columbia	69	0.7	158	1.5	227	2.2
Connecticut	87	0.8	76	0.7	163	1.5
Other	696	6.7	787	7.6	1,483	14.3
Total	$6,321	60.6%	$4,112	39.4%	$10,433	100.0%
Lien type:						
1st lien	$5,194	49.8%	$3,547	34.0%	$ 8,741	83.8%
2nd lien	1,127	10.8	565	5.4	1,692	16.2
Total	$6,321	60.6%	$4,112	39.4%	$10,433	100.0%
Interest rate type:						
Fixed rate	$2,627	25.2%	$ 119	1.1%	$ 2,746	26.3%
Adjustable rate	3,694	35.4	3,993	38.3	7,687	73.7
Total	$6,321	60.6%	$4,112	39.4%	$10,433	100.0%

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

	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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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

- *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, my 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 December 31, 2011 and 2010.

Commercial Banking: Risk Profile by Geographic Region and Internal Risk Rating[1]

	December 31, 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	$ 12,152	78.8%	$ 3,650	28.8%	$ 1,497	34.0%	$ 907	60.3%	$ 18,206	53.6%
Mid-Atlantic	1,225	8.0	599	4.7	163	3.7	56	3.7	2,043	6.0
South	1,581	10.3	7,527	59.3	797	18.1	93	6.2	9,998	29.4
Other	289	1.9	590	4.7	1,947	44.2	447	29.8	3,273	9.6
Total non-PCI loans	15,247	99.0	12,366	97.5	4,404	100.0	1,503	100.0	33,520	98.6
PCI loans	163	1.0	318	2.5	0	0.0	0	0.0	481	1.4
Total	$ 15,410	100.0%	$12,684	100.0%	$ 4,404	100.0%	$ 1,503	100.0%	$ 34,001	100.0%
Internal risk rating:[4]										
Non-PCI loans:										
Noncriticized	$ 13,945	90.5%	$11,680	92.1%	$ 4,322	98.1%	$ 1,359	90.4%	$ 31,306	92.1%
Criticized performing	1,096	7.1	593	4.7	49	1.1	105	7.0	1,843	5.4
Criticized nonperforming	206	1.4	93	0.7	33	0.8	39	2.6	371	1.1
Total non-PCI loans	15,247	99.0	12,366	97.5	4,404	100.0	1,503	100.0	33,520	98.6
PCI loans:										
Noncriticized	$ 127	0.8%	$ 303	2.4%	$ 0	0.0%	$ 0	0.0%	$ 430	1.3%
Criticized performing	36	0.2	15	0.1	0	0.0	0	0.0	51	0.1
Total PCI loans	163	1.0	318	2.5	0	0.0	0	0.0	481	1.4
Total	$ 15,410	100.0%	$12,684	100.0%	$ 4,404	100.0%	$ 1,503	100.0%	$ 34,001	100.0%

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

	December 31, 2010									
(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	$ 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 December 31, 2011 and 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.

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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:

	December 31, 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 credit card and installment loan	$ 708	$ 0	$ 708	$ 244	$ 464	$ 691	$ 736	$ 73
International credit card and installment loans	190	0	190	109	81	179	181	7
Total credit card and installment loans[1]	898	0	898	353	545	870	917	80
Consumer banking:								
Auto	58	0	58	8	50	58	25	5
Home loan	104	0	104	10	94	110	79	5
Retail banking	65	26	91	12	79	97	55	1
Total consumer banking	227	26	253	30	223	265	159	11
Commercial banking:								
Commercial and multifamily real estate	232	157	389	54	335	459	401	8
Middle market	104	86	190	12	178	221	143	2
Specialty lending	19	9	28	7	21	36	22	0
Total commercial lending	355	252	607	73	534	716	566	10
Small-ticket commercial real estate	10	30	40	2	38	62	35	1
Total commercial banking	365	282	647	75	572	778	601	11
Other:								
Other loans	0	1	1	0	1	1	1	0
Total	$ 1,490	$ 309	$ 1,799	$ 458	$ 1,341	$ 1,914	$ 1,678	$ 102

	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 credit card and installment loan	$ 753	$ 0	$ 753	$ 253	$ 500	$ 739	$ 644	$ 76
International credit 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 loan	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 $1.6 billion and $1.1 billion of impaired loans as of December 31, 2011 and 2010, respectively. Consumer TDR loans classified as performing totaled $1.1 billion and $983 million, respectively, as of December 31, 2011 and 2010. Commercial TDR loans classified as performing totaled $426 million, and $162 million, respectively, as of December 31, 2011 and 2010.

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

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:

		December 31, 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 credit card	$ 321	100%	10.33%	0%	0	0%	$ 0
International credit card	253	100	23.06	0	0	0	0
Total credit card	574	100	15.93	0	0	0	0
Consumer banking:							
Auto	78	65	1.39	100	10	0	0
Home loan	57	49	2.57	74	95	8	0
Retail banking	77	6	0.73	82	18	0	0
Total consumer banking	212	39	1.75	86	32	2	0
Commercial banking:							
Commercial and multifamily real estate	166	42	3.13	96	13	11	4
Middle market	140	15	1.25	80	12	1	0
Specialty lending	18	17	0.60	90	22	5	1
Total commercial lending	324	29	2.62	89	14	6	5
Small-ticket commercial real estate	4	0	0.00	100	3	0	0
Total commercial banking	328	28	2.62	89	13	6	5
Other:							
Other loans	0	0	0.00	0	0	0	0
Total	$ 1,114	67%	12.70%	43%	21	2%	$ 5

(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.

TDR—Subsequent Payment Defaults of Completed TDR Modifications

The following table presents 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.

	December 31, 2011	
(Dollars in millions)	Number of contracts	Total Loans
Credit card:		
Domestic credit card	34,489	$ 93
International credit card[1]	47,989	185
Total credit card	82,478	278
Consumer banking:		
Auto	1,499	15
Home loan	101	12
Retail banking	237	11
Total consumer banking	1,837	38
Commercial banking:		
Commercial and multifamily real estate	17	41
Middle market	5	6
Specialty lending	8	3
Total commercial lending	30	50
Small-ticket commercial real estate	1	0
Total commercial banking	31	50
Total	84,346	$366

(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 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.

Outstanding Balance and Carrying Value of Acquired Loans

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

	December 31,					
	2011			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	**$ 5,751**	**$ 4,565**	**$ 1,186**	$ 7,054	$ 5,546	$ 1,508
Carrying value[1]	**$ 4,658**	**$ 3,576**	**$ 1,082**	$ 5,554	$ 4,165	$ 1,389

(1) Includes $27 million and $33 million of cumulative impairment recognized as of December 31, 2011 and 2010, respectively.

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 reduced the allowance related to this pool of loans by $6 million for the year ended December 31, 2011. We recorded impairment through our provision for loan and losses of $33 million for the year ended December 31, 2010. The cumulative impairment recognized on PCI loans totaled $27 million as of December 31, 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	**(431)**	**(365)**	**(66)**
Reclassifications from nonaccretable difference for loans with improving cash flows[1]	**237**	**232**	**5**
Reductions in accretable yield for non-credit related changes in expected cash flows[2]	**(66)**	**(55)**	**(11)**
Accretable yield as of December 31, 2011	**$ 1,752**	**$ 1,566**	**$ 186**

(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 $206.0 billion and $161.5 billion as of December 31, 2011 and 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 purposes. These commitments generally require customers to maintain certain credit standards. Collateral requirements and loan-to-value ratios are the same as those for funded transactions and are established based on management's credit assessment of the customer. These commitments may expire without being drawn upon. Therefore, the total commitment amount does not necessarily represent future funding requirements. The outstanding unfunded commitments to extend credit other than credit card lines were approximately $14.8 billion and $13.2 billion as of December, 2011 and 2010, respectively.

We maintain a reserve for unfunded loan commitments and letters of credit to absorb estimated probable losses related to these unfunded credit facilities in other liabilities, on our consolidated balance sheets. Our reserve for unfunded loan commitments and letters of credit was $66 million and $107 million as December 31, 2011 and 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.

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" for a description of the methodologies and policies for determining our allowance for loan and lease losses for each of our loan portfolio segments.

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

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

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, for 2011 and 2010:

		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, 2009	$ 2,126	$ 665	$ 175	$ 236	$ 1,076	$ 785	$ 140	$ 4,127	$ 103	$ 4,230
Impact from January 1, 2010 adoption of new consolidation accounting standards[2]	4,244	0	73	0	73	0	0	4,317	0	4,317
Balance as of January 1, 2010	$ 6,370	$ 665	$ 248	$ 236	$ 1,149	$ 785	$ 140	$ 8,444	$ 103	$ 8,547
Provision for loan and lease losses	3,182	145	30	66	241	417	55	3,895	12	3,907
Charge-offs	(6,781)	(672)	(97)	(129)	(898)	(444)	(115)	(8,238)	0	(8,238)
Recoveries	1,282	215	4	24	243	54	8	1,587	0	1,587
Net charge-offs	(5,499)	(457)	(93)	(105)	(655)	(390)	(107)	(6,651)	0	(6,651)
Other changes	(12)	0	(73)	13	(60)	14	(2)	(60)	(8)	(68)
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[3]	**1,870**	**372**	**63**	**26**	**461**	**62**	**8**	**2,401**	**(41)**	**2,360**
Charge-offs[3]	**(4,310)**	**(529)**	**(104)**	**(99)**	**(732)**	**(214)**	**(59)**	**(5,315)**	**0**	**(5,315)**
Recoveries	**1,254**	**195**	**27**	**26**	**248**	**37**	**5**	**1,544**	**0**	**1,544**
Net charge-offs	**(3,056)**	**(334)**	**(77)**	**(73)**	**(484)**	**(177)**	**(54)**	**(3,771)**	**0**	**(3,771)**
Other changes	**(8)**	**0**	**0**	**0**	**0**	**0**	**0**	**(8)**	**0**	**(8)**
Balance as of December 31, 2011	**$ 2,847**	**$ 391**	**$ 98**	**$ 163**	**$ 652**	**$ 711**	**$ 40**	**$ 4,250**	**$ 66**	**$ 4,316**

(1) Other consists of our discontinued GreenPoint mortgage operations loan portfolio and our community redevelopment loan portfolio.

(2) Represents the cumulative effect adjustment on the allowance for loan and lease losses from the January 1, 2010 adoption of the new consolidation accounting standards. Includes an adjustment of $53 million made in the second quarter of 2010 for the impact as of January 1, 2010 of impairment on consolidated loans accounted for as TDRs. See “Note 2—Acquisitions and Restructuring Activities.”

(3) The reduction in the provision for loan and lease losses attributable to Kohl’s was $257 million for year ended 2011. Loss sharing amounts attributable to Kohl’s reduced charge-offs by $118 million during 2011. The expected reimbursement from Kohl’s netted in our allowance for loan and lease losses was approximately $139 million as of December 31, 2011.

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 December 31, 2011 and 2010:

	December 31, 2011							
		Consumer						
(Dollars in millions)	Credit Card	Auto	Home Loan	Retail Banking	Total Consumer	Commercial	Other	Total
Allowance for loan and lease losses by impairment methodology:								
Formula-based[1]	$ 2,494	$ 383	$ 65	$ 150	$ 598	$ 634	$ 40	$ 3,766
Asset-specific[2]	353	8	10	12	30	75	0	458
Purchased credit impaired loans	0	0	23	1	24	2	0	26
Total allowance for loan and lease losses	$ 2,847	$ 391	$ 98	$ 163	$ 652	$ 711	$ 40	$ 4,250
Held-for-investment loans by impairment methodology:								
Formula-based[1]	$64,177	$21,674	$ 6,217	$3,968	$ 31,859	$ 32,873	$ 500	$129,409
Asset-specific[2]	898	58	104	90	252	647	1	1,798
Purchased credit impaired loans	0	47	4,112	45	4,204	481	0	4,685
Total held-for-investment loans	$65,075	$21,779	$10,433	$4,103	$ 36,315	$ 34,001	$ 501	$135,892
Allowance as a percentage of period-end held-for-investment loans	4.37%	1.80%	0.94%	3.97%	1.80%	2.09%	7.98%	3.13%

	December 31, 2010							
		Consumer						
(Dollars in millions)	Credit Card	Auto	Home Loan	Retail Banking	Total Consumer	Commercial	Other	Total
Allowance for loan and lease losses by impairment methodology:								
Formula-based[1]	$ 3,655	$ 353	$ 81	$ 209	$ 643	$ 808	$ 86	$ 5,192
Asset-specific[2]	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:								
Formula-based[1]	$60,458	$17,867	$ 7,154	$ 4,271	$ 29,292	$ 28,682	$ 451	$118,883
Asset-specific[2]	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%

(1) The formula-based component of the allowance for credit card and other consumer loans that we collectively evaluate for impairment is based on a statistical calculation. The formula-based component of the allowance for commercial loans that we collectively evaluate for impairment is based on our historical loss experience for loans with similar characteristics and consideration of credit quality supplemented by management judgement and interpretation.

(2) The asset specific component of the allowance for smaller-balance impaired loans is calculated on a pool basis using historical loss experience for the respective class of assets. The asset-specific component of the allowance for larger-balance, commercial loans is individually calculated for each loan.

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 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.

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 December 31, 2011 and 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.

	December 31, 2011				
	Consolidated		Non-Consolidated		
(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]	$48,309	$ 17,443	$ 0	$ 0	$ 0
Auto loan securitizations[4]	95	78	0	0	0
Home loan securitizations	0	0	161[1]	27[2]	269
Other asset securitizations[4]	36	36	0	0	0
Total securitization related VIEs	48,440	17,557	161	27	269
Other VIEs:					
Affordable housing entities	0	0	2,044	289	2,044
Entities that provide capital to low-income and rural communities	258	0	6	3	6
Other	1	0	139	0	139
Total Other VIEs	259	0	2,189	292	2,189
Total VIEs	$48,699	$ 17,557	$ 2,305	$ 319	$ 2,458

	December 31, 2010				
	Consolidated		Non-Consolidated		
(Dollars in millions)	Carrying Amount of Assets	Carrying Amount of Liabilities	Carrying Amount of Assets[1]	Carrying Amount of Liabilities[2]	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
Home 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 and are reported on our consolidated balance sheets under accounts receivable from securitizations. Mortgage servicing rights related to unconsolidated VIEs are reported on our consolidated balance sheets under other assets. See "Note 8—Goodwill and Other Intangible Assets" for additional information on our mortgage servicing rights.

(2) The carrying amount of liabilities of securitization related VIEs is comprised of obligations to fund negative amortization bonds associated with the securitization of option arm 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 of 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 notes 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 we establish, 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.

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 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 21—Commitments, Contingencies and Guarantees" for information related to reserves we have established for our potential mortgage representation and warranty exposure.

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

	Non-Mortgage			Mortgage		
(Dollars in millions)	Credit Card	Auto Loan	Other Loan	Option Arm	GreenPoint HELOCs	GreenPoint Manufactured Housing
December 31, 2011:						
Securities held by third-party investors	**$16,428**	**$ 75**	**$ 24**	**$3,122**	**$ 206**	**$ 1,247**
Receivables in the trust	**47,537**	**77**	**36**	**3,228**	**206**	**1,254**
Cash balance of spread or reserve accounts	**17**	**12**	**0**	**8**	**0**	**172**
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:						
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 December 31, 2011 and 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.

Mortgage Securitizations

Option-ARM Loans

We had previously securitized option-ARM mortgage loans by transferring the mortgage loans to securitization trusts that had issued mortgage-backed securities to investors. The outstanding balance of debt securities held by third-party investors related to our mortgage loan securitization trusts at December 31, 2011 and 2010 was $3.1 billion and $3.7 billion, respectively.

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 year ended December 31, 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 held at fair value in other assets. 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 11—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 $28 million in advances through December 31, 2011, all of which was expensed as funded. Our unfunded commitment related to these residual interests was $10 million as of December 31, 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.

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 $172 million and $183 million at December 31, 2011 and 2010, respectively. The fair value of the expected residual balances on the funded letters of credit was $51 million and $35 million at December 31, 2011 and 2010, respectively, and is included in other assets on the consolidated balance sheet. Our maximum exposure under the swap agreements was $23 million and $27 million at December 31, 2011 and 2010, respectively. The value of our obligations under these swaps was $12 million and $18 million at December 31, 2011 and 2010, respectively and is recorded in other liabilities on our consolidated balance sheet.

The unpaid principal balance of manufactured housing securitization transactions where we are the residual interest holder was $1.3 billion and $1.4 billion at December 31, 2011 and 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

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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 December 31, 2011 and 2010:

(Dollars in millions)	December 31, 2011	
	2011	**2010**
Interest-only strip classified as trading	**$ 63**	$ 75
Retained interests classified as trading:		
Retained notes	**23**	34
Cash collateral	**8**	8
Investor accrued interest receivable	**0**	0
Total retained interests classified as trading	**31**	42
Other retained interests	**0**	3
Total accounts receivable from securitizations	**$ 94**	$ 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.

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)	Year Ended December 31,		
	2011	**2010**[1]	**2009**
Interest only strip valuation changes	**$ (12)**	$ (6)	$ (96)
Fair value adjustments related to spread accounts	**49**	5	3
Fair value adjustments related to investors' accrued interest receivable	**0**	0	(11)
Fair value adjustments related to retained subordinated notes	**19**	(18)	(57)
Net gain / (loss) recognized in earnings	**$ 56**	$ (19)	$(161)

(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.

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

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.

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

(Dollars in millions)	December 31, 2011	December 31, 2010
Interest-only strip retained interests	**$ 110**[1]	$ 136[1]
Weighted average life for receivables (months)	**70**	60
Principal repayment rate (weighted average rate)	**12.2 - 17.1%**	16.3 - 18.1%
Impact on fair value of 10% adverse change	**$ 15**	$ 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 $(16) million and $(19) million as of December 31, 2011 and 2010, respectively.

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 years ended December 31, 2011 and 2010:

(Dollars in millions)	December 31, 2011	December 31, 2010
Servicing fees received	**$ 29**	$ 32
Cash flows received on retained interests[1]	**46**	116

[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 December 31, 2011 and 2010. We also display the unpaid principal balance of loans past due 90 days or more as of December 31, 2011 and 2010. Net credit losses associated with these loans totaled $41 million and $136 million for the years ended December 31, 2011 and 2010, respectively.

(Dollars in millions)	December 31, 2011	December 31, 2010
Total principal amount of loans	**$1,220**	$1,396
Principal amount of loans past due 90 days or more	**$ 223**	$ 257

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. As of December 31, 2011 and 2010 our interests consisted of assets of approximately $2.0 billion and $1.7 billion, respectively. Our maximum exposure to these entities is limited to our variable interests in the entities and is $2.0 billion as of December 31, 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 investment funds that were VIEs at December 31, 2011 and 2010 were approximately $8.4 billion and $7.5 billion, 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. Variable interests in the CDEs held by 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 right to receive benefits that could be potentially significant to the VIE. We have also consolidated other investments and CDEs that we do not consider VIEs. The assets of the VIEs that we consolidated at December 31, 2011 and 2010 totaled approximately $258 million and $230 million, 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 at December 31, 2011 and 2010 totaled approximately $6 million. 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 December 31, 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 VIE that we consolidated totaled approximately $1 million as of December 31, 2011 and less than $1 million as of December 31, 2010. 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 $309 million and $395 million as of December 31, 2011 and 2010, respectively. We were not required to consolidate the trust because we 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 $139 million and $174 million as of December 31, 2011 and 2010, respectively, is reflected on our consolidated balance sheets under loans held for investment. Our maximum exposure is limited to our variable interest of $139 million as of December 31, 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 table below displays the components of goodwill and other intangible assets, including mortgage servicing rights, as of December 31, 2011 and 2010:

(Dollars in millions)	December 31, 2011	December 31, 2010
Goodwill	**$13,592**	$13,591
Other intangible assets:		
Core deposit intangibles	**479**	650
Contract intangibles[1]	**50**	0
Purchased credit card relationship intangibles[2]	**52**	42
Lease intangibles	**21**	26
Trust intangibles	**5**	6
Other intangibles	**3**	9
Total other intangible assets	**610**	733
Total goodwill and other intangible assets	**$14,202**	$14,324
Mortgage servicing rights	**$ 93**	$ 141

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

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

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 Credit Card, International Credit Card, Auto Finance, other Consumer Banking and Commercial Banking. As of December 31, 2011 and 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 year ended December 31, 2011. The goodwill impairment test, performed at October 1 of each year, is a two-step test. The first step identifies whether there is potential impairment by comparing the fair value of a reporting unit to the carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, the second step of the impairment test is required to measure the amount of any impairment loss.

For the 2011 annual impairment test, the fair value of reporting units was calculated using a discounted cash flow analysis, a form of the income approach, using each reporting unit's internal forecast and a terminal value calculated using a growth rate reflecting the nominal growth rate of the economy as a whole and appropriate discount rates for the respective reporting units. Cash flows were adjusted as necessary in order to maintain each reporting unit's equity capital requirements. Our discounted cash flow analysis required management to make judgments about future loan and deposit growth, revenue growth, credit losses, and capital rates. The cash flows were discounted to present value using reporting unit specific discount rates that are largely based on our external cost of equity with adjustments for risk inherent in each reporting unit. Discount rates used for the reporting units ranged from 10.0% to 14.1%. The key inputs into the discounted cash flow analysis were corroborated with market data, where available, indicating that assumptions used were within a reasonable range of observable market data.

Based on the comparison of fair value to carrying amount, as calculated using the methodology summarized above, fair value exceeded the carrying amount for all reporting units as of our annual testing date. Therefore, the goodwill of our reporting units was considered not impaired, and the second step of impairment testing was unnecessary.

As part of the annual goodwill impairment test, we assessed our market capitalization based on the average market price relative to the aggregate fair value of our reporting units and determined that any excess fair value in our reporting units at that time could be attributed to a reasonable control premium compared to historical control premiums seen in the industry. Continued market volatility and uncertainty regarding overall economic conditions have led to a decline in market capitalization in recent years resulting in significantly higher control premiums than what had been seen historically. We will continue to regularly monitor our market capitalization in 2012, overall economic conditions and other events or circumstances that may result in an impairment of goodwill in the future.

The following table provides a summary of goodwill as of December 31, 2011 and 2010:

(Dollars in millions)	Credit Card	Consumer	Commercial	Total
Total Company				
Balance as of December 31, 2009	$ 4,693	$ 4,585	$ 4,318	$13,596
Other adjustments	(3)	(2)	0	(5)
Balance as of December 31, 2010	$ 4,690	$ 4,583	$ 4,318	$13,591
Acquisitions	**3**	**0**	**0**	**3**
Other adjustments	**(2)**	**0**	**0**	**(2)**
Balance as of December 31, 2011	**$ 4,691**	**$ 4,583**	**$ 4,318**	**$13,592**

Other Intangible Assets

In connection with the 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.

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

	December 31, 2011				
(Dollars in millions)	Carrying Amount of Assets	Accumulated Amortization	Currency valuation Adjustments	Net Carrying Amount	Remaining Amortization Period
Core deposit intangibles	**$ 1,562**	**$ (1,083)**	**$ 0**	**$ 479**	**5.9 years**
Purchased credit card relationship intangibles[1]	**77**	**(25)**	**0**	**52**	**5.2 years**
Contract intangibles[2]	**70**	**(19)**	**(1)**	**50**	**6.0 years**
Lease intangibles	**54**	**(33)**	**0**	**21**	**20.7 years**
Trust intangibles	**11**	**(6)**	**0**	**5**	**11.9 years**
Other intangibles	**25**	**(22)**	**0**	**3**	**2.3 years**
Total	**$ 1,799**	**$ (1,188)**	**$ (1)**	**$ 610**	

	December 31, 2010				
(Dollars in millions)	Carrying Amount of Assets	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	

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

(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 $222 million, $220 million and $235 million in 2011, 2010 and 2009, respectively. The weighted average amortization period for purchase accounting intangibles is 6.4 years as of December 31, 2011.

The following table summarizes the estimated future amortization expense for intangible assets as of December 31, 2011:

(Dollars in millions)	Estimated Future Amortization Amounts
2012	**$ 184**
2013	**148**
2014	**114**
2015	**80**
2016	**49**
Thereafter	**35**
Total	**$ 610**

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.

The following table sets forth the changes in the fair value of MSRs during the year ended December 31, 2011 and 2010:

(Dollars in millions)	December 31, 2011	December 31, 2010
Balance at beginning of period	**$ 141**	$ 240
Originations	**9**	12
Sales	**0**	(42)
Change in fair value, net	**(57)**	(69)
Balance at end of period	**$ 93**	$ 141
Ratio of mortgage servicing rights to related loans serviced for others	**0.62%**	0.71%
Weighted average service fee	**$ 0.28**	$ 0.28

MSR fair value adjustments in 2011 and 2010 included decreases of $13 million and $28 million, respectively, due to run-off and cash collections, and decreases of $44 million and $41 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 December 31, 2011 and 2010 were as follows:

	December 31, 2011	December 31, 2010
Weighted average prepayment rate (includes default rate)	**18.62%**	14.25%
Weighted average life (in years)	**4.84**	6.07
Discount rate	**11.69%**	10.23%

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

At December 31, 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 $9 million, respectively.

At December 31, 2011, the sensitivities to immediate 10% and 20% adverse changes in servicing costs would decrease the fair value of mortgage servicing rights by $8 million and $18 million, respectively.

As of December 31, 2011, our mortgage loan servicing portfolio consisted of mortgage loans with an aggregate unpaid principal balance of $27 billion, of which $18 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 $31 billion, of which $20 billion was serviced for other investors.

NOTE 9—PREMISES, EQUIPMENT & LEASE COMMITMENTS

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. We capitalize direct costs (including external costs for purchased software, contractors, consultants and internal staff costs) for internally developed software projects that have been identified as being in the application development stage. Depreciation and amortization expenses are computed generally by the straight-line method over the estimated useful lives of the assets. Useful lives for premises and equipment are as follows:

Premises & Equipment	Useful Lives
Buildings and improvement	5-39 years
Furniture and equipment	3-10 years
Computers and software	3-7 years

Premises and equipment were as follows:

	December 31,	
(Dollars in millions)	2011	2010
Land	**$ 549**	$ 562
Buildings and improvements	**2,018**	1,948
Furniture and equipment	**1,355**	1,315
Computer software	**932**	921
In process	**373**	258
	5,227	5,004
Less: Accumulated depreciation and amortization	**(2,479)**	(2,255)
Total premises and equipment, net	**$ 2,748**	$ 2,749

Depreciation and amortization expense from continuing operations was $317 million, $327 million, and $327 million, for the years ended December 31, 2011, 2010 and 2009, respectively.

Lease Commitments

Certain premises and equipment are leased under agreements that expire at various dates through 2056, without taking into consideration available renewal options. Many of these leases provide for payment by the lessee of property taxes, insurance premiums, cost of maintenance and other costs. In some cases, rentals are subject to increases in relation to a cost of living index. Total rent expenses from continuing operations amounted to approximately $180 million, $191 million, and $183 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Future minimum rental commitments as of December 31, 2011, for all non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

(Dollars in millions)	Estimated Future Minimum Rental Commitments
2012	**$ 172**
2013	**169**
2014	**161**
2015	**147**
2016	**135**
Thereafter	**806**
Total	**$ 1,590**

Minimum sublease rental income of $48 million due in future years under non-cancelable leases has not been included in the table above as a reduction to minimum lease payments.

NOTE 10—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 December 31, 2011, we had $109.9 billion in interest-bearing deposits of which $4.6 billion represents 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 represents 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 December 31, 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 FHLB. Our FHLB membership is secured by our investment in FHLB stock, which totaled $362 million and $269 million, as of December 31, 2011 and 2010, respectively.

Securitized Debt Obligations

We had $16.5 billion and $26.8 billion of securitized debt obligations as of December 31, 2011 and 2010, respectively, all of which are held by third party investors.

Senior and Subordinated Debt

As of December 31, 2011, we had $11.0 billion of senior and subordinated notes outstanding, which included $823 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 year ended December 31, 2011. See "Note 11—Derivative Instruments and Hedging Activities" for information about our fair value hedging activities. During 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.

Under a Senior and Subordinated Global Bank Note Program, COBNA has issued debt securities to both U.S. and non-U.S. lenders and raised funds in U.S. and foreign currencies. The Senior and Subordinated Global Bank Note Program had $810 million and $820 million outstanding at December 31, 2011 and 2010, respectively.

See "Note 11—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 December 31, 2011 and 2010. There were no junior subordinated borrowings that were called or matured during the year ended December 31, 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 $6.9 billion and $1.1 billion as of December 31, 2011 and 2010, respectively.

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 December 31, 2011 and 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.

	December 31,	
(Dollars in millions)	**2011**	**2010**
Deposits:		
Non-interest bearing deposits	**$ 18,281**	$ 15,048
Interest-bearing deposits	**109,945**	107,162
Total deposits	**$ 128,226**	$ 122,210
Short-term borrowings:		
Federal Funds purchased and securities loaned or sold under agreements to repurchase	**$ 1,464**	$ 1,517
FHLB Advances	**5,835**	0
Other short-term borrowings	**0**	7
Total short-term borrowings	**$ 7,299**	$ 1,524

(Dollars in millions)	December 31, 2011 Maturity Date	Interest Rate	Weighted Average Interest Rate		2010
Long-term debt:					
Securitized debt obligations	2012 - 2026	0.20% - 6.40%	1.67%	**$16,527**[1]	26,836[1]
Senior and subordinated notes:					
Fixed unsecured senior debt	2012 - 2021	2.13% - 7.38%	5.22%	**6,850**	4,883
Floating unsecured senior debt	2014	1.55%	1.55%	**250**	0
Total unsecured senior debt			5.08%	**7,100**	4,883
Fixed unsecured subordinated debt	2012 - 2019	5.35% - 8.80%	7.30%	**3,934**	3,767
Total senior and subordinated notes				**11,034**	8,650
Other long-term borrowings:					
Fixed junior subordinated debt	2027 - 2066	3.63% - 10.25%	8.57%	**3,642**	3,642
FHLB advances	2012 - 2023	0.60% - 6.88%	1.13%	**1,059**	1,144
Total other long-term borrowings				**4,701**	4,786
Total long-term debt				**$32,262**	$40,272
Total short-term borrowings and long-term debt				**$39,561**	$41,796

(1) Includes fair value hedges related to securitized debt of ($27) million and $79 million as of December 31, 2011 and 2010, respectively. In 2010, the fair value hedge was included on the consolidated balance sheet in other borrowings.

Interest-bearing time deposits, senior and subordinated notes and other borrowings as of December 31, 2011, mature as follows:

(Dollars in millions)	Interest-Bearing Time Deposits[1]	Senior and Subordinated Notes	Other Borrowings	Total
2012	**$ 6,505**	**$ 640**	**$ 12,480**	**$19,625**
2013	**5,691**	**811**	**2,666**	**9,168**
2014	**1,317**	**2,438**	**3,815**	**7,570**
2015	**1,867**	**411**	**523**	**2,801**
2016	**266**	**1,943**	**1,346**	**3,555**
Thereafter	**411**	**4,791**	**7,697**	**12,899**
Total	**$ 16,057**	**$ 11,034**	**$ 28,527**	**$55,618**

(1) Includes only those interest bearing deposits which have a contractual maturity date.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

Components of Interest Expense

The following table displays interest expense attributable to short-term borrowings and long-term debt for the years ended December 31, 2011 and 2010 and 2009:

	Year Ended December 31,		
(Dollars in millions)	**2011**	**2010**	**2009**
Short-term borrowings:			
Federal funds purchased and securities loaned or sold under agreements to repurchase	**$ 4**	$ 4	$ 7
FHLB advances	**2**	0	0
Total short-term borrowings	**6**	4	7
Long-term debt:			
Securitized debt obligations	**422[1]**	804[1]	282
Senior and subordinated notes:			
Unsecured senior debt	**181**	154	160
Unsecured subordinated debt	**119**	122	100
Total senior and subordinated notes	**300**	276	260
Other long-term borrowings:			
Junior subordinated debt	**310**	322	179
FHLB advances	**12**	20	145
Other	**9**	5	1
Total long-term debt	**1,053**	1,427	867
Total short-term borrowings and long-term debt	**$1,059**	$1,431	$874

(1) Includes interest income for fair value hedges related to securitized debt of $25 million and $5 million for 2011 and 2010, respectively. In 2010, the interest income was included on the consolidated income statement in interest expense as a component of other borrowings.

NOTE 11—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.

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 $73.2 billion as of December 31, 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 $1.9 billion and $987 million, respectively, as of December 31, 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. During the third quarter of 2011, we discontinued hedge accounting on our only net investment hedge. Therefore, we did not have any net investment hedges outstanding as of December 31, 2011.
- ***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.

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 December 31, 2011 and 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.

	December 31,					
	2011			2010		
	Notional or Contractual Amount	Derivatives at Fair Value		Notional or Contractual Amount	Derivatives at Fair Value	
(Dollars in millions)		Assets[1]	Liabilities[1]		Assets[1]	Liabilities[1]
Derivatives designated as accounting hedges:						
Interest rate contracts:						
Fair value interest rate contracts	**$ 14,425**	**$ 1,019**	**$ 1**	$ 17,001	$ 747	$ 77
Cash flow interest rate contracts	**6,325**	**71**	**130**	8,585	14	151
Total interest rate contracts	**20,750**	**1,090**	**131**	25,586	761	228
Foreign exchange contracts:						
Cash flow foreign exchange contracts	**4,577**	**93**	**16**	2,266	5	26
Net investment foreign exchange contracts	**0**	**0**	**0**	52	0	1
Total foreign exchange contracts	**4,577**	**93**	**16**	2,318	5	27
Total derivatives designated as accounting hedges	**25,327**	**1,183**	**147**	27,904	766	255
Derivatives not designated as accounting hedges:[1]						
Interest rate contracts covering:						
MSRs	**383**	**18**	**12**	625	3	18
Customer accommodation[2]	**16,147**	**453**	**395**	12,255	282	244
Other interest rate exposures	**29,027**	**85**	**362**	7,579	46	35
Total interest rate contracts	**45,557**	**556**	**769**	20,459	331	297
Foreign exchange contracts	**1,348**	**193**	**65**	1,384	214	67
Other contracts	**932**	**4**	**6**	980	8	17
Total derivatives not designated as accounting hedges	**47,837**	**753**	**840**	22,823	553	381
Total derivatives	**$ 73,164**	**$ 1,936**	**$ 987**	$ 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 $23 million and $20 million as of December 31, 2011 and 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.

In June 2011, we entered into a purchase and sale agreement with ING Groep N.V., ING Bank N.V., ING Direct N.V., and ING Direct Bancorp (collectively, the "ING Sellers") under which we would acquire substantially all of the ING Sellers' ING Direct business in the United States ("ING Direct"). We took several actions during the year to manage the anticipated impact of the ING Direct acquisition on our market risk exposure and regulatory capital requirements. From the date we entered into the agreement to acquire ING Direct to early August 2011, interest rates declined substantially, which resulted in an increase in the estimated fair value of the ING Direct net assets and liabilities. In order to capture some of the anticipated benefits to regulatory capital on the closing date attributable to this decline in interest rates, in early August 2011, we entered into various interest-rate swap transactions with a total notional principal amount of approximately $23.8 billion. We subsequently rebalanced the hedge in October 2011 adding an additional $1 billion in notional principal for a total combined notional principal amount of approximately $24.8 billion. These combined swap transactions were intended 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 early 2012. Although the interest-rate swaps represented economic hedges, they were not designated for hedge accounting under U.S. GAAP. Therefore, we recorded changes in the fair value of these interest-swaps in earnings. In 2011, we recorded a mark-to-market loss of $277 million related to these interest-rate swaps, which was attributable to the decline in interest rates. In conjunction with the acquisition of ING Direct on February 17, 2012, we terminated the $24.8 billion in interest-rate swaps related to the acquisition. We continued to record changes in the fair value of these interest-rate swaps in earnings until the swaps were terminated in February 2012.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

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 2011, 2010 and 2009:

(Dollars in millions)	Year Ended December 31, 2011	2010	2009
Derivatives designated as accounting hedges:			
Fair value interest rate contracts:			
Gain (loss) recognized in earnings on derivatives[1]	**$ 348**	$ 338	$(266)
Gain (loss) recognized in earnings on hedged items[1]	**(333)**	(288)	313
Net fair value hedge ineffectiveness gain	**15**	50	47
Derivatives not designated as accounting hedges:			
Interest rate contracts covering:			
MSRs[1]	**4**	(21)	(27)
Customer accommodation[1]	**23**	25	2
Other interest rate exposures[1]	**(275)[2]**	5	15
Total	**(248)**	9	(10)
Foreign exchange contracts[1]	**30**	4	0
Other contracts[1]	**21**	38	(9)
Total gain (loss) on derivatives not designated as accounting hedges	**(197)**	51	(19)
Net derivatives gain (loss) recognized in earnings	**$(182)**	$ 101	$ 28

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

(2) Includes $277 million in mark-to-market losses recorded during 2011 on interest-rate swap transactions related to the ING Direct acquisition discussed above.

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 2011, 2010 and 2009:

(Dollars in millions)	Year Ended December 31, 2011	2010	2009
Gain (loss) recorded in AOCI:[1]			
Cash flow hedges:			
Interest rate contracts	**$ 32**	$ (42)	$ (50)
Foreign exchange contracts	**(20)**	(1)	4
Subtotal	**12**	(43)	(46)
Net investment hedges:			
Foreign exchange contracts	**(2)**	(1)	(7)
Net derivatives gain recognized in AOCI	**$ 10**	$ (44)	$ (53)

(Dollars in millions)	Year Ended December 31, 2011	2010	2009
Gain (loss) recorded in earnings:			
Cash flow hedges:			
Gain (loss) reclassified from AOCI into earnings:			
Interest rate contracts[2]	**$ 3**	$ (51)	(136)
Foreign exchange contracts[3]	**(21)**	0	(4)
Subtotal	**(18)**	(51)	(140)
Gain (loss) recognized in earnings due to ineffectiveness:			
Interest rate contracts[3]	**0**	1	(1)
Foreign exchange contracts [3]	**0**	0	0
Subtotal	**0**	1	(1)
Net derivatives loss recognized in earnings	**$ (18)**	$ (50)	$(141)

(1) Amounts represent the effective portion.
(2) Amounts reclassified are recorded in our consolidated statements of income in interest income or interest expense.
(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 $555 million recorded in AOCI as of December 31, 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 December 31, 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.

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 $23 million and $27 million as of December 31, 2011 and 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 $12 million and $18 million as of December 31, 2011 and 2010, respectively. 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 $141 million and $66 million as of December 31, 2011 and 2010, respectively. We were required to post collateral, consisting of a combination of cash and securities, totaling $353 million and $229 million as of

December 31, 2011 and 2010, respectively. If our debt credit rating had fallen below investment grade, we would have been required to post additional collateral of $39 million as of December 31, 2011 and 2010.

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 $894 million and $668 million as of December 31, 2011 and 2010, respectively. We posted cash collateral in accounts maintained by derivatives counterparties totaling $353 million and $229 million as of December 31, 2011 and 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 $25 million and $22 million as of December 31, 2011 and 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 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 December 31, 2011 and 2010.

NOTE 12—STOCKHOLDERS' EQUITY

Accumulated Other Comprehensive Income (AOCI)

The following table presents the cumulative balances of accumulated other comprehensive income, net of deferred tax of $142 million, $143 million and $67 million as of December 31, 2011, 2010 and 2009, respectively:

	Year Ended December 31,		
(Dollars in millions)	**2011**	**2010**	**2009**
Net unrealized gains (losses) on securities[1]	**$ 294**	$ 333	$ 199
Net unrecognized elements of defined benefit plans	**(43)**	(29)	(29)
Foreign currency translation adjustments	**(49)**	(36)	(26)
Unrealized losses on cash flow hedging instruments	**(26)**	(52)	(60)
Other-than-temporary impairment not recognized in earnings on securities	**10**	49	0
Initial application of measurement date provisions for postretirement benefits other than pensions	**(1)**	(1)	(1)
Initial application from adoption of consolidation standards	**(16)**	(16)	0
Total accumulated other comprehensive income (loss)	**$ 169**	$ 248	$ 83

(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 $170 million (net of income tax of $109 million), $105 million (net of income tax of $68 million) and $181 million (net of income tax of $117 million) were reported in other comprehensive income as of December 31, 2011, 2010 and 2009, respectively.

NOTE 13—REGULATORY AND CAPITAL ADEQUACY

Regulation and Capital Adequacy

Bank holding companies and national banks are subject to capital adequacy standards adopted by the Federal Reserve and the OCC, respectively. The capital adequacy standards set forth minimum risk-based and leverage capital requirements that are based on quantitative and 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 total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4%, 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) in order to be considered adequately capitalized.

National banks are also subject to prompt corrective action capital regulations. Under prompt corrective action capital regulations, a bank is considered to be well capitalized if it maintains a total risk-based capital ratio of at least 10% (200 basis points higher than the above minimum capital standard), a Tier 1 risk-based capital ratio of at least 6%, a Tier 1 leverage capital ratio of at least 5% and not be 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. We are also subject to minimum cash reserve requirements by the Federal Reserve totaling approximately $1.2 billion as of December 31, 2011.

The table below provides a comparison of our capital ratios as of December 31, 2011 and 2010. As of December 31, 2011, we exceeded minimum capital requirements and would meet the “well-capitalized” ratio levels specified under prompt corrective action for total risk-based capital and Tier 1 risk-based capital under Federal Reserve capital standards for bank holding companies. As of December 31, 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.

	December 31,					
	2011[1]			2010[1]		
(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]	**9.7%**	**N/A**	**N/A**	8.8%	N/A	N/A
Tier 1 risk-based capital[4]	**12.0**	**4.0%**	**6.0%**	11.6	4.0%	6.0%
Total risk-based capital[5]	**14.9**	**8.0**	**10.0**	16.8	8.0	10.0
Tier 1 leverage[6]	**10.1**	**4.0**	**N/A**	8.1	4.0	N/A
Capital One Bank (USA) N.A.						
Tier 1 risk-based capital	**11.2%**	**4.0%**	**6.0%**	13.5%	4.0%	6.0%
Total risk-based capital	**15.0**	**8.0**	**10.0**	23.6	8.0	10.0
Tier 1 leverage	**10.2**	**4.0**	**5.0**	8.3	4.0	5.0
Capital One, N.A.						
Tier 1 risk-based capital	**11.0%**	**4.0%**	**6.0%**	11.1%	4.0%	6.0%
Total risk-based capital	**12.2**	**8.0**	**10.0**	12.4	8.0	10.0
Tier 1 leverage	**8.7**	**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.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

(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.

Regulatory 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 $2.6 billion and $1.3 billion, respectively, as of December 31, 2011. Although funds are available for dividend payments from the Banks, we would execute a dividend from the Banks in consultation with the OCC. 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.

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 risk-based capital ratio. In January 2010, banking regulators issued regulatory capital rules related to the impact 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.

NOTE 14—EARNINGS PER COMMON SHARE

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

	Year Ended December 31,		
(Dollars and Shares in millions, except per share data)	**2011**	**2010**	**2009**
Basic earnings per share			
Income from continuing operations, net of tax	**$3,253**	$3,050	$ 987
Loss from discontinued operations, net of tax	**(106)**	(307)	(103)
Net income applicable to common equity	**3,147**	2,743	884
Preferred stock dividends, accretion of discount and other[1]	**(26)**	0	(564)
Net income available to common stockholders	**$3,121**	$2,743	$ 320
Total weighted-average basic shares outstanding	**456**	452	428
Net income per share	**$ 6.85**	$ 6.07	$0.75

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

(Dollars and Shares in millions, except per share data)	Year Ended December 31, 2011	2010	2009
Diluted earnings per share[2]			
Net income available to common stockholders	**$3,121**	$2,743	$ 320
Total weighted-average basic shares outstanding	**456**	452	428
Stock options, warrants, contingently issuable shares, and other	**3**	4	3
Total weighted-average diluted shares outstanding	**459**	456	431
Net income per share	**$ 6.80**	$ 6.01	$0.74

(1) Includes undistributed earnings allocated to participating securities using the two-class method under the accounting guidance for computing earnings per share.

(2) Excluded from the computation of diluted earnings per share was 29.9 million, 26.8 million and 34.8 million of awards, options or warrants, during 2011, 2010 and 2009, respectively, because their inclusion would be antidilutive.

On February 16, 2012, we settled forward sale agreements that we entered into with certain counterparties acting as forward purchasers in connection with a public offering of shares of our common stock on July 19, 2011. Pursuant to the forward sale agreements, we issued 40 million shares of our common stock at settlement.

NOTE 15—OTHER NON-INTEREST EXPENSE

The following table represents the components of other non-interest expense for 2011, 2010 and 2009:

(Dollars in millions)	Year Ended December 31, 2011	2010	2009
Professional services	**$1,201**	$ 916	$ 796
Collections	**549**	596	599
Fraud losses	**122**	80	86
Bankcard association assessments	**253**	221	215
Amortization of intangibles	**222**	220	235
Other	**915**	650	610
Total	**$3,262**	$2,683	$2,541

NOTE 16—STOCK-BASED COMPENSATION PLANS

Stock Plans

We have one active stock-based employee compensation plan. Under the plan, we reserve common shares for issuance in various forms including incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock units, and performance share units.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

The following table provides the number of reserved common shares and the number of common shares available for future issuance for our active stock-based compensation plan as of December 31, 2011, 2010 and 2009. The ability to issue grants from the 1999 Non-Employee Directors Stock Incentive Plan was terminated in 2009.

(In thousands)		Available For Issuance December 31		
Plan Name	Shares Reserved	2011	2010	2009
2004 Stock Incentive Plan ("2004 Plan")	40,000[1]	**13,286**	16,225	17,789

[1] On April 20, 2009 the Board authorized an increase in total shares reserved of 20 million shares to 40 million shares.

We issue new shares of common or treasury stock upon the settlement of employee stock-based incentive options and awards.

We recognize compensation expense on a straight-line basis over the entire award's vesting period for any awards with graded vesting attributes. Total compensation expense recognized for stock-based compensation during the years 2011, 2010 and 2009 was $189 million, $149 million and $146 million, respectively. The total income tax benefit recognized in the consolidated statement of income for stock-based compensation arrangements during the years 2011, 2010 and 2009 was $66 million, $52 million and $51 million, respectively.

Stock Options

Generally, the exercise price of stock options will equal the fair market value of our common stock on the date of grant. The maximum contractual term for options is ten years and option vesting is determined at the time of grant. The vesting for most options is 33 1/3 percent per year beginning with the first anniversary of the grant date.

A summary of stock option activity under the plans as of December 31, 2011, and changes during the year are presented below:

	Shares Subject to Options (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1, 2011	**20,574**	**$ 53.18**		
Granted	**1,430**	**48.41**		
Exercised	**(1,187)**	**32.37**		
Forfeited and expired	**(4,874)**	**51.15**		
Outstanding as of December 31, 2011	**15,943**	**$ 54.92**	**5.2 years**	**$ 66**
Exercisable as of December 31, 2011	**12,248**	**$ 61.65**	**4.3 years**	**$ 22**

As of December 31, 2011, the number of shares, weighted average exercise price, aggregate intrinsic value and weighted average remaining contractual terms of stock options vested and expected to vest approximate amounts for stock options outstanding. The weighted-average per share fair value of options granted during the years 2011, 2010 and 2009 was $13.17, $11.78 and $4.56, respectively. Cash proceeds from the exercise of stock options were $38 million, $13 million, and $9 million for 2011, 2010 and 2009, respectively. Tax benefits realized from the exercise of stock options were $8 million, $4 million and $1 million for 2011, 2010 and 2009, respectively. The total intrinsic value of stock options exercised during the years 2011, 2010 and 2009 was $23 million, $11 million, and $4 million, respectively. We expect to recognize the unrecognized compensation cost for stock options of $6 million as of December 31, 2011 over the next three years.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

Stock option expense is based on the fair value per stock option, estimated at the grant date using implied volatility with a Black-Scholes option-pricing model. The fair value of stock options granted during 2011, 2010 and 2009 was estimated using the weighted average assumptions summarized below:

Assumptions	Year Ended December 31, 2011	2010	2009
Dividend yield[1]	**2.34%**	1.49%	4.79%
Volatility factors of stock's expected market price	**36**	38	43
Risk-free interest rate	**2.04**	2.49	1.79
Expected option lives (in years)	**5.0**	5.0	5.0

(1) In 2011, 2010 and 2009, we paid dividends at the annual rate of $0.20, $0.20 and $0.53 per common share, respectively.

Restricted Stock Awards and Units

Generally, the value of restricted stock awards will equal the fair market value of our common stock on the date of grant. For restricted stock granted before 2010, the vesting was primarily 25 percent on the first and second anniversaries of the grant date and 50 percent on the third anniversary date. For restricted stock granted in 2010 and 2011, the vesting is primarily 33 1/3 percent per year beginning with the first anniversary of the grant date.

A summary of 2011 activity for restricted stock awards and units is presented below:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value
Unvested as of January 1, 2011	**4,646**	**$ 29.20**
Granted	**1,686**	**47.36**
Vested	**(1,928)**	**30.99**
Forfeited and expired	**(188)**	**31.50**
Unvested as of December 31, 2011	**4,216**	**$ 35.55**

The weighted-average grant date fair value of restricted stock granted for 2011, 2010 and 2009 was $47.36, $36.84 and $17.33, respectively. The total fair value of restricted stock vesting was $95 million, $62 million and $41 million in 2011, 2010 and 2009, respectively. We expect to recognize the unrecognized compensation cost for unvested restricted stock awards and units of $59 million as of December 31, 2011 over the next three years.

Performance Share Units

Generally, the value of performance share units will equal the fair market value of our common stock on the date of grant. The performance share unit awards include an opportunity to receive from 0% to 200% of the target number of common shares. The number of performance share units that will ultimately vest is contingent upon meeting specific performance goals over a three year period. The awards generally vest at the end of the three year period.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

A summary of 2011 activity for performance share units is presented below:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value
Unvested as of January 1, 2011	698	$ 37.49
Granted [(1)]	308	52.10
Vested [(1)]	(457)	55.41
Forfeited and expired	(3)	21.00
Unvested as of December 31, 2011	546	$ 30.83

(1) Includes adjustments for achievement of specific performance goals for performance share units granted in prior periods.

The weighted-average grant date fair value of performance share units granted for 2011, 2010 and 2009 was $52.10, $36.55 and $21.00, respectively. The total fair value of performance share units vesting was $22 million in 2011; no performance share units vested in prior years. We expect to recognize the unrecognized compensation cost for unvested performance share units of $3 million as of December 31, 2011 over the next three years.

Cash Equity Units and Cash-Settled Restricted Stock Units

We also issue cash equity units and cash-settled restricted stock units which are recorded as liabilities as the expense is recognized. Cash equity units and cash-settled restricted stock units are settled with a cash payment for each unit vested equal to the average fair market value of our common stock for the 20 trading days preceding the vesting date or the closing price on the vesting date. Cash equity units and cash-settled restricted stock units are settled with cash and therefore are not included in common shares reserved for issuance or available for issuance under the 2004 Plan. For cash equity units and cash-settled restricted stock units granted before 2010, the vesting was primarily 25 percent on the first and second anniversaries of the grant date and 50 percent on the third anniversary date. For cash equity units and cash-settled restricted stock units granted in 2010 and 2011, vesting is primarily 33 1/3 percent per year beginning with the first anniversary of the grant date.

Cash equity units and cash-settled restricted stock units vesting in 2011, 2010 and 2009 resulted in cash payments to associates of $81 million, $48 million, and $10 million, respectively. We expect to recognize the unrecognized compensation cost for unvested cash equity units of $38 million as of December 31, 2011, based on the closing price of our common stock as of that date, over the next 3 years.

Associate Stock Purchase Plan

We maintain an Associate Stock Purchase Plan (the "Purchase Plan") which is a compensatory plan under the accounting guidance for stock-based compensation. We recognized $6 million for the year ended December 31, 2011 and $4 million in compensation expense for each of the years ended December 31, 2010 and 2009 under the Purchase Plan.

Under the Purchase Plan, our associates are eligible to purchase common stock through monthly salary deductions of a maximum of 15% and a minimum of 1% of monthly base pay. To date, the amounts deducted are applied to the purchase of our unissued common or treasury stock at 85% of the current market price. Shares may also be acquired on the market. An aggregate of 8.0 million shares of common stock have been authorized for issuance under the Purchase Plan, of which 1.8 million and 2.6 million shares were available for issuance as of December 31, 2011 and 2010, respectively.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

Dividend Reinvestment and Stock Purchase Plan

In 2002, we implemented our Dividend Reinvestment and Stock Purchase Plan ("2002 DRP"), which allows participating stockholders to purchase additional shares of our common stock through automatic reinvestment of dividends or optional cash investments. We had 7.4 million shares available for issuance under the 2002 DRP at both December 31, 2011 and 2010.

NOTE 17—EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

We sponsor a contributory Associate Savings Plan (the "Plan") in which substantially all full-time and certain part-time associates are eligible to participate. We make contributions to each eligible associate's account, match a portion of associate contributions and make discretionary contributions based upon our meeting a certain earnings per share target or other performance metrics. In June 2010, we announced that we were implementing a new company contribution structure and several administrative enhancements to the Plan that were effective July 1, 2010. The new contribution structure provides a company contribution through a combination of basic and matching company contributions. We transitioned to the new contribution structure on July 1, 2010, as such, our discretionary contribution payout for 2010 was prorated for the period January 1, 2010 to June 30, 2010.

We also sponsor a voluntary non-qualified deferred compensation plan in which select groups of employees are eligible to participate. We make contributions to this plan based on participants' deferral of salary, bonuses and other eligible pay. We contributed a total of $151 million, $118 million and $79 million to these plans during the years ended December 31, 2011, 2010 and 2009, respectively.

Defined Benefit Pension and Other Postretirement Benefit Plans

We sponsor defined benefit pension plans and other postretirement benefit plans. Pension plans include a legacy frozen cash balance plan and plans assumed in the North Fork acquisition, including two qualified defined benefit pension plans and several non-qualified defined benefit pension plans. Our legacy pension plan and the two qualified pension plans from the North Fork acquisition were merged into a single plan effective December 31, 2007. Other postretirement benefit plans, including a legacy plan and plans assumed in the Hibernia and North Fork acquisitions, all of which provide medical and life insurance benefits, were merged into a single plan effective January 1, 2008.

Our pension plans and the other postretirement benefit plans are valued using a December 31 measurement date. Our policy is to amortize prior service amounts on a straight-line basis over the average remaining years of service to full eligibility for benefits of active plan participants.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

The following table sets forth, on an aggregated basis, changes in the benefit obligation and plan assets, how the funded status is recognized in our consolidated balance sheets, and the components of the net periodic benefit cost recognized in our consolidated statements of income:

	Year Ended December 31,			
	2011	2010	2011	2010
(Dollars in millions)	Defined Pension Benefits		Other Postretirement Benefits	
Change in benefit obligation:				
Benefit obligation as of beginning of year	**$ 193**	$ 190	**$ 66**	$ 67
Service cost	**1**	2	**0**	1
Interest cost	**10**	10	**3**	3
Benefits paid	**(19)**	(19)	**(4)**	(4)
Net actuarial loss (gain)	**13**	10	**2**	(1)
Benefit obligation as of end of year	**$ 198**	$ 193	**$ 67**	$ 66
Change in plan assets:				
Fair value of plan assets as of beginning of year	**$ 221**	$ 213	**$ 8**	$ 7
Actual return on plan assets	**11**	26	**0**	1
Employer contributions	**1**	1	**3**	4
Benefits paid	**(19)**	(19)	**(4)**	(4)
Fair value of plan assets as of end of year	**$ 214**	$ 221	**$ 7**	$ 8
Over (under) funded status as of end of year	**$ 16**	$ 28	**$ (60)**	$ (58)
Balance sheet presentation:				
Other assets	**$ 28**	$ 39	**$ 0**	$ 0
Other liabilities	**(12)**	(11)	**(60)**	(58)
Net amount recognized as of end of year	**$ 16**	$ 28	**$ (60)**	$ (58)
Accumulated benefit obligation at end of year	**$ 198**	$ 193	**n/a**	n/a
Components of net periodic benefit cost:				
Service cost	**$ 1**	$ 2	**$ 0**	$ 1
Interest cost	**10**	10	**3**	3
Expected return on plan assets	**(15)**	(15)	**(1)**	(1)
Amortization of transition obligation, prior service credit, and net actuarial loss (gain)	**1**	1	**(3)**	(3)
Net periodic benefit gain	**$ (3)**	$ (2)	**$ (1)**	$ 0
Changes recognized in other comprehensive income, pretax:				
Net actuarial (gain) loss	**$ (17)**	$ 1	**$ (2)**	$ 1
Reclassification adjustments for amounts recognized in net periodic benefit cost	**1**	1	**(3)**	(3)
Total (gain) loss recognized in other comprehensive income	**$ (16)**	$ 2	**$ (5)**	$ (2)

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

Pre-tax amounts recognized in accumulated other comprehensive income that have not yet been recognized as a component of net periodic benefit cost consist of the following:

(Dollars in millions)	December 31, 2011 Defined Pension Benefits	2010 Defined Pension Benefits	2011 Other Postretirement Benefits	2010 Other Postretirement Benefits
Transition obligation	**$ 0**	$ 0	**$ 0**	$ 0
Prior service credit	**0**	0	**8**	11
Net actuarial gain (loss)	**(74)**	(58)	**0**	2
Accumulated other comprehensive income	**$ (74)**	$ (58)	**$ 8**	$ 13

Pre-tax amounts recorded in accumulated other comprehensive income as of December 31, 2011 that are expected to be recognized as a component of our net periodic benefit cost in 2012 consist of the following:

(Dollars in millions)	Defined Pension Benefits	Other Postretirement Benefits
Prior service cost	$ 0	$ 3
Net actuarial loss	(2)	0
Net gain (loss)	$ (2)	$ 3

The following table sets forth the aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets. Based on the status of our pension plans, the information presented also represents the aggregate accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets.

(Dollars in millions)	December 31, 2011 Defined Pension Benefits	2010 Defined Pension Benefits	2011 Other Postretirement Benefits	2010 Other Postretirement Benefits
Benefit obligation	**$ 198**	$ 193	**$ 67**	$ 66
Fair value of plan assets	**214**	221	**7**	8

The following table presents weighted-average assumptions used in the accounting for the plans:

	December 31, 2011 Defined Pension Benefits	2010 Defined Pension Benefits	2011 Other Postretirement Benefits	2010 Other Postretirement Benefits
Assumptions for benefit obligations at measurement date:				
Discount rate	**4.5%**	5.2%	**4.5%**	5.2%
Rate of compensation increase	**n/a**	n/a	**n/a**	n/a
Assumptions for periodic benefit cost for the year ended:				
Discount rate	**5.2%**	5.7%	**5.2%**	5.7%
Expected long-term rate of return on plan assets[(1)]	**7.3%**	7.5%	**7.3%**	7.5%
Rate of compensation increase	**n/a**	n/a	**n/a**	n/a
Assumptions for year-end valuations:				
Health care cost trend rate assumed for next year	**n/a**	n/a	**8.3%**	8.7%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**n/a**	n/a	**4.5%**	4.5%
Year the rate reaches the ultimate trend rate	**n/a**	n/a	**2028**	2028

(1) Our expected long-term rate of return on plan assets is defined as 20 years.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

To develop the expected long-term rate of return on plan assets assumption, consideration was given to the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on the plan assets assumption for the portfolio.

Assumed health care trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	Year ended December 31,			
	2011		2010	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Effect on year-end postretirement benefit obligation	**$ 7**	**$ (6)**	$ 6	$ (5)
Effect on total service and interest cost components	**0**	**0**	0	0

Plan Assets

The qualified defined benefit pension plan asset allocations as of the annual measurement dates are as follows:

	December 31,	
	2011	2010
Common collective trusts[1]	**56%**	74%
Money market fund	**0**	3
Corporate bonds (S&P rating of A or higher)	**6**	1
Corporate bonds (S&P rating of lower than A)	**10**	2
Government securities	**21**	20
Mortgage backed securities	**7**	0
Municipal bonds	**0**	0
Total	**100%**	100%

(1) Common collective trusts include domestic and international equity securities.

The investment guidelines provide the following asset allocation targets and ranges: domestic equity target of 50% and allowable range of 45% to 55%, international equity target of 20% and allowable range of 15% to 25%, and fixed income securities target of 30% and allowable range of 25% to 40%.

Plan assets are invested using a total return investment approach whereby a mix of equity securities and debt securities are used to preserve asset values, diversify risk and enhance our ability to achieve our long-term investment return benchmark. Investment strategies and asset allocations are based on careful consideration of plan liabilities, the plan's funded status and our financial condition. Investment performance and asset allocation are measured and monitored on a quarterly basis.

Plan assets are managed in a balanced portfolio comprised of three major components: a domestic equity portion, an international equity portion and a domestic fixed income portion. The expected role of plan equity investments is to maximize the long-term real growth of fund assets, while the role of fixed income investments is to generate current income, provide for more stable periodic returns and provide some protection against a prolonged decline in the market value of fund equity investments.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

Fair Values Measurement

For information on fair value measurements, including descriptions of Level 1, 2 and 3 of the fair value hierarchy and the valuation methods we utilize, see “Note 1—Summary of Significant Accounting Policies” and “Note 19—Fair Value of Financial Instruments.”

Plan Assets Measured at Fair Value on a Recurring Basis

(Dollars in millions)	December 31, 2011 Fair Value Measurements Using Level 1	Level 2	Level 3	Assets at Fair Value
Plan Assets				
Common collective trusts	**$ 0**	**$ 125**	**$ 0**	**$ 125**
Short-term investment fund	**0**	**0**	**0**	**0**
Corporate bonds (S&P rating of A or higher)	**0**	**12**	**0**	**12**
Corporate bonds (S&P rating of lower than A)	**0**	**22**	**0**	**22**
Government securities	**0**	**46**	**0**	**46**
Mortgage-backed securities	**0**	**15**	**0**	**15**
Municipal bonds	**0**	**1**	**0**	**1**
Total	**$ 0**	**$ 221**	**$ 0**	**$ 221**

(Dollars in millions)	December 31, 2010 Fair Value Measurements Using Level 1	Level 2	Level 3	Assets at Fair Value
Plan Assets				
Common collective trusts	$ 0	$ 169	$ 0	$ 169
Short-term investment fund	0	7	0	7
Corporate bonds (S&P rating of A or higher)	0	2	0	2
Corporate bonds (S&P rating of lower than A)	0	4	0	4
Government securities	0	46	0	46
Mortgage-backed securities	0	1	0	1
Municipal bonds	0	0	0	0
Total	$ 0	$ 229	$ 0	$ 229

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 a reconciliation for all plan assets measured and recognized at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2010. We did not have any Level 3 plan assets for the year ended December 31, 2011.

Level 3 Instruments Only

(Dollars in millions)	Year Ended December 31, 2010 Limited Partnerships
Balance, January 1, 2010	$ 1
Total realized and unrealized losses:	
Included in net income	0
Settlements, net	(1)
Transfers in (out) of Level 3	0
Balance, December 31, 2010	$ 0
Total unrealized gains (losses) included in net income related to assets still held as of December 31, 2010	$ 0

Expected future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

(Dollars in millions)	Pension Benefits	Postretirement Benefits
2012	$ 14	$ 4
2013	13	5
2014	13	5
2015	13	5
2016	13	5
2017 - 2021	60	23

In 2012, $1 million in contributions are expected to be made to the pension plans and $2 million in contributions are expected to be made to other postretirement benefits plans.

NOTE 18—INCOME TAXES

We account for income taxes in accordance with the accounting guidance prescribed by the FASB, recognizing the current and deferred tax consequences of all transactions that have been recognized in the consolidated financial statements using the provisions of enacted tax laws. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are recorded to reduce deferred tax assets to an amount that is more likely than not to be realized.

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

Significant components of the provision for income taxes attributable to continuing operations were as follows:

(Dollars in millions)	Year Ended December 31, 2011	2010	2009
Current income tax provision:			
Federal taxes	**$ 721**	$ (152)	$278
State taxes	**89**	31	35
International taxes	**33**	122	22
Total current provision (benefit)	**$ 843**	$ 1	$335
Deferred income tax provision:			
Federal taxes	**$ 594**	$1,121	$ 9
State taxes	**(88)**	87	(6)
International taxes	**(15)**	71	11
Total deferred provision (benefit)	**$ 491**	$1,279	$ 14
Total income tax provision	**$1,334**	$1,280	$349

Income tax benefits of $3 million, $2 million and $793 million in 2011, 2010 and 2009, respectively, were allocated directly to reduce goodwill from acquisitions.

Income tax provision (benefit) reported in stockholders' equity was as follows:

(Dollars in millions)	Year Ended December 31, 2011	2010	2009
Foreign currency translation gains (losses)	**$ (1)**	$ 6	$ (9)
Net unrealized securities gains (losses)	**(15)**	48	520
Other-than-temporary impairment on securities	**(26)**	27	0
Net unrealized gains (losses) related to cash flow hedge instruments	**18**	5	61
Adoption of new consolidation accounting standards	**0**	(1,642)	0
Employee stock plans	**(19)**	10	16
Employee retirement plans	**(7)**	0	7
Total income tax provision (benefit)	**$(50)**	$(1,546)	$595

The reconciliation of income tax attributable to continuing operations, computed at the U.S. federal statutory tax rate, to income tax expense was:

(Dollars in millions)	Year Ended December 31, 2011	2010	2009
Income tax at U.S. federal statutory tax rate	**35.00%**	35.00%	35.00%
State taxes, net of federal benefit	**1.4**	1.3	2.4
Resolution of federal income tax issues and audits	**(1.1)**	(2.5)	(4.6)
Low-income housing, New Markets, and other tax credits	**(4.3)**	(3.3)	(6.5)
Other foreign tax differences, net	**(0.1)**	(0.5)	(0.2)
Other, net	**(1.8)**	(0.4)	0.1
Income taxes	**29.1%**	29.6%	26.2%

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

During 2011, 2010 and 2009, our income tax expense was reduced by $50 million, $110 million and $62 million, respectively, due to the resolution of certain tax issues and audits for prior years with the Internal Revenue Service (“IRS”). This reduction represented the release of previous accruals for potential audit and litigation adjustments which were subsequently settled or eliminated and further refinement of existing tax exposures.

Significant components of our deferred tax assets and liabilities as of December 31, 2011 and 2010 were as follows:

(Dollars in millions)	December 31, 2011	December 31, 2010
Deferred tax assets:		
Allowance for loan and lease losses	**$1,480**	$1,950
Rewards & sweepstakes programs	**612**	525
Representation & warranty reserve	**355**	302
Security & loan valuations	**351**	383
Deferred compensation & employee benefits	**322**	281
Net unrealized losses on derivatives	**129**	90
Unearned income	**39**	85
Net operating loss and tax credit carryforwards	**126**	181
Other foreign deferred taxes	**15**	50
Other assets	**279**	194
Subtotal	**3,708**	4,041
Valuation allowance	**(89)**	(130)
Total deferred tax assets	**3,619**	3,911
Deferred tax liabilities:		
Original issue discount	**596**	574
Core deposit and other intangibles	**291**	348
Fixed assets & leases	**167**	112
Other liabilities	**249**	162
Total deferred tax liabilities	**1,303**	1,196
Net deferred tax assets	**$2,316**	$2,715

We have state net operating loss carryforwards with a tax value of $153 million that expire from 2012 to 2031. We have foreign net operating loss carryforward of $93 million that expires in 2021. We have a foreign tax credit carryforward of $1 million that expires in 2021.

The valuation allowance was decreased by $41 million to adjust the tax benefit of certain state deferred tax assets and net operating loss carryforwards to the amount that we have determined is more likely than not to be realized.

The deferred tax liability for original issue discount represents interchange, late fees, cash advance fees and overlimit fees. These items are generally treated as original issue discount (“OID”) for tax purposes and recognized over the life of the related credit card receivables. These items are recognized in the income statement as income in the year earned. For income statement purposes, late fees are reported as interest income, and interchange, cash advance fees and overlimit fees are reported as non-interest income.

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NOTES TO CONSOLIDATED STATEMENTS—(Continued)

(Dollars in millions)	December 31, 2011	December 31, 2010
Original Issue discount:		
OID—late fees	**$ 487**	$ 387
OID—all other	**1,169**	1,192
Gross original issue discount	**1,656**	1,579
Net deferred tax liability	**$ 596**	$ 574

The accounting guidance for income taxes clarifies the accounting for uncertainty in income taxes, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also provides rules on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

We recognize accrued interest and penalties related to income taxes as a component of income tax expense. During 2011, 2010 and 2009, $(39) million, $(62) million and $(7) million, respectively, of net interest and penalties was included in income tax expense. The accrued balance of interest and penalties related to unrecognized tax benefits is presented in the table below.

A reconciliation of the change in unrecognized tax benefits from January 1, 2010 to December 31, 2011 is as follows:

(Dollars in millions)	Gross Unrecognized Tax Benefits	Accrued Interest and Penalties	Gross Tax, Interest and Penalties
Balance at January 1, 2010	$ 359	$ 100	$ 459
Additions for tax positions related to the current year	0	0	0
Additions for tax positions related to prior years	0	8	8
Reductions for tax positions related to prior years due to IRS and other settlements	(72)	(43)	(115)
Additions for tax positions related to acquired entities in prior years, offset to goodwill	0	0	0
Other reductions for tax positions related to prior years	(2)	0	(2)
Balance at December 31, 2010	$ 285	$ 65	$ 350
Additions for tax positions related to the current year	**0**	**0**	**0**
Additions for tax positions related to prior years	**61**	**26**	**87**
Reductions for tax positions related to prior years due to IRS and other settlements	**(133)**	**(31)**	**(164)**
Additions for tax positions related to acquired entities in prior years, offset to goodwill	**0**	**0**	**0**
Other reductions for tax positions related to prior years	**0**	**0**	**0**
Balance at December 31, 2011	**$ 213**	**$ 60**	**$ 273**
Portion of balance at December 31, 2011 that, if recognized, would impact the effective income tax rate	**$ 123**	**$ 40**	**$ 163**

We are subject to examination by the IRS and other tax authorities in certain countries and states in which we have significant business operations. The tax years subject to examination vary by jurisdiction. The IRS completed its examination of the Company's federal income tax returns for the years 2007 and 2008 in December 2011. The audit resulted in a net agreed tax liability of $42 million, which the Company paid on January 31, 2012. The Company and the IRS were unable to reach a resolution of one issue for the year 2008, and the Company filed a protest with the IRS Office of Appeals with respect to this issue that is currently pending. As a result of the completion of the audit, the amount of the Company's unrecognized tax benefits increased by $15 million.

On February 10, 2011, the Company finalized a Closing Agreement with the IRS that resolved certain outstanding issues for the tax years 2000 through 2008 that were unresolved by the April 9, 2010 decision by the U.S. Tax Court in the Company's federal tax litigation for the tax years 1995-1999. This agreement did not impact the Company's unrecognized tax benefits. On October 21, 2011, the U.S. Court of Appeals for the Fourth Circuit entered an unfavorable decision on the two issues that the Company had appealed from the Tax Court's decision. As a result of the decision, the Company reduced the amount of unrecognized tax benefits with respect to these issues by approximately $93 million.

It is reasonably possible that further settlements related to the Company's unrecognized tax benefits may be made within twelve months of the reporting date. At this time, an estimate of the potential change to the amount of unrecognized tax benefits resulting from such settlements cannot be made.

As of December 31, 2011, U.S. income taxes and foreign withholding taxes have not been provided on approximately $717 million of unremitted earnings of subsidiaries operating outside the U.S., in accordance with the guidance for accounting for income taxes in special areas. These earnings are considered by management to be invested indefinitely. Upon repatriation of these earnings, we could be subject to both U.S. income taxes (subject to possible adjustment for foreign tax credits) and withholding taxes payable to various foreign countries. Determination of the amount of unrecognized deferred U.S. income tax liability and foreign withholding tax on these unremitted earnings is not practicable at this time because such liability is dependent upon circumstances existing if and when remittance occurs.

As of December 31, 2011, U.S. income taxes have not been provided for approximately $287 million of previously acquired thrift bad debt reserves created for tax purposes as of December 31, 1987. These amounts, acquired as a result of the merger with North Fork Bancorporation, Inc. and the acquisition of Chevy Chase Bank, F.S.B., are subject to recapture in the unlikely event that CONA, as successor to North Fork Bank and Chevy Chase Bank F.S.B., makes distributions in excess of earnings and profits, redeems its stock, or liquidates.

NOTE 19—FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

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 December 31, 2011 and 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.

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	December 31, 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	$ 124	$ 138	$ 0	$ 262
Residential mortgage-backed securities	0	26,455	195	26,650
Asset-backed securities	0	10,118	32	10,150
Commercial mortgage-backed securities	0	913	274	1,187
Other	279	219	12	510
Total securities available for sale	403	37,843	513	38,759
Other assets:				
Mortgage servicing rights	0	0	93	93
Derivative receivables[1][2]	5	1,828	103	1,936
Retained interests in securitization and other	0	0	145	145
Total Assets	$ 408	$39,671	$ 854	$ 40,933
Liabilities				
Other liabilities:				
Derivative payables[1][2]	$ 6	$ 702	$ 279	$ 987
Other[3]	0	0	12	12
Total Liabilities	$ 6	$ 702	$ 291	$ 999

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

	December 31, 2010			
	Fair Value Measurements Using			Assets/ Liabilities at Fair Value
(Dollars in millions)	Level 1	Level 2	Level 3	
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 and other	0	0	152	152
Total Assets	$ 687	$41,525	$ 937	$ 43,149
Liabilities				
Other liabilities:				
Derivative payables[(1) (2)]	$ 18	$ 575	$ 43	$ 636
Other[(3)]	0	0	18	18
Total Liabilities	$ 18	$ 575	$ 61	$ 654

(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 $23 million and $20 million recognized as a net valuation allowance on derivative assets and liabilities for non-performance risk as of December 31, 2011 and 2010, respectively. Non-performance risk is reflected in other assets/liabilities on the balance sheet and offset through the income statement in other income.

(3) Includes manufactured housing, swap and other transactions. See "Note 7—Variable Interest Entities and Securitizations" for additional information.

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 2011, we had minimal movements between Levels 1 and 2.

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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 tables below present reconciliation for all assets and liabilities measured and recognized at fair value on a recurring basis using significant unobservable inputs (Level 3). When assets and liabilities are transferred between levels, we recognize the transfer as of the end of the period.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Year Ended December 31, 2011										
		Total Gains or (Losses) (Realized/Unrealized)									
(Dollars in millions)	Balance, January 1, 2011	Included in Net Income[1]	Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers Into Level 3[2]	Transfers Out of Level 3[2]	Balance, December 31, 2011	Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of December 31, 2011[3]
Assets:											
Securities available-for-sale:											
Residential mortgage-backed securities	$ 578	$ 0	$ (21)	$ 20	$ (14)	$ 0	$ (102)	$ 76	$ (342)	$ 195	$ 0
Asset-backed securities	13	0	(4)	34	0	0	0	0	(11)	32	0
Commercial mortgage-backed securities	0	0	10	357	(30)	0	0	76	(139)	274	0
Other	7	0	0	0	0	0	(1)	6	0	12	0
Total securities available-for-sale	598	0	(15)	411	(44)	0	(103)	158	(492)	513	0
Other Assets:											
Mortgage servicing rights	141	(44)	0	0	0	9	(13)	0	0	93	(44)
Derivative receivables	46	49	0	0	0	47	(34)	0	(5)	103	49
Retained interest in securitization and other	152	(7)	0	0	0	0	0	0	0	145	(7)
Liabilities:											
Other Liabilities											
Derivative Payables	(43)	(75)	0	0	0	(182)	17	0	4	(279)	(75)
Other	(18)	6	0	0	0	0	0	0	0	(12)	6

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Year Ended December 31, 2010								
			Total Gains or (Losses) (Realized/Unrealized)						
(Dollars in millions)	Balance, January 1, 2010	Impact of New Accounting Standards	Included in Net Income[(1)]	Included in Other Comprehensive (Loss) Income	Purchases, Sales, Issuances, and Settlements, Net	Transfers into Level 3[(2)]	Transfers Out of Level 3[(2)]	Balance, December 31, 2010	Net Unrealized Gains (Losses) Included in Net Loss Related to Assets and Liabilities Still Held as of December 31, 2010[(3)]
Assets:									
Securities available-for-sale:									
Residential mortgage-backed securities	$ 1,468	$ 0	$ (3)	$ (92)	$ (30)	$ 1,156	$ (1,921)	$ 578	$ (3)
Asset-backed securities	13	0	0	(2)	70	50	(118)	13	0
Other	25	0	0	0	0	0	(18)	7	0
Total securities available-for-sale	1,506	0	(3)	(94)	40	1,206	(2,057)	598	(3)
Other Assets:									
Mortgage servicing rights	240	(17)	(82)	0	0	0	0	141	(82)
Derivative receivables	440	(401)	5	0	4	0	(2)	46	5
Retained interest in securitization a and other	3,991	(86)	(2)	0	0	(3,751)	0	152	0
Liabilities:									
Other Liabilities									
Derivative Payables	(33)	0	(11)	0	(1)	2	0	(43)	(11)
Other	(18)	0	0	0	0	0	0	(18)	0

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

(2) The transfers out of Level 3 for the years ended December 31, 2011 and 2010 was primarily driven by greater consistency amongst multiple pricing sources. The transfers into Level 3 was primarily driven by less consistency amongst vendor pricing on individual securities for non-agency MBS.

(3) The amount presented for unrealized gains (loss) for assets still held as of the reporting date primarily represents impairments for available-for-sale securities, accretion on certain fixed maturity securities, and change in fair value of derivative instruments. The impairments are reported in total other-than-temporary losses 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).

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 a discounted cash flow model or fair value of the underlying collateral, less the estimated cost to sell. Held for sale loans that are valued using a discounted cash flow are classified as level 2. Loans that are valued using fair value less the estimated cost to sell have significant unobservable inputs and are classified as Level 3 under the fair value hierarchy. Fair value adjustments for loans held for sale are recorded in other non-interest expense in our consolidated statement of income.

Loans Held For Investment, Net

Loans held for investment are carried at the fair value of the underlying collateral, less the estimated cost to sell. Due to the use of unobservable inputs, loans held for investment are classified as Level 3 under the fair value hierarchy. Fair value adjustments for loans held for investment are recorded in provision for loan and lease losses in the consolidated statement of income.

Foreclosed assets

Foreclosed assets are carried at the lower of its carrying amount or fair value less costs to sell. Due to the use of unobservable inputs, foreclosed assets are classified as Level 3 under the fair value hierarchy. Fair value adjustments for foreclosed assets are recorded in other non-interest expense in the consolidated statement of income.

Other Assets

Nonrecurring other assets measured at fair value consist of long-lived assets held for sale. These assets are recorded in other assets in our consolidated balance sheets. These assets are carried at the lower of their carrying amount or fair value less costs to sell. Due to the use of unobservable inputs, long-lived assets held for sale are classified as Level 3 under the fair value hierarchy. Fair value adjustments for other assets are recorded in other non-interest expense in the consolidated statement of income.

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 and the gains or losses recognized for these assets as a result of fair value measurements.

	December 31, 2011				
	Fair Value Measurements Using			Assets at Fair Value	Total Gains/(Losses)[2]
(Dollars in millions)	Level 1	Level 2	Level 3		
Assets					
Loans held for sale	$ 0	$ 201	$ 0	$ 201	$ 0
Loans held for investment	0	0	113	113	(66)
Foreclosed assets[1]	0	0	169	169	(21)
Other	0	0	21	21	(19)
Total	$ 0	$ 201	$ 303	$ 504	$ (106)

	December 31, 2010				
	Fair Value Measurements Using				
(Dollars in millions)	Level 1	Level 2	Level 3	Assets at Fair Value	Total Gains/(Losses)[2]
Assets					
Loans held for sale	$ 0	$ 206	$ 0	$ 206	$ (9)
Loans held for investment	0	126	159	285	(151)
Foreclosed assets[1]	0	0	249	249	(42)
Other	0	0	18	18	(8)
Total	$ 0	$ 332	$ 426	$ 758	$ (210)

[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.

Fair Value of Financial Instruments

The following reflects the fair value of financial instruments, whether or not recognized on the consolidated balance sheet, at fair value as of December 31, 2011 and 2010:

	December 31,			
	2011		2010	
(Dollars in millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	**$ 5,838**	**$ 5,838**	$ 5,249	$ 5,249
Restricted cash for securitization investors	**791**	**791**	1,602	1,602
Securities available for sale	**38,759**	**38,759**	41,537	41,537
Loans held for sale	**201**	**201**	228	228
Net loans held for investment	**131,642**	**133,710**	120,319	124,117
Interest receivable	**1,029**	**1,029**	1,070	1,070
Accounts receivable from securitization	**94**	**94**	118	118
Derivatives	**1,936**	**1,936**	1,319	1,319
Mortgage servicing rights	**93**	**93**	141	141
Financial Liabilities				
Non-interest bearing deposits	**$ 18,281**	**$ 18,281**	$ 15,048	$ 15,048
Interest-bearing deposits	**109,945**	**110,002**	107,162	107,587
Senior and subordinated notes	**11,034**	**10,870**	8,650	9,236
Securitized debt obligations	**16,527**	**16,632**	26,915	26,943
Federal funds purchased and securities loaned or sold under agreements to repurchase	**1,464**	**1,464**	1,517	1,517
Other borrowings	**10,536**	**10,607**	4,714	4,901
Interest payable	**466**	**466**	488	488
Derivatives	**987**	**987**	636	636

The following describes the valuation techniques used in estimating the fair value of our financial instruments as of December 31, 2011 and 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 resale agreements and interest-bearing deposits at other banks approximate fair value.

Restricted Cash or 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 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 collateralized mortgage obligations and 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.

As of December 31, 2011, we saw further improvements in the market value of our portfolio holdings driven by lower interest rates and reduced risk premiums as compared to 2010. The decrease in the amount of Level 3 securities reflected continued run-off or liquidation of the securities and improvement in pricing consistency.

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 December 31, 2011 and 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. The increase in fair value above carrying amount at December 31, 2011 was primarily due to a tightening of liquidity spreads and improved credit performance noted in our credit card, auto and commercial loan portfolios.

Interest Receivable

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

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. Refer to “Note 7—Variable Interest Entities and Securitizations” for discussion regarding the adoption of the new accounting consolidation standards on January 1, 2010. 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.

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, FHLB advances, 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. The increase in fair value of other borrowings above carrying values at December 31, 2011 was primarily due to interest rate spreads across the industry.

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 financial guarantees outstanding and included in other liabilities as of December 31, 2011 and 2010 that have been issued since January 1, 2003 was $4 million and $3 million, 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 December 31, 2011 and 2010, there was no material unrealized appreciation or depreciation on these financial instruments.

NOTE 20—BUSINESS SEGMENTS

Segment Description

Our principal operations are currently 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. The operations of acquired businesses have been integrated into our existing business segments. Certain activities that are not part of a segment are included in the “Other” category.

- *Credit Card:* Consists of our domestic consumer and small business credit card lending, national small business lending, national closed end installment lending and the international credit 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 auto 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. We refer to the business segment results derived from our internal management accounting and reporting process as our "managed" presentation, which differs in some cases from our reported results prepared based on U.S. GAAP. There is no comprehensive, authoritative body of guidance for management accounting equivalent to U.S. GAAP; therefore, the managed basis presentation of our business segment results may not be comparable to similar information provided by other financial service companies. In addition, our individual business segment results should not be used as a substitute for comparable results determined in accordance with U.S. GAAP.

Prior to January 1, 2010, our managed-basis presentation assumed that our securitized loans had not been sold and that the earnings from securitized loans were classified in our results of operations in the same manner as the earnings on loans that we owned. Our managed results also reflected differences in accounting for the valuation of retained interests and the recognition of gains and losses on the sale of interest-only strips. Our managed results did not include the addition of an allowance for loan and lease losses for the loans underlying our off-balance sheet securitization trusts. The adoption on January 1, 2010 of the new consolidation accounting standards resulted in accounting for the loans in our securitization trusts in our reported financial statements in a manner similar to how we account for these loans on a managed basis. As a result, our total reported and managed basis presentations are generally comparable for periods beginning after January 1, 2010.

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.

Business Segment Reporting Methodology

The results of our business segments are intended to reflect each segment as if it were a stand-alone business. We have developed allocation methods for use in our internal management accounting and reporting process to assign certain managed balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment. These allocation methods include funds transfer pricing and various other internally-developed methodologies and assumptions management believes are appropriate to reflect the results of each business segment. Due to the integrated nature of our business segments, estimates and judgments have been made in allocating certain revenue and expense items. Transactions between segments are based on specific criteria or approximate third-party rates. We regularly assess the assumptions, methodologies and reporting classifications used for segment reporting, which may result in the implementation of refinements or changes in future periods.

Following is a description of the principles and methodologies used in preparing our business segment results.

- *Net interest income:* Interest income from loans held for investment and interest expense from deposits and other interest-bearing liabilities are reflected within each applicable business segment. Because funding and asset/liability management are managed centrally by our Corporate Treasury Group, net interest income for our business segments also includes the results of a funds transfer pricing process that is intended to allocate a cost of funds used or credit for funds provided to all business segment assets and liabilities, respectively, using a matched funding concept. Also, taxable-equivalent benefit of tax-exempt products is allocated to each business unit with a corresponding increase in income tax expense.
- *Non-interest income:* Non-interest fees and other revenue associated with loans or customers managed by each business segment and other direct revenues are accounted for within each business segment.
- *Provision for loan and lease losses:* The provisions for loan and lease losses are directly attributable to the business segment in which the loans are managed.
- *Non-interest expense:* Non-interest expenses directly managed and incurred by a business segment are accounted for within each business segment. We allocate certain non-interest expenses indirectly incurred by business segments, such as corporate support functions, to each business segment based on various factors, including the actual cost of the services from the service providers, the utilization of the services, the number of employees or other relevant factors.
- *Goodwill and other intangible assets:* Goodwill and other intangible assets are assigned to business segments based on the relative fair value of each segment. Intangible amortization is included in the results of the applicable segment.
- *Income taxes:* Income taxes are assessed for each business segment based on a standard tax rate with the residual tax expense or benefit to arrive at the consolidated effective tax rate included in the Other category.
- *Loans held for investment:* Loans are reported within each business segment based on product or customer type.
- *Deposits:* Deposits are reported within each business segment based on product or customer type.

Segment Results and Reconciliation

The following tables provide a summary of our business segment results for the years ended December 31, 2011, 2010 and 2009 and selected balance sheet data as of December 31, 2011 and 2010. Total consolidated assets are not allocated among our business segments in the information that is reviewed by our chief operating decision maker. The total of our business segment results and “Other” category, or “Total Managed,” differs from our total consolidated reported results. The impact of these differences is reflected in the “Reconciliation” category. The securitization adjustments remove the impact of presenting off-balance sheet securitized loans in our business segment results in the same manner as on-balance sheet loans to reconcile to our total consolidated reported results.

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.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

	Year Ended December 31, 2011						
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Other	Total Managed	Reconciliation[1]	Total Reported
Net interest income (expense)	$ 7,822	$ 4,236	$ 1,377	$ (694)	$12,741	$ 0	$12,741
Non-interest income (expense)	2,609	720	270	(61)	3,538	0	3,538
Total revenue	10,431	4,956	1,647	(755)	16,279	0	16,279
Provision for loan and lease losses	1,870	452	31	7	2,360	0	2,360
Non-interest expense:							
Core deposit intangible amortization	0	132	40	0	172	0	172
Other non-interest expense	5,035	3,112	749	264	9,160	0	9,160
Total non-interest expense	5,035	3,244	789	264	9,332	0	9,332
Income (loss) from continuing operations before income taxes	3,526	1,260	827	(1,026)	4,587	0	4,587
Income tax provision (benefit)	1,249	451	295	(661)	1,334	0	1,334
Income (loss) from continuing operations, net of tax	$ 2,277	$ 809	$ 532	$ (365)	$ 3,253	$ 0	$ 3,253

	Year Ended December 31, 2010						
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Other	Total Managed	Reconciliation[1]	Total Reported
Net interest income (expense)	$ 7,894	$ 3,727	$ 1,292	$(452)	$12,461	$ (4)	$12,457
Non-interest income (expense)	2,720	870	181	(55)	3,716	(2)	3,714
Total revenue	10,614	4,597	1,473	(507)	16,177	(6)	16,171
Provision for loan and lease losses	3,188	241	429	55	3,913	(6)	3,907
Non-interest expense:							
Core deposit intangible amortization	0	144	55	0	199	0	199
Other non-interest expense	3,951	2,806	741	237	7,735	0	7,735
Total non-interest expense	3,951	2,950	796	237	7,934	0	7,934
Income (loss) from continuing operations before income taxes	3,475	1,406	248	(799)	4,330	0	4,330
Income tax provision (benefit)	1,201	501	88	(510)	1,280	0	1,280
Income (loss) from continuing operations, net of tax	$ 2,274	$ 905	$ 160	$(289)	$ 3,050	$ 0	$ 3,050

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

	Year Ended December 31, 2009						
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Other	Total Managed	Reconciliation[1]	Total Reported
Net interest income	$ 7,542	$ 3,231	$ 1,144	$ 172	$12,089	$ (4,392)	$ 7,697
Non-interest income	3,747	755	172	73	4,747	539	5,286
Total revenue	11,289	3,986	1,316	245	16,836	(3,853)	12,983
Provision for loan and lease losses	6,051	876	983	173	8,083	(3,853)	4,230
Non-interest expense:							
Restructuring expense	0	0	0	119	119	0	119
Core deposit intangible amortization	0	169	43	0	212	0	212
Other non-interest expense	3,738	2,565	618	165	7,086	0	7,086
Total non-interest expense	3,738	2,734	661	284	7,417	0	7,417
Income (loss) from continuing operations before income taxes	1,500	376	(328)	(212)	1,336	0	1,336
Income tax provision (benefit)	522	132	(115)	(190)	349	0	349
Income (loss) from continuing operations, net of tax	$ 978	$ 244	$ (213)	$ (22)	$ 987	$ 0	$ 987

(1) Reflects the impact of adjustments to reconcile our total business segment results, which are presented on a managed basis, to our reported U.S. 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 U.S. 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 U.S. GAAP reporting purposes.

Business Segment Loans and Deposits

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

	December 31, 2011				
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Other	Total Reported
Loans held for investment	**$65,075**	**$ 36,315**	**$ 34,001**	**$ 501**	**$135,892**
Total deposits	**0**	**88,540**	**26,532**	**13,154**	**128,226**

	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 21—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 $1.9 billion at December 31, 2011. As of December 31, 2011, financial guarantees had expiration dates ranging from 2012 to 2021. The fair value of the guarantees outstanding which we included in our consolidated balance sheets in other liabilities was $4 million as of December 31, 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 seller. The maximum contingent payment amount related to our acquisitions totaled $330 million as of December 31, 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 $30 million in the second quarter of 2011, $60 million in the third quarter of 2011, and a reduction to expense of $(2) million in the fourth quarter of 2011. As such, we recognized a cumulative expense of $88 million in 2011 related to contingent payment arrangements. We had a liability for contingent payments related to these arrangements of $88 million as of December 31, 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.

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 2005 through 2008, for the three general categories of purchasers of mortgage loans and the outstanding principal balance as of December 31, 2011 and 2010:

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

	Unpaid Principal Balance December 31,		Original Unpaid Principal Balance				
(Dollars in billions)	**2011**	**2010**	**Total**	**2008**	**2007**	**2006**	**2005**
Government sponsored enterprises (“GSEs”)[1]	**$ 5**	$ 5	$ 11	$ 1	$ 4	$ 3	$ 3
Insured Securitizations	**6**	7	19	0	2	8	9
Uninsured Securitizations and Other	**30**	33	81	3	15	30	33
Total	**$ 41**	$ 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 $19 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 $6 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 $81 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 $50 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 $22 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. Various known and unknown investors purchased the remaining $9 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 $41 billion in unpaid principal balance remains outstanding as of December 31, 2011, approximately $15 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 $9 billion original principal balance of mortgage loans for which we do not have complete information about the current holders or the 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 $2.1 billion original principal balance of mortgage loans as of December 31, 2011, compared with $1.6 billion as of December 31, 2010. As of December 31, 2011, the majority of new repurchase demands received over the last year and, as discussed below, the majority of our $943 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.

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.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

Open Pipeline All Vintages (all entities)[1]

(Dollars in millions) (All amounts are Original Principal Balance)	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	**196**	**359**	**131**	**686**
Loans repurchased/made whole	**(67)**	**(14)**	**(16)**	**(97)**
Demands rescinded	**(85)**	**(6)**	**(30)**	**(121)**
Reclassifications[3]	**6**	**72**	**(78)**	**0**
Open claims as of December 31, 2011	**$176**	**$ 1,243**	**$ 672**	**$2,091**

(1) The open pipeline includes all repurchase requests ever received by our subsidiaries where either 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 the original principal balance amounts of the mortgage loans at issue 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.

(3) Represents adjustments to correct the counterparty category as of December 31, 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 GSEs and Insured Securitizations and a decrease in open claims attributable to Uninsured Securitizations and 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. 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.

For the $6 billion original principal balance of mortgage loans in the Inactive Insured Securitizations category and the $81 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 activity and repurchase rates 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 are currently suing investment banks and securitization sponsors under federal and/or state securities laws. 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 reserves for all three subsidiaries were $943 million as of December 31, 2011, as compared with $816 million as of December 31, 2010. We recorded a total provision for repurchase losses for our representation and warranty repurchase exposure of $212 million for the year ended December 31, 2011, primarily driven by increased repurchase activity from Uninsured Securitizations and other whole loan investors. During 2011, we had settlements of repurchase requests totaling $85 million that were charged against the reserve. The table below summarizes changes in our representation and warranty reserves for the years ended December 31, 2011 and 2010.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

The following table summarizes changes in our representation and warranty reserve for the full years of 2011 and 2010:

Changes in Representation and Warranty Reserves

(Dollars in millions)	Year Ended December 31, 2011	Year Ended December 31, 2010
Representation and warranty repurchase reserve, beginning of period[1]	**$ 816**	$ 238
Provision for repurchase losses[2]	**212**	636
Net realized losses	**(85)**	(58)
Representation and warranty repurchase reserve, end of period[1]	**$ 943**	$ 816

(1) Reported in our consolidated balance sheets as a component of other liabilities.
(2) The pre-tax portion of the provision for mortgage repurchase claims recognized in our consolidated statements of income as a component of non-interest income totaled $43 million and $204 million, for the years ended December 31, 2011 and 2010, 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 $169 million and $432 million, for the years ended December 31, 2011 and 2010, respectively.

As indicated in the table below, most of the reserves relate 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 Reserves

(Dollars in millions, except for loans sold)	Reserve Liability December 31, 2011	Reserve Liability December 31, 2010	Loans Sold 2005 to 2008[1]
GSEs and Active Insured Securitizations	**$ 778**	$ 796	$ 24
Inactive Insured Securitizations and Others	**165**	20	87
Total	**$ 943**	$ 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 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, the same level as we provided as of September 30, 2011 and an increase of $400 million from the estimate we provided as of December 31, 2010. 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 $50 million to $175 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 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, class certification and motions for summary judgment and are awaiting decisions from the court.

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, 2011 and 2010 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. On January 4, 2012, the Ninth Circuit Court of Appeals entered an additional order continuing the stay of the matter pending the bankruptcy proceedings.

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, which remains pending with the court.

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. In January, 2012, the West Virginia Attorney General dismissed all claims with prejudice for post-2005 conduct as part of a settlement agreement in which COBNA agreed to pay a non-material amount of money related to certain pre-2006 conduct.

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 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. In January 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, GreenPoint opposed the motion, and the court heard arguments on the motion in January 2012. 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 $849 million of losses have been realized and approximately $297 million in mortgage loans are still outstanding, of which approximately $37 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 $148 million of losses have been realized and approximately $47 million in mortgage loans are still outstanding, of which approximately $3 million are more than 90 days delinquent, including foreclosures and REO.

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.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

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.

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

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).

NOTE 22—SIGNIFICANT CONCENTRATION OF CREDIT RISK

We are active in originating loans in the United States and internationally. International loans are originated in Canada and the United Kingdom. We review each potential customer's credit application and evaluate the applicant's financial history and ability and willingness to repay. Loans are made on an unsecured and secured basis. Certain commercial, small business, home loans and auto loans require collateral in various forms including cash deposits, auto and real estate, as appropriate. We have higher concentrations of loans where the Commercial and Consumer Banking segments operate, the South and Northeast regions of the U.S. In particular, our commercial portfolio is concentrated in the New York metropolitan area. The regional economic conditions in the New York area affect the demand for our commercial products and services as well as the ability of our customers to repay their commercial loans and the value of the collateral securing these loans.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

The following table presents the geographic distribution of our loan portfolio:

	December 31,			
	2011		2010	
(Dollars in millions)	Loans	Percentage of Total	Loans	Percentage of Total
Geographic Region:				
International				
U.K.	**$ 3,828**	**2.8%**	$ 4,102	3.3%
Canada	**4,638**	**3.4**	3,420	2.7
Total International	**8,466**	**6.2**	7,522	6.0
Domestic[1]				
South	**51,113**	**37.7**	45,811	36.3
West	**20,277**	**14.9**	19,690	15.6
Midwest	**18,408**	**13.5**	16,562	13.2
Northeast	**37,628**	**27.7**	36,362	28.9
Total Domestic	**127,426**	**93.8**	118,425	94.0
Total	**$135,892**	**100.0%**	$125,947	100.0%

(1) South consists of AL, AR, DC, DE, FL, GA, KY, LA, MD, MS, NC, OK, SC, TN, TX, VA and WV. West consists of AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA and WY. Midwest consists of IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD and WI. Northeast consists of CT, ME, MA, NH, NJ, NY, PA, RI and VT.

NOTE 23—CAPITAL ONE FINANCIAL CORPORATION (PARENT COMPANY ONLY)

Condensed Financial Information

The following Parent Company Only financial statements are provided in accordance with Regulation S-X of the Securities and Exchange Commission which requires all issuers or guarantors of registered securities to include separate annual financial statements.

(Dollars in millions)	December 31, 2011	December 31, 2010
Balance Sheets		
Assets:		
Cash and cash equivalents	**$ 9,351**	$ 5,482
Investment in subsidiaries	**33,113**	31,368
Loans to subsidiaries	**337**	336
Securities available for sale	**56**	7
Other	**1,317**	1,144
Total assets	**44,174**	38,337
Liabilities:		
Senior and subordinated notes	**8,467**	6,223
Other borrowings	**4,481**	4,030
Other	**1,560**	1,543
Total liabilities	**14,508**	11,796
Stockholders' Equity:		
Common stock	**5**	5
Paid-in-capital, net	**19,274**	19,084
Retained earnings	**13,462**	10,406
Accumulated other comprehensive income	**169**	248
Less: Treasury stock, at cost	**(3,244)**	(3,202)
Stockholders' equity	**29,666**	26,541
Total liabilities and stockholders' equity	**$44,174**	$38,337

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

(Dollars in millions)	Year Ended December 31, 2011	2010	2009
Statements of Income			
Interest from temporary investments	**$ 26**	$ 27	$ 37
Interest expense	**515**	479	336
Dividends, principally from bank subsidiaries	**1,950**	1,200	500
Non-interest income	**29**	35	32
Non-interest expense	**361**	273	90
Income before income taxes and equity in undistributed earnings of subsidiaries	**1,129**	510	143
Income tax benefit	**(247)**	(221)	(109)
Equity in undistributed earnings of subsidiaries	**1,877**	2,319	735
Income from continuing operations, net of tax	**3,253**	3,050	987
Loss from discontinued operations, net of tax	**(106)**	(307)	(103)
Net income	**3,147**	2,743	884
Preferred stock dividends, accretion of discount and other	**(26)**	0	(564)
Net income available to common stockholders	**$3,121**	$2,743	$ 320

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED STATEMENTS—(Continued)

(Dollars in millions)	December 31, 2011	2010	2009
Statements of Cash Flows			
Operating Activities:			
Net income	**$ 3,147**	$ 2,743	$ 884
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in (earnings) loss of subsidiaries:			
Continuing operations	**(1,877)**	(2,319)	(735)
Discontinued operations	**106**	307	103
Amortization expense	**(2)**	0	0
Stock plan compensation expense	**57**	3	(6)
Increase in other assets	**(65)**	(3,261)	(115)
Increase (decrease) in other liabilities	**18**	543	(399)
Net cash (used in) provided by operating activities	**1,384**	(1,984)	(268)
Investing Activities:			
Decrease (increase) in investment in subsidiaries	**(46)**	433	(2,250)
Purchase of securities available for sale	**(54)**	0	0
(Increase) decrease in loans to subsidiaries	**(1)**	164	689
Net payment for companies acquired	**0**	0	31
Net cash provided by (used in) investing activities	**(101)**	597	(1,530)
Financing Activities:			
Increase in borrowings from subsidiaries	**450**	390	1,988
Issuance of senior notes	**0**	0	995
Maturities of senior notes	**2,992**	0	(1,030)
Repurchase of senior notes	**(855)**	0	0
Dividends paid	**(91)**	(91)	(319)
Purchases of treasury stock	**(42)**	(22)	(14)
Net proceeds from issuances of common stock	**39**	30	1,536
Proceeds from stock-based payment activities	**93**	96	116
Net proceeds from issuance/redemption of preferred stock and warrants	**0**	0	(3,555)
Net cash (used in) provided by financing activities	**2,586**	403	(283)
(Decrease) increase in cash and cash equivalents	**3,869**	(984)	(2,081)
Cash and cash equivalents at beginning of year	**5,482**	6,466	8,547
Cash and cash equivalents at end of year	**$ 9,351**	$ 5,482	$ 6,466

NOTE 24—INTERNATIONAL OPERATIONS

Our international activities are primarily performed through Capital One (Europe) plc, a subsidiary of COBNA that provides consumer lending in the UK, and Capital One Bank—Canada Branch, a foreign branch office of COBNA that provides consumer lending products in Canada. The total assets, revenue, income before income taxes and net income of the international operations are summarized below.

	December 31,		
(Dollars in millions)	2011	2010	2009
International			
Total assets	**$ 9,289**	$ 8,171	$ 3,806
Revenue[1]	**1,346**	1,355	701
Income (loss) before income taxes	**(89)**	526	105
Income tax provision	**(38)**	150	28
Net income (loss)	**$ (51)**	$ 376	$ 77
Domestic			
Total assets	**$196,730**	$189,332	$165,840
Revenue[1]	**14,933**	14,816	12,282
Income from continuing operations before income taxes	**4,676**	3,804	1,231
Income tax provision	**1,372**	1,130	321
Income from continuing operations, net of tax	**3,304**	2,674	910
Loss from discontinued operations, net of tax	**(106)**	(307)	(103)
Net income	**$ 3,198**	$ 2,367	$ 807
Total Operations			
Total assets	**$206,019**	$197,503	$169,646
Revenue[1]	**16,279**	16,171	12,983
Income from continuing operations before income taxes	**4,587**	4,330	1,336
Income tax provision	**1,334**	1,280	349
Income from continuing operations, net of tax	**3,253**	3,050	987
Loss from discontinued operations, net of tax	**(106)**	(307)	(103)
Net income	**3,147**	2,743	884
Preferred stock dividends, accretion of discount and other	**(26)**	0	(564)
Net income available to common stockholders	**$ 3,121**	$ 2,743	$ 320

(1) Revenue is net interest income plus non-interest income.

We maintain our books and records on a legal entity basis for the preparation of financial statements in conformity with U.S. GAAP. Because certain international operations are integrated with many of our domestic operations, estimates and assumptions have been made to assign certain expense items between domestic and foreign operations.

NOTE 25—RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may have loans issued to our executive officers, directors, and principal stockholders, also known as Regulation O Insiders. Pursuant to our policy, such loans are issued on the same terms as those prevailing at the time for comparable loans to unrelated persons and do not involve more than the normal risk of collectability.

NOTE 26—SUBSEQUENT EVENTS

ING Direct

On June 16, 2011, we entered into a purchase and sale agreement with ING Groep N.V., ING Bank N.V., ING Direct N.V., ING Direct Bancorp (collectively, the "ING Sellers"), under which we would acquire substantially all of the ING Sellers ING Direct business in the United States ("ING Direct"). On February 17, 2012, we closed the acquisition of ING Direct, which included (i) the acquisition of all the equity interests of ING Bank, fsb, (ii) the acquisition of all the equity interests of each of WS Realty, LLC and ING Direct Community Development LLC and (iii) the acquisition of certain other assets and the assumption of certain other liabilities of ING Direct Bancorp. Headquartered in Wilmington, Delaware, ING Direct is the largest direct bank in the United States. With the closing of the transaction, we add over seven million customers and $83.0 billion in deposits to become the sixth largest depository institution and the leading direct bank in the United States.

In exchange for the equity interests and assets and liabilities associated with ING Direct, we transferred consideration of 54,028,086 shares of Capital One common stock with a fair value of approximately $2.6 billion as of February 17, 2012 and approximately $6.3 billion in cash to the ING Sellers. In the third quarter of 2011, we closed a public underwritten offering of 40 million shares of our common stock, subject to forward sale agreements. We settled 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 on February 16, 2012. Direct costs related to the equity offering of $73 million were deferred and offset against the net proceeds at settlement. In the third quarter of 2011, we also closed a public offering of four different series of senior notes for total cash proceeds of $3.0 billion. The net proceeds from the equity and debt offerings along with cash from current liquidity sources were used to fund the cash component of the purchase price.

Because we closed the ING Direct transaction subsequent to December 31, 2011, the results for ING Direct are not reflected in our consolidated financial statements for 2011. The ING Direct transaction will be accounted for using the acquisition method of accounting, which requires, among other things, that we allocate the purchase price to the assets acquired and liabilities assumed based on their fair values as of the acquisition date. Given the limited time between the acquisition date and the issuance of our consolidated financial statements for 2011, the allocation of the purchase price of ING Direct based on the fair value of assets acquired and liabilities assumed as of February 17, 2012 has not yet been completed. We are in the process of assembling and assessing information to assist us in determining the required fair value measures at acquisition. We expect to substantially complete the initial accounting for ING Direct, including the purchase price allocation, later in the first quarter of 2012. We will begin reporting the results of ING Direct for the period from the date of acquisition in our consolidated financial statements in the first quarter of 2012. We also will provide the following additional information, which is currently not available to us, in our first quarter 2012 consolidated financial statements:

- Comparative consolidated pro forma revenue and net income results as if the acquisition of ING Direct had occurred as of January 1, 2011.

- The fair value, gross contractually required payments, best estimate as of the acquisition date of the required payments that are not expected to be collected, and other information related to acquired loans.
- The amounts recorded at acquisition for each major class of assets acquired and liabilities assumed.
- The nature, amounts recognized and measurement basis of assets and liabilities arising from contingencies recognized at acquisition.
- Qualitative and quantitative information related to any goodwill or bargain purchase gain recorded at acquisition.

Sale of Visa Shares

In January 2012, we sold our 4,030,842 Class B shares of Visa Inc. common stock to another financial institution for approximately $189 million. We expect to recognize a pre-tax gain of approximately $138 million on the sale of the Class B shares during the quarter ending March 31, 2012. Visa's Class B shares are subject to certain transfer restrictions prior to the settlement of covered litigation involving Visa, MasterCard International and several member banks including Capital One. Upon the lifting of the transfer restrictions, the Class B shares convert into Class A shares based on a conversion ratio calculated by Visa.

In conjunction with the sale of the Class B shares, we entered into a derivative agreement under which, among other things, we will make cash payments to the buyer whenever the conversion ratio of the Class B shares into Class A shares is reduced, and the buyer will make cash payments to us for any increase in the conversion ratio. We determined that the initial fair value of this derivative was a liability of $51 million which represents an estimate of the exposure liability from probable litigation losses, and is factored into the calculation of the pre-tax gain. A fair degree of subjectivity is used in estimating the fair value of the derivative liability, as such, our eventual cost could be significantly higher or lower than the current estimate.

CAPITAL ONE FINANCIAL CORPORATION
Selected Quarterly Financial Information[1] [2]

	2011				2010			
(Dollars in millions)(Unaudited)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter[3]	Second Quarter[3]	First Quarter[3]
Summary of results of operations:								
Interest income	**$ 3,701**	**$ 3,835**	**$ 3,699**	**$ 3,752**	$ 3,674	$ 3,815	$ 3,835	$ 4,029
Interest expense	**519**	**552**	**563**	**612**	651	706	738	801
Net interest income	**3,182**	**3,283**	**3,136**	**3,140**	3,023	3,109	3,097	3,228
Provision for loan and lease losses	**861**	**622**	**343**	**534**	838	867	723	1,478
Net interest income after provision for loan and lease losses	**2,321**	**2,661**	**2,793**	**2,606**	2,185	2,242	2,374	1,750
Non-interest income	**868**	**871**	**857**	**942**	939	907	807	1,061
Non-interest expense	**2,618**	**2,297**	**2,255**	**2,162**	2,091	1,996	2,000	1,847
Income from continuing operations before income taxes	**571**	**1,235**	**1,395**	**1,386**	1,032	1,153	1,181	964
Income taxes	**160**	**370**	**450**	**354**	332	335	369	244
Income from continuing operations, net of tax	**411**	**865**	**945**	**1,032**	701	818	812	720
Loss from discontinued operations, net of tax[2]	**(4)**	**(52)**	**(34)**	**(16)**	(4)	(15)	(204)	(84)
Net income	**407**	**813**	**911**	**1,016**	697	803	608	636
Preferred stock dividends, accretion of discount and other	**(26)**	**0**	**0**	**0**	0	0	0	0
Net income available to common stockholders	**$ 381**	**$ 813**	**$ 911**	**$ 1,016**	$ 697	$ 803	$ 608	$ 636
Per common share:								
Basic EPS:								
Income from continuing operations	**$ 0.89**	**$ 1.89**	**$ 2.07**	**$ 2.27**	$ 1.55	$ 1.81	$ 1.79	$ 1.59
Loss from discontinued operations	**(0.01)**	**(0.11)**	**(0.07)**	**(0.03)**	(0.01)	(0.03)	(0.45)	(0.18)
Net income	**0.88**	**1.78**	**2.00**	**2.24**	1.54	1.78	1.34	1.41
Diluted EPS:								
Income from continuing operations	**0.89**	**1.88**	**2.04**	**2.24**	1.53	1.79	1.78	1.58
Loss from discontinued operations	**(0.01)**	**(0.11)**	**(0.07)**	**(0.03)**	(0.01)	(0.03)	(0.45)	(0.18)
Net income	**$ 0.88**	**$ 1.77**	**$ 1.97**	**$ 2.21**	$ 1.52	$ 1.76	$ 1.33	$ 1.40
Average common shares (millions)	**456**	**456**	**456**	**454**	453	453	452	451
Average common shares and common equivalent shares (millions)	**459**	**460**	**462**	**460**	457	457	456	455
Average balance sheet data:								
Loans held for investment	**$ 131,581**	**$ 129,043**	**$ 127,916**	**$ 125,077**	$ 125,441	$ 126,307	$ 128,203	$ 134,206
Total assets	**200,106**	**201,611**	**199,229**	**198,075**	197,704	196,598	199,357	207,232
Interest-bearing deposits	**109,914**	**110,750**	**109,251**	**108,633**	106,597	104,186	104,163	104,018
Total deposits	**128,450**	**128,268**	**125,834**	**124,158**	121,736	118,255	118,484	117,530
Stockholders' equity	**$ 29,698**	**$ 29,316**	**$ 28,255**	**$ 27,009**	$ 26,255	$ 25,307	$ 24,526	$ 23,681

(1) The above schedule is a tabulation of our unaudited quarterly results for the years ended December 31, 2011 and 2010. Our common shares are traded on the New York Stock Exchange under the symbol COF. In addition, shares may be traded in the over-the-counter stock market. There were 15,286 and 14,981 common stockholders of record as of December 31, 2011 and 2010, respectively.

(2) Certain prior period amounts have been reclassified to conform to the current period presentation.

(3) Results and balances have been recast to reflect the impact of purchase accounting adjustments from the Chevy Chase Bank acquisition as if those adjustments had been recorded at the acquisition date.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Disclosure Controls and Procedures

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

(b) Management's Report on Internal Control Over Financial Reporting

The Report of Management on Internal Control over Financial Reporting is included in "Item 8. Financial Statements and Supplementary Data" and is incorporated herein by reference. The Report of Independent Registered Public Accounting Firm with respect to our internal control over financial reporting also is included in Item 8 and incorporated herein by reference.

(c) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended December 31, 2011, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 will be included in the Company's 2011 Proxy Statement (the "Proxy Statement") under the headings "Governance of Capital One" and "Section 16(a) Beneficial Ownership Reporting Compliance," and is incorporated herein by reference. The Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the Company's 2011 fiscal year.

Item 11. Executive Compensation

The information required by Item 11 will be included in the Proxy Statement under the headings "Director Compensation," " Compensation Discussion and Analysis," "Named Executive Officer Compensation," "Compensation Committee Interlocks and Insider Participation" and "Compensation Committee Report," and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 will be included in the Proxy Statement under the headings "Security Ownership" and "Equity Compensation Plan Information," and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 will be included in the Proxy Statement under the headings "Related Person Transactions" and "Director Independence," and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by Item 14 will be included in the Proxy Statement under the heading "Ratification of Selection of Independent Auditors," and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statement Schedules

The following documents are filed as part of this report:

(1) Financial Statements:

Consolidated Statement of Income for the Years Ended December 31, 2011, 2010 and 2009

Consolidated Balance Sheet as of December 31, 2011 and 2010

Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 2011, 2010 and 2009

Consolidated Statement of Cash Flows for the Years Ended December 31, 2011, 2010 and 2009

Notes to Consolidated Financial Statements

Selected Quarterly Data

Management's Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

(2) Schedules:

None

(b) Exhibits

An index to exhibits has been filed as part of this report beginning on page 236 and is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAPITAL ONE FINANCIAL CORPORATION

Date: February 28, 2012

By: /s/ RICHARD D. FAIRBANK
Richard D. Fairbank
Chairman of the Board, Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RICHARD D. FAIRBANK Richard D. Fairbank	Chairman, Chief Executive Officer and President (Principal Executive Officer)	February 28, 2012
/s/ GARY L. PERLIN Gary L. Perlin	Chief Financial Officer (Principal Financial Officer)	February 28, 2012
/s/ R. Scott Blackley R. Scott Blackley	Controller (Principal Accounting Officer)	February 28, 2012
/s/ E.R. CAMPBELL E.R. Campbell	Director	February 28, 2012
/s/ W. RONALD DIETZ W. Ronald Dietz	Director	February 28, 2012
/s/ PATRICK W. GROSS Patrick W. Gross	Director	February 28, 2012
/s/ ANN F. HACKETT Ann F. Hackett	Director	February 28, 2012
/s/ LEWIS HAY, III Lewis Hay, III	Director	February 28, 2012
/s/ PIERRE E. LEROY Pierre E. Leroy	Director	February 28, 2012
/s/ MAYO A. SHATTUCK III Mayo A. Shattuck III	Director	February 28, 2012
/s/ Peter E. Raskind Peter E. Raskind	Director	February 28, 2012
/s/ BRADFORD H. WARNER Bradford H. Warner	Director	February 28, 2012

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EXHIBIT INDEX
CAPITAL ONE FINANCIAL CORPORATION
ANNUAL REPORT ON FORM 10-K
DATED DECEMBER 31, 2011
Commission File No. 1-13300

The following exhibits are incorporated by reference or filed herewith. References to (i) the "2002 Form 10-K" are to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2002, filed on March 17, 2003; (ii) the "2003 Form 10-K" are to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 5, 2004; (iii) the "2004 Form 10-K" are to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004, filed on March 9, 2005; (iv) the "2005 Form 10-K" are to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, filed on March 2, 2006, as amended on April 12, 2006; (v) the "2006 Form 10-K" are to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006, filed on March 1, 2007; (vi) the "2007 Form 10-K" are to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2007, filed on February 29, 2008; (vii) the "2008 Form 10-K" are to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008, filed on February 26, 2009; (viii) the "2009 Form 10-K" are to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2009, filed on February 26, 2010; (ix) the "2010 Form 10-K" are to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2010, filed on March 1, 2011, as amended on March 7, 2011.

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 Employee's Profit Sharing and Retirement Trust (incorporated by reference to Exhibit 2.4 of the Corporation's 2008 Form 10-K).
2.2.1	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 Corporation's Current Report on Form-8-K, filed on June 22, 2011).
2.2.2*	First Amendment to the Purchase and Sale Agreement by and among Capital One Financial Corporation, ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp, dated as of February 17, 2012.
2.3	Purchase and Assumption Agreement, dated as of August 10, 2011, by and among Capital One Financial Corporation, HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc. (incorporated by reference to Exhibit 2.1 of the Corporation's Current 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 Corporation's Current 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 3.2 of the Corporation's Current Report on Form 8-K, filed on May 17, 2011).
4.1.1	Specimen certificate representing the common stock of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation's 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 Corporation's Form 8-A filed on December 4, 2009).

Exhibit No.	Description
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 Corporation's Report on Form 8-K, filed on November 13, 1996).
4.2.2	Copy of 6.25% Notes, due 2013, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.5 of the 2003 Form 10-K).
4.2.3	Copy of 5.25% Notes, due 2017, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.6 of the 2004 Form 10-K).
4.2.4	Copy of 4.80% Notes, due 2012, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.7 of the 2004 Form 10-K).
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 Corporation's Quarterly Report on Form 10-Q for the period ending June 30, 2005).
4.2.6	Specimen of 6.750% Senior Note, due 2017, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation's Report on Form 8-K, filed on September 5, 2007).
4.2.7	Specimen of 7.375% Senior Note, due 2014, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation'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 Corporation's Current 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 Corporation's Current 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 Corporation's Current 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 Corporation's Current 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 Corporation's Current Report on Form 8-K, filed on June 12, 2006).
4.4.1	First Supplemental Indenture, dated as of June 6, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K, filed on June 12, 2006).
4.4.2	Amended and Restated Declaration of Trust of Capital One Capital II, dated as of June 6, 2006, between Capital One Financial Corporation as Sponsor, The Bank of New York 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 Corporation's Current Report on Form 8-K, filed on June 12, 2006).
4.4.3	Guarantee Agreement, dated as of June 6, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Corporation's Current Report on Form 8-K, filed on June 12, 2006).

Exhibit No.	Description
4.4.4	Specimen certificate representing the Enhanced TRUPS (incorporated by reference to Exhibit 4.5 of the Corporation's Current Report on Form 8-K, filed on June 12, 2006).
4.4.5	Specimen certificate representing the Junior Subordinated Debt Security (incorporated by reference to Exhibit 4.6 of the Corporation's Current Report on Form 8-K, filed on June 12, 2006).
4.5.1	Second Supplemental Indenture, dated as of August 1, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K, filed on August 4, 2006).
4.5.2	Copy of Junior Subordinated Debt Security Certificate (incorporated by reference to Exhibit 4.6 of the Corporation's Current Report on Form 8-K, filed on August 4, 2006).
4.5.3	Amended and Restated Declaration of Trust of Capital One Capital III, dated as of August 1, 2006, between Capital One Financial Corporation, as Sponsor, The Bank of New York 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 Corporation's Current Report on Form 8-K, filed on August 4, 2006).
4.5.4	Guarantee Agreement, dated as of August 1, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Corporation's Current Report on Form 8-K, filed on August 4, 2006).
4.5.5	Copy of Capital Security Certificate (incorporated by reference to Exhibit 4.5 of the Corporation's Current Report on Form 8-K, filed on August 4, 2006).
4.6.1	Third Supplemental Indenture, dated as of February 5, 2007, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K, filed on February 8, 2007).
4.6.2	Amended and Restated Declaration of Trust of Capital One Capital IV, dated as of February 5, 2007, between Capital One Financial Corporation as Sponsor, The Bank of New York 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 Corporation'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 Corporation's Current Report on Form 8-K, filed on February 8, 2007).
4.6.4	Specimen certificate representing the Capital Security (incorporated by reference to Exhibit 4.5 of the Corporation's Current Report on Form 8-K, filed on February 8, 2007).
4.6.5	Specimen certificate representing the Capital Efficient Note (incorporated by reference to Exhibit 4.6 of the Corporation's Current Report on Form 8-K, filed on February 8, 2007).
4.7.1	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 Corporation'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 Corporation's Current Report on Form 8-K, filed on August 6, 2009).

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Exhibit No.	Description
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 Corporation's Current Report on Form 8-K, filed on August 6, 2009).
4.7.4	Specimen Trust Preferred Security Certificate (incorporated by reference to Exhibit 4.5 of the Corporation's Current Report on Form 8-K, filed on August 6, 2009).
4.7.5	Specimen Junior Subordinated Debt Security (incorporated by reference to Exhibit 4.6 of the Corporation'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 Corporation'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 Corporation's Current Report on Form 8-K, filed on November 13, 2009).
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 Corporation's Current Report on Form 8-K, filed on November 13, 2009).
4.8.4	Specimen Trust Preferred Security Certificate (incorporated by reference to Exhibit 4.5 of the Corporation's Current Report on Form 8-K, filed on November 13, 2009).
4.8.5	Specimen Junior Subordinated Debt Security (incorporated by reference to Exhibit 4.6 of the Corporation'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 Corporation's Current Report on Form 8-K, filed on August 31, 2006).
4.9.2	Copy of Subordinated Note Certificate (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K, filed on August 31, 2006).
10.1.1	Capital One Financial Corporation 1994 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.7 of the 2002 Form 10-K).
10.1.2	Capital One Financial Corporation 1999 Stock Incentive Plan (incorporated by reference to Exhibit 4 of the Corporation's Registration Statement on Form S-8, Commission File No. 333-78609, filed on May 17, 1999).
10.1.3	Capital One Financial Corporation, 2004 Stock Incentive Plan (incorporated herein by reference to Exhibit 4.1 of the Corporation's Registration Statement on Form S-8, Commission File No. 333-117920, filed on August 4, 2004).
10.1.4	Amended and Restated 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 of the Corporation's Current Report on Form 8-K, filed on May 3, 2006).
10.1.5	Second Amended and Restated 2004 Stock Incentive Plan (incorporated herein by reference to the Company's Proxy Statement on Definitive Schedule 14A, filed on March 13, 2009).
10.2.1	Form of Nonstatutory Stock Option Agreement between Capital One Financial Corporation and Richard D. Fairbank under the Company's 2004 Stock Incentive Plan (incorporated by reference to Exhibit 99.1 of the Corporation's Report on Form 8-K, filed on December 23, 2005).

Exhibit No.	Description
10.2.2	Form of Nonstatutory Stock Option Agreement between Capital One Financial Corporation and Richard D. Fairbank under the Company's 2004 Stock Incentive Plan (incorporated by reference to Exhibit 99.1 of the Corporation's Report on Form 8-K, filed December 23, 2004).
10.2.3	Form of Restricted Stock Award Agreement between Capital One Financial Corporation and certain of its executives or associates under the Company's 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.20.2 of the 2004 Form 10-K).
10.2.4	Form of Nonstatutory Stock Option Agreement between Capital One Financial Corporation and certain of its executives under the Company's 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.20.3 of the 2004 Form 10-K).
10.2.5	Restricted Stock Unit Award Agreement, dated May 17, 2004, by and between Capital One Financial Corporation and Richard D. Fairbank (incorporated by reference to Exhibit 10.1 of the Corporation's quarterly report on Form 10-Q for the period ending September 30, 2004).
10.2.6	Form of Performance Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the 2004 Stock Incentive Plan on January 26, 2011 (incorporated by reference to Exhibit 10.16 of the 2010 Form 10-K).
10.2.7	Form of Restricted Stock Unit Award Agreements granted to our executive officers, including the Chief Executive Officer, under the 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.17 of the 2010 Form 10-K).
10.2.8	Form of Nonstatutory Stock Option Award Agreements granted to our executive officers, including the Chief Executive Officer, under the 2004 Stock Incentive Plan on January 26, 2011 (incorporated by reference to Exhibit 10.18 of the 2010 Form 10-K).
10.2.9	Form of Restricted Stock Award Agreements granted to our executive officers under the 2004 Stock Incentive Plan on January 26, 2011 (incorporated by reference to Exhibit 10.19 of the 2010 Form 10-K).
10.2.10*	Form of Nonstatutory Stock Option Award Agreements granted to our executive officers, including our Chief Executive Officer, under the 2004 Stock Incentive Plan on January 31, 2012.
10.2.11*	Form of Performance Unit Award Agreements granted to our executive officers, including our Chief Executive Officer, under the 2004 Stock Incentive Plan on January 31, 2012.
10.2.12*	Form of Restricted Stock Unit Award Agreements granted to our executive officers, including our Chief Executive Officer, under the 2004 Stock Incentive Plan on January 31, 2012.
10.2.13*	Form of Restricted Stock Award Agreements granted to our executive officers under the 2004 Stock Incentive Plan on January 31, 2012.
10.3.1	Capital One Financial Corporation 1999 Non-Employee Directors Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.4 of the 2002 Form 10-K).
10.3.2	Form of 1999 Non-Employee Directors Stock Incentive Plan Nonstatutory Stock Option Agreement between Capital One Financial Corporation and certain of its Directors (incorporated by reference to Exhibit 10.2 of the Corporation's quarterly report on Form 10-Q for the period ending September 30, 2004).
10.3.3	Form of 1999 Non-Employee Directors Stock Incentive Plan Deferred Share Units Award Agreement between Capital One Financial Corporation and certain of its Directors (incorporated by reference to Exhibit 10.3 of the Corporation's quarterly report on Form 10-Q for the period ending September 30, 2004).
10.3.4*	Form of Restricted Stock Unit Award Agreement granted to our directors under the 2004 Stock Incentive Plan.

Exhibit No.	Description
10.3.5*	Form of Stock Option Award Agreement granted to our directors under the 2004 Stock Incentive Plan.
10.4*	Amended and Restated Capital One Financial Corporation Executive Severance Plan.
10.5*	Capital One Financial Corporation Non-Employee Directors Deferred Compensation Plan.
10.6*	Amended and Restated Capital One Financial Corporation Voluntary Non-Qualified Deferred Compensation Plan.
10.7	2002 Non-Executive Officer Stock Incentive Plan (incorporated herein by reference to Exhibit 10.3 of the Corporation's Registration Statement on Form S-8, Commission File No. 333-97123, filed on July 25, 2002).
10.8.1	Form of Change of Control Employment Agreement between Capital One Financial Corporation and Richard D. Fairbank (incorporated by reference to Exhibit 10.1 of the Corporation's Report on Form 8-K, filed on October 30, 2007).
10.8.2*	Form of Change of Control Employment Agreement between Capital One Financial Corporation and each of its named executive officers, other than our Chief Executive Officer.
10.9.1	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).
10.9.2*	Amendment Agreement Number 1 to the Forward Sale Agreement between Capital One Financial Corporation and Barclays Capital Inc., dated November 1, 2011.
10.9.3*	Amendment Agreement Number 2 to the Forward Sale Agreement between Capital One Financial Corporation and Barclays Capital Inc., dated November 18, 2011.
10.10.1	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).
10.10.2*	Amendment Agreement Number 1 to the Forward Sale Agreement between Capital One Financial Corporation and Morgan Stanley & Co. LLP., dated November 1, 2011.
10.10.3*	Amendment Agreement Number 2 to the Forward Sale Agreement between Capital One Financial Corporation and Morgan Stanley & Co. LLP., dated November 18, 2011.
10.11*	Special Separation Agreement and Release by and between Capital One Financial Corporation and Lynn A. Carter, dated as of December 30, 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.
21*	Subsidiaries of the Company.
23*	Consent of Ernst & Young LLP.
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
99.1*	Reconciliation of Non-GAAP Measures and Regulatory Capital Measures.

Exhibit No.	Description
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 Extension Presentation Linkbase Document

* Indicates a document being filed with this Form 10-K.
** Information in this Form 10-K 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.

**FIRST AMENDMENT TO THE
PURCHASE AND SALE AGREEMENT**

This FIRST AMENDMENT TO THE PURCHASE AND SALE AGREEMENT (the "Amendment"), dated as of February 17, 2012, is entered into by and among ING Groep N.V., a *naamloze vennootschap* formed under the laws of The Netherlands ("Group"), ING Bank N.V., a *naamloze vennootschap* formed under the laws of The Netherlands ("Non-US Bank"), ING Direct N.V., a *naamloze vennootschap* formed under the laws of The Netherlands ("Non-US HoldCo"), ING Direct Bancorp, a corporation incorporated under the laws of Delaware ("US HoldCo", and together with Group, Non-US Bank and Non-US HoldCo, the "Sellers"), and Capital One Financial Corporation, a corporation incorporated under the laws of Delaware ("Purchaser" and, together with the Sellers, the "Parties").

WHEREAS, the Parties are parties to that certain Purchase and Sale Agreement, dated as of June 16, 2011 (the "Purchase Agreement"); and

WHEREAS, the Parties desire to amend the Purchase Agreement and make certain related agreements and acknowledgements, in each case as set forth herein.

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

Section 1. Definitions. Unless otherwise defined herein, all capitalized terms used in this Amendment shall have the meanings ascribed to them in the Purchase Agreement.

Section 2. Certain Amendments to the Purchase Agreement.

(a) The following paragraph shall be added as a new Section 2.03:

2.03. Contributions from US HoldCo

Immediately prior to the Closing and as further consideration to the Bank for taking certain actions in connection with the transactions contemplated by this Agreement and notwithstanding anything to the contrary in Sections 4.01 and 4.02 of this Agreement:

(i) US HoldCo will contribute, transfer, assign, set over and deliver unto the Bank $126,805,585 (the "US HoldCo Balance") as a contribution to capital; and

(ii) US HoldCo will forgive an amount of $1,905,000 to Realty and its subsidiaries, which constitutes the amount owed by Realty and its subsidiaries to US HoldCo, as of the Closing Date as a contribution to capital.

Notwithstanding anything to the contrary in this Agreement, except as expressly provided in this Section 2.03, the Sellers shall have no obligation to make any further capital contributions or transfers to the Bank.

(b) The following shall be added as a new sentence to the end of Section 3.01(d):

> After cooperating in good faith and notwithstanding any other provisions in this Agreement, including any representation or warranty, the Sellers and Purchaser have agreed that the Closing IABF Adjustment shall be negative $201,563,430 which results in a Positive IABF Adjustment Factor of $21,436,570.

(c) Section 5.02(k)(ii) shall be deleted in its entirety and shall be of no further force and effect.

(d) Schedule 2.01(a) shall be amended in its entirety to read as set forth in the attached Schedule 2.01(a).

Section 3. Effect of Amendment; Miscellaneous.

(a) This Amendment shall not constitute an amendment or waiver of any provision of the Purchase Agreement except as expressly stated herein. Except as expressly amended hereby, the provisions of the Purchase Agreement shall remain unchanged and shall continue to be, and shall remain, in full force and effect in accordance with its terms.

(b) On and after the date hereof, each reference in the Purchase Agreement to “this Agreement,” “hereunder,” “hereof,” “herein” or words of similar import shall be deemed a reference to the Purchase Agreement, as amended hereby, provided that the references to the date of the Purchase Agreement will continue to refer to the original execution date of the Purchase Agreement.

(c) The provisions of Article X of the Purchase Agreement shall apply to this Amendment mutatis mutandis.

[*The Remainder of This Page Is Intentionally Left Blank*]

IN WITNESS WHEREOF, the parties hereto have executed or have caused this Amendment to be duly executed in counterparts all as of the day and year first above written.

ING GROEP N.V.

By: /s/ Erik Hammerstein
Name: Erik Hammerstein
Title: Authorized Signatory

By: /s/ Brendan O'Connor
Name: Brendan O'Connor
Title: Authorized Signatory

ING BANK N.V.

By: /s/ C.P.A.J. Leenaars
Name: C.P.A.J. Leenaars
Title: Executive Board Member

By: /s/ Brendan O'Connor
Name: Brendan O'Connor
Title: Authorized Signatory

ING DIRECT N.V.

By: /s/ Lars Kramer
Name: Lars Kramer
Title: Chief Financial Officer

By: /s/ C.P.A.J. Leenaars
Name: C.P.A.J. Leenaars
Title: Chief Executive Officer

ING DIRECT BANCORP

By: /s/ Arkadi Kuhlmann
Name: Arkadi Kuhlmann
Title: President and Chief Executive Officer

CAPITAL ONE FINANCIAL CORPORATION

By: /s/ Murray P. Abrams

Name: Murray P. Abrams

Title: Executive Vice President, Corporate Development

(Signature Page to the First Amendment to the Purchase Agreement)

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Nonstatutory Stock Option Award Agreement

No. of Shares Subject to Option: 360,009

THIS NONSTATUTORY STOCK OPTION AWARD AGREEMENT (this "Agreement"), dated January 31, 2012 (the "Date of Grant"), between **CAPITAL ONE FINANCIAL CORPORATION**, a Delaware corporation ("Capital One" or the "Company"), and **Richard D. Fairbank** ("Optionee" or "you"), is made pursuant and subject to the provisions of the Company's 2004 Stock Incentive Plan, as amended and restated (the "Plan"), and all capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless otherwise defined herein.

W I T N E S S E T H:

1. Grant of Options. Capital One hereby grants to Optionee options to purchase from the Company (each an "Option," collectively, the "Options") all or any part of an aggregate of **XXX,XXX** shares (the "Option Shares") of common stock of the Company, $.01 par value per share, at the purchase price per share of **$XX.XX** (the "Option Price"), being not less than 100% of the Fair Market Value per share on the Date of Grant, such Options to be exercisable as hereinafter provided. The Options shall be nonstatutory options that do not receive favorable tax treatment under Section 422 of the Internal Revenue Code.

2. Terms and Conditions. The Options evidenced by this Agreement are subject to the following terms and conditions:

(a) Expiration Date. The Options shall expire on January 30, 2022 (the "Expiration Date") unless earlier terminated as provided for herein.

(b) Transferability. The Options are transferable under the following conditions:

(i) Except as provided in the following paragraph and in Section 2(d) below, the Options shall be nontransferable except by will or by the laws of descent and distribution and, during the lifetime of Optionee, may be exercised only by Optionee, except as provided in Section 3 below.

The Options (or any portion thereof) may be transferred by the Optionee to (1) the spouse, children, or grandchildren of Optionee (each, an "Immediate Family Member"); (2) a trust or trusts for the exclusive benefit of Optionee and/or Immediate Family Members; or (3) a partnership in which Optionee and/or Immediate Family Members are the only partners, provided that (a) no consideration is paid to the Optionee in connection with the transfer; (b) in the event of a transfer to an individual, the Options are exercisable, during the original transferee's lifetime, only by the transferee or by his or her guardian or legal representative; (c) following such transfer, Optionee retains no interest or reversion in the Options (or the underlying Shares upon exercise) and has no right to alter or amend the Options or revoke the transfer; and (d) subsequent transfer of the Options by the transferee (excluding transfers by will or by the laws of descent and distribution) is prohibited.

Following transfer, the Options shall continue to be subject to the same terms and conditions as were applicable to the Options immediately before transfer (including terms and conditions based on the employment status of the Optionee); provided that where appropriate, all references in this Agreement to "Optionee" shall be deemed to refer to the transferee.

(ii) Promptly upon transfer of any Options, the Optionee shall deliver written notice of the transfer to the Company's Human Resources Department at the Company's West Creek office in Richmond, Virginia. That written notice shall identify the transferee and the effective date of the transfer.

(iii) If sale to the transferee of the Option Shares issuable upon exercise of the Options is not registered under the Securities Act of 1933, as amended, the Company, in its sole discretion, may condition such sale upon such terms and requirements as it deems appropriate to comply with applicable law.

(c) Vesting of Options. Subject to the provisions of Sections 3 and 14 below, the Options shall vest and become exercisable in full on February 10, 2015 (the "Vesting Date") or, if earlier, upon the death or Disability of Optionee or upon a Change of Control, and in that event the date upon which the Options vest and become exercisable due to death, Disability or a Change of Control shall be the "Vesting Date" for all purposes hereunder. Upon the Optionee's Retirement before the Vesting Date, the Options shall continue to vest and shall become exercisable in full on the Vesting Date, subject to reduction pursuant to Section 14. The period between January 1, 2012, and the Vesting Date shall be the "Performance Period." Except as otherwise provided in subsections 3(a), 3(b), 3(c), and 3(d) below, the right of Optionee and Optionee's successors in interest to exercise the Options shall terminate three months after the date Optionee's employment terminates (but no later than the Expiration Date).

(d) Method of Exercising and Payment for Shares. The Options may be exercised by:

(i) Following the procedures for the exercise of Options as may be established from time to time by the Company or its designated agent (the "Procedures"). The Company will notify Optionee of the Procedures which will specify (1) any required notification, whether oral or written, to the Company or its designated agent; (2) the method for cash payment of the Option Price and any additional amounts to the Company or its designated agent; (3) if an Optionee elects to substitute Shares that an Optionee owns (valued at the Fair Market Value on the exercise date) for all or any portion of the cash payment, the method for delivery of such Shares to the Company or its designated agent; (4) if the Optionee exercises by means of a "cashless exercise," any requirements related to such cashless exercise; and (5) any other requirements, including completion of any required tax or other forms, which must be completed prior to the exercise of the Options. The Optionee may contact (a) the Human Resources Department at the Company's West Creek office in Richmond, Virginia or (b) the Company's designated agent to obtain a copy of the Procedures; or

(ii) Delivering written notice of exercise to the Human Resources Department at the Company's West Creek office in Richmond, Virginia or to the Company's designated agent. Such notice shall be accompanied by payment of the

Option Price in full by cash (which shall include payment by check, bank draft or money order payable to the order of the Company). Optionee may by election substitute the delivery of Shares that Optionee owns (valued at their Fair Market Value on the date of exercise) that are duly endorsed for transfer for all or any portion of the cash payment, or Optionee may exercise the Options by means of a "cashless exercise" pursuant to which Option Shares may be issued directly to Optionee's designated broker/dealer upon receipt by the Company of the Option Price in cash from such broker/dealer.

The exercise date will be, in the case of (i) above, the date upon which all of the Procedures have been completed by the Optionee, or such later date as agreed to by the Optionee and the Company or its designated agent, and in the case of (ii) above, the date that the written notice, together with any accompanying payment, is received by the Company.

3. Termination of Employment. If Optionee's employment with the Company or any Subsidiary terminates for any reason, including for Cause, as defined herein, other than death, Disability, Retirement or a Change of Control, Optionee shall forfeit all rights under the Options except to the extent that the Options are already vested.

For the purposes of this Agreement, "Cause" shall be defined as the willful and continued failure by you to perform substantially your duties with the Company or any affiliated company (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to you by the Capital One Board of Directors (the "Board") or the Committee that specifically identifies the manner in which the Board or the Committee believes that you have not substantially performed your duties, or the willful engaging by you in illegal conduct or gross misconduct that in either case is materially and demonstrably injurious to the Company.

For purposes of this Section 3, no act, or failure to act, on your part shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the affiliated companies and is not publicly-traded, the board of directors of the ultimate parent of the Company (the "Applicable Board"), or (B) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company. The cessation of your employment shall not be deemed to be for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding you, if you are a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to you and you are given an opportunity, together with your counsel, to be heard before the Applicable Board), finding that, in the good faith opinion of the Applicable Board, you are guilty of the conduct described in this Section 3, and specifying the particulars thereof in detail.

(a) Exercise following Death. Except as provided in subsection 3(c), if Optionee dies while employed by the Company or any Subsidiary or within three months following termination of employment, and before the exercise in full or expiration of the Options, Optionee's estate, or the person or persons to whom the rights under the Options shall have passed by will or the laws of descent and distribution, may exercise the Options at any time within three years following Optionee's death (but in any event prior to the Expiration Date).

(b) Exercise following Disability. In the event of termination of Optionee's employment by the Company or any Subsidiary by reason of Disability approved by the Company before exercise in full or expiration of the Options, Optionee may exercise the Options at any time within three years following such termination of employment (but in any event prior to the Expiration Date).

(c) Exercise following Retirement. In the event of termination of Optionee's employment by reason of Retirement before exercise in full or expiration of the Options, Optionee may exercise the Options at any time subsequent to vesting and before the Expiration Date. Notwithstanding the foregoing, in the event that the Optionee dies following Optionee's termination of employment by reason of Retirement but prior to the Expiration Date, the Options shall immediately become fully exercisable (if not exercisable already), and Optionee's estate or the person or persons to whom the rights under the Options shall have passed by will or the laws of descent and distribution, may exercise the Options at any time within three years following Optionee's death (but in any event prior to the Expiration Date).

(d) Exercise following Change of Control. In the event of termination of Optionee's employment upon, after or in anticipation of a Change of Control, provided that (i) the Optionee is a party to a change of control agreement, (ii) Optionee's employment is terminated under the terms of such agreement and (iii) Optionee is entitled to benefits under such agreement, then any such fully vested Options outstanding as of the date of such termination shall remain outstanding and exercisable through the Expiration Date.

For purposes of this Section 3, it shall not be considered a termination of employment if Optionee is placed by the Company or any Subsidiary on military or sick leave or such other type of leave of absence that the Committee in its sole discretion considers as continuing the employment relationship intact. At the time of any exercise of any Options exercised pursuant to this Section 3, the Option Price shall be paid in full as provided in Section 2.

4. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Board or the Committee and subject to the Board's right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and Capital One; provided, that changes, modifications and amendments not detrimental to you may be made in writing signed only by Capital One. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

5. Tax Obligations Upon Exercise of Options. The difference, on the date of exercise, between the Fair Market Value of the Option Shares purchased and the Option Price is compensation taxable to Optionee as ordinary income on the date of exercise and is subject to applicable federal, state and local taxes that the Company is obligated to withhold. The Company's designated agent will automatically withhold upon exercise the number of Option Shares having a Fair Market Value equal to the minimum applicable withholding taxes, unless the Optionee makes other arrangements suitable to the Company for the payment of all applicable withholding taxes.

6. Governing Law. This Agreement shall be governed by federal law and, to the extent not preempted thereby, by the laws of the State of Delaware.

7. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

8. Bound by Plan. In consideration of the grant of the Options, Optionee agrees that he will comply with such conditions as the Committee may impose on the exercise of the Options and be bound by the terms of the Plan.

9. Employment Status. This Agreement does not constitute a contract of employment nor does it alter Optionee's terminable at will status or otherwise guarantee future employment.

10. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of Optionee, his legatees, distributees and personal representatives, and the Company and its successors and assigns.

11. Forfeiture Event. Optionee agrees to reimburse the Company with respect to the Options to the extent required by Section 304 of the Sarbanes-Oxley Act of 2002 or as otherwise required by law.

12. Clawback.

(a) If prior to the first anniversary of the Vesting Date the Committee determines that you have willfully engaged in illegal conduct or gross misconduct that in either case is materially and demonstrably injurious to the Company, (1) all Options hereunder that you have not yet exercised shall immediately be forfeited and cancelled and (2) you shall deliver to the Company on the Forfeiture Delivery Date the Forfeiture Shares (each as defined below), if any.

For purposes of this Section 12(a):

(i) No act or failure to act on your part shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Applicable Board or (B) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company.

(ii) "Forfeiture Shares" means (i) the number of Option Shares held by you as of the Forfeiture Delivery Date reduced by a number of shares of the common stock of the Company equal to (A) the aggregate Option Price for such Option Shares divided by (B) the Fair Market Value of such Option Shares on the date such Option Shares were acquired plus (ii) the pre-tax proceeds from sales or other transfers (including in connection with any "cashless exercise"), if any, of Option Shares that you have sold or otherwise transferred prior to the Forfeiture Delivery Date reduced by the aggregate Option Price for such Option Shares. The "pre-tax proceeds" for any Option Shares that were transferred by you in a transaction other than a sale on the New York Stock Exchange shall be the Fair Market Value of such Option Shares as of the date of such transaction. The "pre-tax proceeds" for any Option Shares that were withheld pursuant to Section 5 shall be the Fair Market Value of such Option Shares as of the date they were withheld.

(iii) "Forfeiture Delivery Date" means the date that is 30 days after the Committee makes the determination referenced in the first sentence of this Section 12(a), or such earlier date upon which you deliver the Forfeiture Shares to the Company.

(b) It is your responsibility to ensure that the shares of common stock of the Company you deliver on a Forfeiture Delivery Date are Option Shares. In the absence of Company records or written documentation from your broker demonstrating this fact, you must deliver to the Company the Fair Market Value of any Forfeiture Shares as of the date that such Option Shares are transferred from your stock plan account or otherwise become indistinguishable from other shares of common stock of the Company that you may hold on the Forfeiture Delivery Date.

13. Mandatory Holding Requirement.

(a) You agree that with respect to the Applicable Holding Shares you may not transfer, sell, pledge, hypothecate or otherwise dispose of such Applicable Holding Shares until the Holding Date; provided that the requirements set forth in this Section 13 shall immediately lapse and be of no further force and effect upon your death, Disability or a Change of Control.

(b) For purposes of this Section 13:

(i) "Applicable Holding Shares" means 50% of the Option Shares acquired hereunder (not including any shares of common stock of the Company sold or retained by the Company to fund the payment of (i) the Option Price or (ii) any tax withholding obligation payable in connection with the acquisition of such Option Shares) during your term of employment with the Company and during the one-year period after termination of your employment for any reason; and

(ii) "Holding Date" means the first anniversary of the date of acquisition of any Applicable Holding Shares.

14. Performance-Based Adjustment.

(a) The number of Options vesting on the Vesting Date shall be subject to reduction as follows:

(i) For each fiscal year of the Company ending during the Performance Period, if any, that (A) Core Earnings for the Company for such fiscal year, as certified by the Committee, are not positive (i.e., Core Earnings are not greater than zero) and (B) Base ROA for the Company for such fiscal year, as certified by the Committee, is better than or equal to negative two percent (-2%), the number of Options scheduled to vest on the Vesting Date shall be reduced by 60,001; and

(ii) For each fiscal year of the Company ending during the Performance Period, if any, that Base ROA for the Company for such fiscal year, as certified by the Committee, is not better than or equal to negative two percent (-2%), the number of Options scheduled to vest on the Vesting Date shall be reduced by 120,003 regardless the Core Earnings of the Company for such fiscal year, and there shall be no additional reduction for such fiscal year pursuant to subsection 14(a)(i) above.

(b) For purposes of this Section 14:

(i) “Core Earnings” means the Company’s net income available to common stockholders, excluding, on a tax-adjusted basis, the impact of (A) impairment or amortization of intangible assets, (B) the credit portion of other than temporary impairment of the securities portfolio, (C) the build or release of the allowance for loan and lease losses, calculated as the difference between the provision for loan and lease losses and charge-offs, net of recoveries, and (D) the change in the combined uncollectible finance charge and fee reserve;

(ii) “Base ROA” means the ratio, expressed as a percentage, of (A) the Company’s net income available to common stockholders, excluding, on a tax-adjusted basis, the impact of any impairment of intangible assets, to (B) the Company’s average total assets for the period; and

(iii) In the event of any change to U.S. generally accepted accounting principles affecting the treatment or classification of any component of Core Earnings or Base ROA, such metric shall be calculated in a manner consistent with the definitions herein to the extent practicable.

15. Miscellaneous.

(a) Your obligations under this Agreement shall survive any termination of your employment with the Company for any reason.

(b) You acknowledge that any of the Company’s rights or remedies under this Agreement shall be cumulative and in addition to whatever other remedies the Company may have under law or equity.

(c) You agree that any recovery by the Company under this Agreement will be a recovery of Options or Option Shares to which you were not entitled under this Agreement and is not to be construed in any manner as a penalty.

(d) The Company may, to the maximum extent permitted by applicable law, retain for itself funds or securities otherwise payable to you pursuant to this Agreement to satisfy any obligation or debt that you owe the Company, including any obligations hereunder. The Company may not retain such funds or securities until such time as they would otherwise be distributable to you in accordance with this Agreement.

The Company from time to time distributes and makes available to associates a disclosure document relating to the Plan. You may also contact the HR Help Center to obtain a copy of the Plan disclosure document and the Plan. You should carefully read the Plan disclosure document and the Plan. By accepting the benefits of these Options you acknowledge receipt of the Plan and the Plan disclosure document and agree to be bound by the terms of these Options and the Plan.

IN WITNESS WHEREOF, CAPITAL ONE FINANCIAL CORPORATION has caused this Agreement to be signed on its behalf.

CAPITAL ONE FINANCIAL CORPORATION

By:

Mayo A. Shattuck III
Chairman, Compensation Committee

Richard D. Fairbank
Chairman of the Board, Chief Executive Officer and President

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Nonstatutory Stock Option Award Agreement

No. of Shares Subject to Option: %%TOTAL_SHARES_GRANTED%-%

THIS NONSTATUTORY STOCK OPTION AWARD AGREEMENT (this "Agreement"), dated January 31, 2012 (the "Date of Grant") between CAPITAL ONE FINANCIAL CORPORATION, a Delaware corporation ("Capital One" or the "Company"), and **%%FIRST_NAME%-% %%LAST_NAME%-%** ("Optionee" or "you"), is made pursuant and subject to the provisions of the Company's 2004 Stock Incentive Plan, as amended and restated (the "Plan"), and all capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless they are otherwise defined herein.

W I T N E S S E T H:

1. Grant of Options. Capital One hereby grants to Optionee options to purchase from the Company (each an "Option," collectively, the "Options") all or any part of an aggregate of **%%TOTAL_SHARES_GRANTED%-%** shares (the "Option Shares") of common stock of the Company, $.01 par value per share, at the purchase price per share of **$XX.XX** (the "Option Price"), being not less than 100% of the Fair Market Value per share on the Date of Grant, such Options to be exercisable as hereinafter provided. The Options shall be nonstatutory options that do not receive favorable tax treatment under Section 422 of the Internal Revenue Code.

2. Terms and Conditions. The Options evidenced by this Agreement are subject to the following terms and conditions:

(a) Expiration Date. The Options shall expire on January 30, 2022 (the "Expiration Date"), unless earlier terminated as provided for herein.

(b) Transferability. The Options are transferable under the following conditions:

(i) Except as provided in the following paragraph and in Section 2(d) below, the Options shall be nontransferable except by will or by the laws of descent and distribution and, during the lifetime of Optionee, may be exercised only by Optionee, except as provided in Section 3 below.

The Options (or any portion thereof) may be transferred by the Optionee to (1) the spouse, children, or grandchildren of Optionee (each, an "Immediate Family Member"); (2) a trust or trusts for the exclusive benefit of Optionee and/or Immediate Family Members; or (3) a partnership in which Optionee and/or Immediate Family Members are the only partners, provided that (a) no consideration is paid to the Optionee in connection with the transfer; (b) in the event of a transfer to an individual, the Options are exercisable, during the original transferee's lifetime, only by the transferee or by his or her guardian or legal representative; (c) following such transfer, Optionee retains no interest or reversion in the Options (or the underlying Shares upon exercise) and has no right to alter or amend the Options or revoke the transfer; and (d) subsequent transfer of the Options by the transferee (excluding transfers by will or by the laws of descent and distribution) is prohibited.

Following transfer, the Options shall continue to be subject to the same terms and conditions as were applicable to the Options immediately before transfer (including terms and conditions based on the employment status of the Optionee); provided that where appropriate, all references in this Agreement to "Optionee" shall be deemed to refer to the transferee.

(ii) Promptly upon transfer of any Options, the Optionee shall deliver written notice of the transfer to the Company's Human Resources Department at the Company's West Creek office in Richmond, Virginia. That written notice shall identify the transferee and the effective date of the transfer.

(iii) If sale to the transferee of the Option Shares issuable upon exercise of the Options is not registered under the Securities Act of 1933, as amended, the Company, in its sole discretion, may condition such sale upon such terms and requirements as it deems appropriate to comply with applicable law.

(c) Vesting of Options. Subject to the provisions of Sections 3 and 14 below, the Options shall vest and become exercisable as follows:

One-third of the Options on February 10, 2013
One-third of the Options on February 10, 2014
One-third of the Options on February 10, 2015

Each of the dates immediately above shall be a "Scheduled Vesting Date." Notwithstanding the foregoing, any unvested and not previously forfeited Options shall immediately vest and become fully exercisable upon the death or Disability of Optionee or upon a Change of Control. Upon the Optionee's Retirement before vesting of the Options, the Options shall continue to vest on the Scheduled Vesting Dates and remain subject to reduction pursuant to Section 14 and shall become exercisable on the applicable Scheduled Vesting Dates. Except as otherwise provided in subsections 3(a), 3(b), 3(c), 3(d) and 3(e) below, the right of Optionee and Optionee's successors in interest to exercise the Options shall terminate three months after the date Optionee's employment terminates (but no later than the Expiration Date).

(d) Method of Exercising and Payment for Shares. The Options may be exercised by:

(i) Following the procedures for the exercise of Options as may be established from time to time by the Company or its designated agent (the "Procedures"). The Company will notify Optionee of the Procedures which will specify (1) any required notification, whether oral or written, to the Company or its designated agent; (2) the method for cash payment of the Option Price and any additional amounts to the Company or its designated agent; (3) if an Optionee elects to substitute Shares that an Optionee owns (valued at the Fair Market Value on the exercise date) for all or any portion of the cash payment, the method for delivery of such Shares to the Company or its designated agent; (4) if the Optionee exercises by means of a "cashless exercise," any requirements related to such cashless exercise; and (5) any other requirements, including completion of any required tax or other forms, which must be completed prior to the exercise of the Options. The

Optionee may contact (a) the Human Resources Department at the Company's West Creek office in Richmond, Virginia or (b) the Company's designated agent to obtain a copy of the Procedures; or

(ii) Delivering written notice of exercise to the Human Resources Department at the Company's West Creek office in Richmond, Virginia or to the Company's designated agent. Such notice shall be accompanied by payment of the Option Price in full by cash (which shall include payment by check, bank draft or money order payable to the order of the Company). Optionee may by election substitute the delivery of Shares that Optionee owns (valued at their Fair Market Value on the date of exercise) that are duly endorsed for transfer for all or any portion of the cash payment, or Optionee may exercise the Options by means of a "cashless exercise" pursuant to which Option Shares may be issued directly to Optionee's designated broker/dealer upon receipt by the Company of the Option Price in cash from such broker/dealer.

The exercise date will be, in the case of (i) above, the date upon which all of the Procedures have been completed by the Optionee, or such later date as agreed to by the Optionee and the Company or its designated agent, and in the case of (ii) above, the date that the written notice, together with any accompanying payment, is received by the Company.

3. Termination of Employment. If Optionee's employment with the Company or any Subsidiary terminates for any reason, including for Cause, as defined herein, other than death, Disability, Retirement or a Change of Control, Optionee shall forfeit all rights under the Options except to the extent that the Options are already vested.

For the purposes of this Agreement, "Cause" shall be defined as the willful and continued failure by you to perform substantially your duties with the Company or any affiliated company (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to you by the Capital One Board of Directors (the "Board"), the Committee, or the Chief Executive Officer of the Company that specifically identifies the manner in which the Board, the Committee or the Chief Executive Officer of the Company believes that you have not substantially performed your duties, or the willful engaging by you in illegal conduct or gross misconduct that in either case is materially and demonstrably injurious to the Company.

For purposes of this Section 3, no act, or failure to act, on your part shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the affiliated companies and is not publicly-traded, the board of directors of the ultimate parent of the Company (the "Applicable Board"), (B) the instructions of the Chief Executive Officer of the Company (unless you are the Chief Executive Officer at the time of any such instruction) or (C) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company. The cessation of your employment shall not be deemed to be for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding you, if you are a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to you and you are given an opportunity, together with your counsel, to be heard before the Applicable Board), finding that, in the good faith opinion of the Applicable Board, you are guilty of the conduct described in this Section 3, and specifying the particulars thereof in detail.

(a) Exercise following Death. Except as provided in subsection 3(c), if Optionee dies while employed by the Company or any Subsidiary or within three months following termination of employment, and before the exercise in full or expiration of the Options, Optionee's estate, or the person or persons to whom the rights under the Options shall have passed by will or the laws of descent and distribution, may exercise the Options at any time within three years following Optionee's death (but in any event prior to the Expiration Date).

(b) Exercise following Disability. In the event of termination of Optionee's employment by the Company or any Subsidiary by reason of Disability approved by the Company before exercise in full or expiration of the Options, Optionee may exercise the Options at any time within three years following such termination of employment (but in any event prior to the Expiration Date).

(c) Exercise following Retirement. In the event of termination of Optionee's employment by reason of Retirement before exercise in full or expiration of the Options, Optionee may exercise the Options at any time subsequent to vesting and before the Expiration Date. Notwithstanding the foregoing, in the event that the Optionee dies following Optionee's termination of employment by reason of Retirement but prior to the Expiration Date, the Options shall immediately become fully exercisable (if not exercisable already), and Optionee's estate or the person or persons to whom the rights under the Options shall have passed by will or the laws of descent and distribution, may exercise the Options at any time within three years following Optionee's death (but in any event prior to the Expiration Date).

(d) Exercise following Change of Control. In the event of termination of Optionee's employment upon, after or in anticipation of a Change of Control, provided that (i) the Optionee is a party to a change of control agreement, (ii) Optionee's employment is terminated under the terms of such agreement and (iii) Optionee is entitled to benefits under such agreement, then any such fully vested Options outstanding as of the date of such termination shall remain outstanding and exercisable through the Expiration Date.

(e) Exercise following termination by the Company not for Cause. In the event of the involuntary termination of Optionee's employment by the Company not for Cause, then any such fully vested Options outstanding as of the date of such termination shall remain outstanding and exercisable by the Optionee at any time within two years following Optionee's termination of service (but in any event prior to the Expiration Date).

For purposes of this Section 3, it shall not be considered a termination of employment if Optionee is placed by the Company or any Subsidiary on military or sick leave or such other type of leave of absence that the Committee in its sole discretion considers as continuing the employment relationship intact. At the time of any exercise of any Options exercised pursuant to this Section 3, the Option Price shall be paid in full as provided in Section 2.

4. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Board or the Committee and subject to the Board's right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and Capital One; provided, that changes, modifications and amendments not detrimental to you may be made in writing signed only by Capital One. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

5. Tax Obligations Upon Exercise of Options. The difference, on the date of exercise, between the Fair Market Value of the Option Shares purchased and the Option Price is compensation taxable to Optionee as ordinary income on the date of exercise and is subject to applicable federal, state and local taxes that the Company is obligated to withhold. The Company's designated agent will automatically withhold upon exercise the number of Option Shares having a Fair Market Value equal to the minimum applicable withholding taxes, unless the Optionee makes other arrangements suitable to the Company for the payment of all applicable withholding taxes.

6. Governing Law. This Agreement shall be governed by federal law and, to the extent not preempted thereby, by the laws of the State of Delaware.

7. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

8. Bound by Plan. In consideration of the grant of the Options, Optionee agrees that he will comply with such conditions as the Committee may impose on the exercise of the Options and be bound by the terms of the Plan.

9. Employment Status. This Agreement does not constitute a contract of employment nor does it alter Optionee's terminable at will status or otherwise guarantee future employment.

10. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of Optionee, his legatees, distributees and personal representatives, and the Company and its successors and assigns.

11. Forfeiture Event. Optionee agrees to reimburse the Company with respect to the Options to the extent required by Section 304 of the Sarbanes-Oxley Act of 2002 or as otherwise required by law.

12. Clawback.

(a) In the event the Committee determines that you have willfully engaged in illegal conduct or gross misconduct that in either case is materially and demonstrably injurious to the Company, (1) all Options hereunder that vested during the Clawback Period and that you have not yet exercised shall immediately be forfeited and cancelled and (2) you shall deliver to the Company on the Forfeiture Delivery Date the Forfeiture Shares, each as defined below, if any.

For purposes of this Section 12(a):

(i) No act or failure to act on your part shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Applicable Board, (B) the instructions of the Chief Executive Officer of the Company (unless you are the Chief Executive Officer at the time of any such instruction) or (C) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company.

(ii) "Clawback Period" means the one-year period ending on the date the Committee makes the determination referenced in the first sentence of this Section 12(a).

(iii) “Forfeiture Shares” means (i) the number of Option Shares acquired by you during the Clawback Period and that are held by you as of the Forfeiture Delivery Date reduced by a number of shares of the common stock of the Company equal to (A) the aggregate Option Price for such Option Shares divided by (B) the Fair Market Value of such Option Shares on the date such Option Shares were acquired plus (ii) the pre-tax proceeds from sales or other transfers (including in connection with any “cashless exercise”), if any, of Option Shares that you acquired during the Clawback Period and that you have sold or otherwise transferred prior to the Forfeiture Delivery Date reduced by the aggregate Option Price for such Option Shares. The “pre-tax proceeds” for any Option Shares that were transferred by you in a transaction other than a sale on the New York Stock Exchange shall be the Fair Market Value of such Option Shares as of the date of such transaction. The “pre-tax proceeds” for any Option Shares that were withheld pursuant to Section 5 shall be the Fair Market Value of such Option Shares as of the date they were withheld

(iv) “Forfeiture Delivery Date” means the date that is 30 days after the Committee makes the determination referenced in the first sentence of this Section 12(a), or such earlier date upon which you deliver the Forfeiture Shares to the Company.

(b) It is your responsibility to ensure that the shares of common stock of the Company you deliver on a Forfeiture Delivery Date are Option Shares. In the absence of Company records or written documentation from your broker demonstrating this fact, you must deliver to the Company the Fair Market Value of any Forfeiture Shares as of the date that such Option Shares are transferred from your stock plan account or otherwise become indistinguishable from other shares of common stock of the Company that you may hold on the Forfeiture Delivery Date.

13. Mandatory Holding Requirement.

(a) You agree that with respect to the Applicable Holding Shares you may not transfer, sell, pledge, hypothecate or otherwise dispose of such Applicable Holding Shares until the Holding Date; provided that the requirements set forth in this Section 13 shall immediately lapse and be of no further force and effect upon your death, Disability or a Change of Control.

(b) For purposes of this Section 13:

(i) “Applicable Holding Shares” means 50% of the Option Shares acquired hereunder (not including any shares of common stock of the Company sold or retained by the Company to fund the payment of (i) the Option Price or (ii) any tax withholding obligation payable in connection with the acquisition of such Option Shares) during your term of employment with the Company and during the one-year period after termination of your employment for any reason; and

(ii) “Holding Date” means the first anniversary of the date of acquisition of any Applicable Holding Shares.

14. Performance-Based Adjustment.

(c) The number of Options vesting on any Scheduled Vesting Date shall be subject to reduction as follows:

(i) In the event that the Core Earnings of the Company for the Company’s fiscal year ended immediately prior to such Scheduled Vesting Date, as certified by the Committee, are not positive (i.e., Core Earnings are not greater than zero), the number of Options scheduled to vest on such Scheduled Vesting Date shall be reduced by 50%, rounding up to the nearest whole share; and

(ii) In the event that the Base ROA of the Company for the Company's fiscal year ended immediately prior to such Scheduled Vesting Date, as certified by the Committee, is not better than or equal to negative two percent (-2%), all Options scheduled to vest on such Scheduled Vesting Date shall be forfeited, regardless the Core Earnings of the Company for such fiscal year.

(d) For purposes of this Section 14:

(i) "Core Earnings" means the Company's net income available to common stockholders, excluding, on a tax-adjusted basis, the impact of (A) impairment or amortization of intangible assets, (B) the credit portion of other than temporary impairment of the securities portfolio, (C) the build or release of the allowance for loan and lease losses, calculated as the difference between the provision for loan and lease losses and charge-offs, net of recoveries, and (D) the change in the combined uncollectible finance charge and fee reserve;

(ii) "Base ROA" means the ratio, expressed as a percentage, of (A) the Company's net income available to common stockholders, excluding, on a tax-adjusted basis, the impact of any impairment of intangible assets, to (B) the Company's average total assets for the period; and

(iii) In the event of any change to U.S. generally accepted accounting principles affecting the treatment or classification of any component of Core Earnings or Base ROA, such metric shall be calculated in a manner consistent with the definitions herein to the extent practicable.

15. Miscellaneous.

(a) Your obligations under this Agreement shall survive any termination of your employment with the Company for any reason.

(b) You acknowledge that any of the Company's rights or remedies under this Agreement shall be cumulative and in addition to whatever other remedies the Company may have under law or equity.

(c) You agree that any recovery by the Company under this Agreement will be a recovery of Options or Option Shares to which you were not entitled under this Agreement and is not to be construed in any manner as a penalty.

(d) The Company may, to the maximum extent permitted by applicable law, retain for itself funds or securities otherwise payable to you pursuant to this Agreement to satisfy any obligation or debt that you owe the Company, including any obligations hereunder. The Company may not retain such funds or securities until such time as they would otherwise be distributable to you in accordance with this Agreement.

The Company from time to time distributes and makes available to associates a disclosure document relating to the Plan. You may also contact the HR Help Center to obtain a copy of the Plan disclosure document and the Plan. You should carefully read the Plan disclosure document and the Plan. By accepting the benefits of these Options you acknowledge receipt of the Plan, and the Plan disclosure document and agree to be bound by the terms of these Options and the Plan.

IN WITNESS WHEREOF, CAPITAL ONE FINANCIAL CORPORATION has caused this Agreement to be signed on its behalf.

CAPITAL ONE FINANCIAL CORPORATION

By:

Jory Berson
Chief Human Resources Officer

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Performance Unit Award Agreement

No. of Performance Units: Up to 382,514

THIS PERFORMANCE UNIT AWARD AGREEMENT (this "Agreement"), dated January 31, 2012 (the "Date of Grant"), between **CAPITAL ONE FINANCIAL CORPORATION**, a Delaware corporation ("Capital One" or the "Company"), and Richard D. Fairbank ("you"), is made pursuant and subject to the provisions of the Company's 2004 Stock Incentive Plan, as amended and restated (the "Plan") and all capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless they are otherwise defined herein.

WHEREAS, Article 9 of the Plan provides for the award from time to time in the discretion of the Committee of performance units, the vesting and issuance of which are subject to certain service, performance or other conditions;

W I T N E S S E T H:

1. Grant of Performance Units. Capital One hereby grants to you a maximum award of 382,514 performance units (the "Units"). The target award shall be 191,257 Units (the "Target Award"). The Units shall vest and the underlying shares of common stock of Capital One, $.01 par value per share (such underlying shares, the "Shares"), shall be issuable only in accordance with the provisions of this Agreement and of the Plan.

2. Non-Transferability. Subject to the provisions of Section 3 hereof, the right to receive some or all of the Units and the Shares related thereto shall not be assignable or transferable, or otherwise alienated, pledged or hypothecated or otherwise encumbered under any circumstances. Any purported or attempted assignment, transfer, alienation, pledge, hypothecation or encumbrance of such rights or of the Units or the Shares related thereto prior to their issuance to you shall be null and void and shall result in the immediate forfeiture of such rights or Units, including the Shares related thereto, and cancellation of this Agreement.

3. Lapse of Restrictions.

(a) Vesting. Except as provided in subsections 3(b) and 3(c) below and to the extent not previously vested or forfeited as provided herein, the Units shall vest on a date as determined by the Committee after termination of the Performance Period (as defined below) and certification of performance by the Committee, but no later than March 15, 2015, or earlier in the event of your death, Disability or Change of Control pursuant to paragraph 3(b) or (c) hereof (the "Date of Issuance"). On the Date of Issuance, the Units shall vest, and the Shares shall become issuable as determined based on the Company's Adjusted ROA, as defined on Appendix A, as measured against a peer group, consisting of companies in the KBW Bank Sector index as of January 1, 2012, excluding custody banks in that index (the "Peer Group), over a three-year performance period beginning on January 1, 2012 and ending on December 31, 2014 (the “Performance Period”) as certified by the Committee following the end of the Performance Period. For members of the Peer Group who fail or are acquired, the Adjusted ROA through the time the independent company stops reporting GAAP financials will be frozen and serve as their final return metric for the Performance Period. Members of the Peer Group that continue to operate as independent companies but that fall out of the KBW Bank Sector index will continue to be used in the Peer Group. Members of the Peer Group as of January 1, 2012 are shown in Appendix B. Any new entrants to the KBW Bank Sector index after January 1, 2012 will not be considered members of the Peer Group for any award determination or calculation related to this Agreement. The number of Units that shall vest and the number of Shares that shall become issuable on the Date of Issuance is set forth on Appendix A. The number of Units vesting and the number of Shares that shall become issuable on the Date of Issuance shall be reduced in the event that Adjusted ROA for one or more fiscal years in the Performance Period is not positive, as provided on Appendix A.

With respect to any Units that have vested on the Date of Issuance, the Shares related thereto shall be issued to you, in settlement of such vested Units, on such Date of Issuance. Dividends will be accrued and paid out as additional shares at the time of the award as provided in Section 5 below. All Units, including your rights thereto and to the underlying Shares, which do not vest on or before the Date of Issuance, as provided in this Section 3, shall immediately be forfeited as of such Date of Issuance (to the extent not previously forfeited as provided herein).

(b) Effect of Termination of Employment.

(i) Upon termination of your employment with Capital One for Cause, as defined below, prior to the Date of Issuance, all Units shall immediately be forfeited (to the extent not previously vested as provided herein).

For the purposes of this Agreement, “Cause” shall be defined as the willful and continued failure by you to perform substantially your duties with the Company or any affiliated company (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to you by the Capital One Board of Directors (the “Board”) or the Committee that specifically identifies the manner in which the Board or the Committee believes that you have not substantially performed your duties, or the willful engaging by you in illegal conduct or gross misconduct that in either case is materially and demonstrably injurious to the Company.

For purposes of this Section 3(b), no act, or failure to act on your part shall be considered “willful” unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the affiliated companies and is not publicly-traded, the board of directors of the ultimate parent of the Company (the “Applicable Board”) or (B) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company. The cessation of your employment shall not be deemed to be for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding you, if you are a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to you and you are given an opportunity, together with your counsel, to be heard before the Applicable Board), finding that, in the good faith opinion of the Applicable Board, you are guilty of the conduct described in this Section 3(b)(i), and specifying the particulars thereof in detail.

(ii) Upon your termination of employment as a result of your death or Disability on or prior to December 31, 2014, the Units shall immediately vest and the Shares shall be immediately issuable to you on the Date of Issuance; provided that the number of such Units vesting and such Shares shall be equal to the product of (x) the Target Award amount as specified above and (y) a fraction, the numerator of which is the number of days from January 1, 2012, through the date of such death or Disability and the denominator of which is 1,096; and provided further that in such case the Date of Issuance shall be as soon as practicable following your death or Disability and in all events on or before the later of December 31 of the year of termination or 2.5 months following such termination. Upon your termination of employment as a result of your death or Disability on or after January 1, 2015, but prior to the Date of Issuance, the number of Units that shall vest and the number of Shares that shall be issuable to you shall be as calculated in Section 3(a) above.

(iii) Notwithstanding any other provision in this Agreement, upon your Retirement on or before December 31, 2012, all Units shall immediately be forfeited; and upon your Retirement on or after January 1, 2013, the number of Units that shall vest and the number of Shares that shall be issuable to you shall be as calculated in Section 3(a) above.

(c) Effect of Change of Control. Upon a Change of Control, the Units shall vest and the Shares shall become issuable to you in full upon or after the closing date of the transaction giving rise to the Change of Control, provided that, after such Change of Control, the number of Units that shall vest and the number of Shares that shall be issuable to you shall be calculated based on a performance period from January 1, 2012 through the end of the fiscal quarter immediately preceding the closing date of the transaction giving rise to the Change of Control; and provided further that the Date of Issuance in such case shall be as soon as practicable after the closing date of such transaction and certification of performance by the Committee, and in all events on or before March 15 of the year following the year of such Change of Control and in all events within 60 days following such Change of Control.

4. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Board or the Committee and subject to the Board’s right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and Capital One; provided, that changes, modifications and amendments not detrimental to you may be made in writing signed only by Capital One. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

5. Dividends. Dividends with respect to the Shares shall accrue beginning on January 1, 2012, through the applicable Date of Issuance when the Shares underlying the Units are delivered, at which time such accrued dividends shall be paid out in the form of additional shares of common stock of the Corporation based on the Fair Market Value of a share of the Company's common stock on the business day prior to the Date of Issuance. The accrued dividends that shall be paid out to you shall be only such amount that has accrued with respect to the Shares underlying the Units that vest on the Date of Issuance.

6. Tax Withholding. If you become subject to withholding under applicable tax laws, you agree to pay Capital One the amount required to be withheld by one or more of the following methods:

(a) Capital One's designated agent will automatically withhold the number of Shares having a Fair Market Value equal to the amount required to be withheld and deliver the proceeds thereof to Capital One, unless you otherwise instruct Capital One or its designated agent as provided in (b) or (c) below;

(b) by making a timely election to send cash or check payment; or

(c) by such other methods as Capital One may make available from time to time.

7. Governing Law. This Agreement shall be governed by federal law and, to the extent not preempted thereby, by the laws of the State of Delaware. Capital One and you hereby consent and submit to the personal jurisdiction and venue of any state or federal court located in any city or county of Delaware for resolution of any and all claims, causes of action or disputes arising out of this Agreement. You and Capital One agree that the court shall not set aside the Committee's determinations unless there is clear and convincing evidence of bad faith or fraud.

8. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of this Agreement shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

9. Bound by Plan. In consideration of the grant of the Units and the Shares, you agree that you will comply with such conditions as the Committee may impose on the Units and the Shares and be bound by the terms of the Plan.

10. Employment Status. This Agreement does not constitute a contract of employment nor does it alter your terminable at will status or otherwise guarantee future employment.

11. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of you and your legatees, distributees and personal representatives, and Capital One and its successors and assigns.

12. Forfeiture Event. You agree to reimburse the Company with respect to the Units and the Shares to the extent required under Section 304 of the Sarbanes-Oxley Act of 2002 or as otherwise required by law.

13. <u>Clawback</u>.

(a) If prior to the third anniversary of the Date of Issuance a Restatement Date occurs, you shall deliver to the Company on the Restatement Delivery Date the Clawback Shares (each as defined below), if any, as determined under this Section 13(a).

For purposes of this Section 13(a):

(i) “Amended Adjusted ROA” means the Adjusted ROA over the Performance Period and taking into account the financial results of the Company as reflected in the Restatement.

(ii) “Held Shares” means the Shares held by you as of the Restatement Delivery Date in the event that such number of Shares is less than the Clawback Shares.

(iii) “Clawback Shares” means the number of Shares equal to (A) the number of Shares that were issued to you under this Agreement on the Date of Issuance <u>minus</u> (B) the number of shares of common stock of the Company that would have been issuable to you on the Date of Issuance as determined based on the Amended Adjusted ROA and certified by the Committee following the Restatement Date. For any member of the Peer Group that restates its financial results for all or any portion of the Performance Period prior to the date that the number of Clawback Shares is certified by the Committee, the cumulative Adjusted ROA for such member of the Peer Group used for purposes of calculating the Clawback Shares shall take into account such restatement. For the avoidance of doubt, neither you nor the Company shall have any obligation with respect to the Clawback Shares in the event that the number of Shares in clause (B) of the preceding sentence exceeds the number of Shares in clause (A) of the preceding sentence. The Clawback Shares shall be delivered to the Company in Shares; provided, however, that in the event that on the Restatement Delivery Date you do not hold a number of Shares equal to or greater than the Clawback Shares, you shall deliver to the Company (x) all Held Shares <u>plus</u> (y) the pre-tax proceeds from sales or other transfers of all Recovery Shares. Such pre-tax proceeds shall be calculated starting with the most recent sale or other transfer of Recovery Shares prior to the Restatement Delivery Date and continuing in reverse chronological order with any prior sales or transfers of Recovery Shares until the pre-tax proceeds of all Recovery Shares are determined. The “pre-tax proceeds” for any Recovery Shares that were transferred by you in a transaction other than a sale on the New York Stock Exchange shall be the Fair Market Value of such Recovery Shares as of the date of such transaction. The “pre-tax proceeds” for any Recovery Shares that were withheld pursuant to Section 6 shall be the Fair Market Value of such Recovery Shares as of the date they were withheld.

(iv) “Recovery Shares” means the number of Shares equal to the difference between the Clawback Shares and your Held Shares.

(v) “Restatement” means an accounting restatement of the Company’s financial statements, covering all or any portion of the Performance Period, due to the noncompliance of the Company with any financial reporting requirement under the securities laws. For the avoidance of doubt, in the event that the Company makes any accounting restatement solely due to (A) any change after the Date of Issuance in U.S. generally accepted accounting principles or (B) any change after the Date of Issuance in financial reporting requirements under the securities laws, such restatement shall not constitute a “Restatement” under this Section 13(a).

(vi) “Restatement Date” means the date after the Date of Issuance upon which the Company first files (A) a Restatement or (B) a Current Report on Form 8-K with the Securities and Exchange Commission (or otherwise publicly announces) that the Company expects to issue a Restatement.

(vii) “Restatement Delivery Date” means the date that is 30 days after the number of Clawback Shares is certified by the Committee in accordance with this Section 13(a), or such earlier date upon which you deliver the Clawback Shares to the Company.

(b) If prior to the first anniversary of the Date of Issuance the Committee determines that you have willfully engaged in illegal conduct or gross misconduct that in either case is materially and demonstrably injurious to the Company, you shall deliver to the Company on the Forfeiture Delivery Date the Forfeiture Shares.

For purposes of this Section 13(b):

(i) No act or failure to act on your part shall be considered “willful” unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Applicable Board or (B) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company.

(ii) “Forfeiture Shares” means (i) the number of Shares that were issued to you under this Agreement on the Date of Issuance and held by you as of the Forfeiture Delivery Date plus (ii) the pre-tax proceeds from sales or other transfers, if any, of Shares that you have sold or otherwise transferred prior to the Forfeiture Delivery Date. The “pre-tax proceeds” for any Shares that were transferred by you in a transaction other than a sale on the New York Stock Exchange shall be the Fair Market Value of such Shares as of the date of such transaction. The “pre-tax proceeds” for any Shares that were withheld pursuant to Section 6 shall be the Fair Market Value of such Shares as of the date they were withheld.

(iii) “Forfeiture Delivery Date” means the date that is 30 days after the Committee makes the determination referenced in the first sentence of this Section 13(b), or such earlier date upon which you deliver the Forfeiture Shares to the Company.

(c) It is your responsibility to ensure that the shares of common stock of the Company you deliver on a Delivery Date are Shares. In the absence of Company records or written documentation from your broker demonstrating this fact, you must deliver to the Company the Fair Market Value of any Clawback Shares or Forfeiture Shares, as applicable, as of the date that such Shares are transferred from your stock plan account or otherwise become indistinguishable from other shares of common stock of the Company that you may hold on the Delivery Date. “Delivery Date” means any Restatement Delivery Date or Forfeiture Delivery Date, as applicable.

14. Miscellaneous.

(a) Your obligations under this Agreement shall survive any termination of your employment with the Company for any reason.

(b) You acknowledge that any of the Company's rights or remedies under this Agreement shall be cumulative and in addition to whatever other remedies the Company may have under law or equity.

(c) You agree that any recovery by the Company under this Agreement will be a recovery of Shares to which you were not entitled under this Agreement and is not to be construed in any manner as a penalty.

(d) The Company may, to the maximum extent permitted by applicable law, retain for itself funds or securities otherwise payable to you pursuant to this Agreement to satisfy any obligation or debt that you owe to the Company, including any obligations hereunder. The Company may not retain such funds or securities until such time as they would otherwise be distributable to you in accordance with this Agreement.

Capital One from time to time distributes and makes available to associates a disclosure document relating to the Plan. You may also contact the HR Help Center to obtain a copy of the Plan disclosure document and the Plan. You should carefully read the Plan disclosure document and the Plan. By accepting the benefits of this Agreement you acknowledge receipt of the Plan and the Plan disclosure document and agree to be bound by the terms of this Agreement and the Plan.

IN WITNESS WHEREOF, CAPITAL ONE FINANCIAL CORPORATION has caused this Agreement to be signed on its behalf.

CAPITAL ONE FINANCIAL CORPORATION

By:

Mayo A. Shattuck III
Chairman, Compensation Committee

Richard D. Fairbank
Chairman of the Board, Chief Executive Officer and President

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Performance Unit Award Agreement

No. of Performance Units: Up to XX,XXX

THIS PERFORMANCE UNIT AWARD AGREEMENT (this “Agreement”), dated January 31, 2012 (the “Date of Grant”), between **CAPITAL ONE FINANCIAL CORPORATION**, a Delaware corporation (“Capital One” or the “Company”), and **<NAME>** (“you”), is made pursuant and subject to the provisions of the Company’s 2004 Stock Incentive Plan, as amended and restated (the “Plan”) and all capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless they are otherwise defined herein.

WHEREAS, Article 9 of the Plan provides for the award from time to time in the discretion of the Committee of performance units, the vesting and issuance of which are subject to certain service, performance or other conditions;

W I T N E S S E T H:

1. Grant of Performance Units. Capital One hereby grants to you a maximum award of **XX,XXX** performance units (the “Units”). The target award shall be **XX,XXX** Units (the “Target Award”). The Units shall vest and the underlying shares of common stock of Capital One, $.01 par value per share (such underlying shares, the “Shares”), shall be issuable only in accordance with the provisions of this Agreement and of the Plan.

2. Non-Transferability. Subject to the provisions of Section 3 hereof, the right to receive some or all of the Units and the Shares related thereto shall not be assignable or transferable, or otherwise alienated, pledged or hypothecated or otherwise encumbered under any circumstances. Any purported or attempted assignment, transfer, alienation, pledge, hypothecation or encumbrance of such rights or of the Units or the Shares related thereto prior to their issuance to you shall be null and void and shall result in the immediate forfeiture of such rights or Units, including the Shares related thereto, and cancellation of this Agreement.

3. Lapse of Restrictions.

(b) Vesting. Except as provided in subsections 3(b) and 3(c) below and to the extent not previously vested or forfeited as provided herein, the Units shall vest on a date as determined by the Committee after termination of the Performance Period (as defined below) and certification of performance by the Committee, but no later than March 15, 2015, or earlier in the event of your death, Disability or Change of Control pursuant to paragraph 3(b) or (c) hereof (the “Date of Issuance”). On the Date of Issuance, the Units shall vest, and the Shares shall become issuable as determined based on the Company’s Adjusted ROA, as defined on Appendix A, as measured against a peer group, consisting of companies in the KBW Bank Sector index as of January 1, 2012, excluding custody banks in that index (the “Peer Group), over a three-year performance period beginning on January 1, 2012 and ending on December 31, 2014 (the "Performance Period") as certified by the Committee following the end of the Performance Period. For members of the Peer Group who fail or are acquired, the Adjusted ROA through the time the independent company stops reporting GAAP financials will be frozen and serve as their final return metric for the Performance Period. Members of the Peer Group that continue to operate as independent companies but that fall out of the KBW Bank Sector index will continue to be used in the Peer Group. Members of the Peer Group as of January 1, 2012 are shown in Appendix B. Any new entrants to the KBW Bank Sector index after January 1, 2012 will not be considered members of the Peer Group for any award determination or calculation related to this Agreement. The number of Units that shall vest and the number of Shares that shall become issuable on the Date of Issuance is set forth on Appendix A. The number of Units vesting and the number of Shares that shall become issuable on the Date of Issuance shall be reduced in the event that Adjusted ROA for one or more fiscal years in the Performance Period is not positive, as provided on Appendix A.

With respect to any Units that have vested on the Date of Issuance, the Shares related thereto shall be issued to you, in settlement of such vested Units, on such Date of Issuance. Dividends will be accrued and paid out as additional shares at the time of the award, as provided in Section 5 below. All Units, including your rights thereto and to the underlying Shares, which do not vest on or before the Date of Issuance, as provided in this Section 3, shall immediately be forfeited as of such Date of Issuance (to the extent not previously forfeited as provided herein).

(b) Effect of Termination of Employment.

(i) Upon your termination of employment with Capital One for any reason other than death, Disability, Retirement or by Capital One not for Cause (as defined below) prior to the Date of Issuance, all Units shall immediately be forfeited (to the extent not previously vested as provided herein).

(ii) Upon your termination of employment by Capital One not for Cause on or before December 31, 2014, the number of Units that will vest and the number of underlying Shares that will become issuable to you shall be equal to the product of (x) the number of Units that would have vested on the Date of Issuance if you had remained employed with Capital One through December 31, 2014, and (y) a fraction, the numerator of which is the number of complete days from January 1, 2012 through the date of termination of your employment and the denominator of which is 1,096. Such Units shall vest and the underlying Shares shall become issuable to you on the Date of Issuance. Upon your termination by Capital One not for Cause on or after January 1, 2015, but prior to the Date of Issuance, the number of Units that shall vest on the Date of Issuance and the number of underlying Shares that shall be issuable to you shall be as calculated in 3(a) above.

For the purposes of this Agreement, "Cause" shall be defined as the willful and continued failure by you to perform substantially your duties with the Company or any affiliated company (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to you by the Board of Directors (the "Board"), the Committee, or the Chief Executive Officer of the Company that specifically identifies the manner in which the Board, the Committee or the Chief Executive Officer of the Company believes that you have not substantially performed your duties, or the willful engaging by you in illegal conduct or gross misconduct that in either case is materially and demonstrably injurious to the Company.

For purposes of this Section 3(b), no act, or failure to act, on your part shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the affiliated companies and is not publicly-traded, the board of directors of the ultimate parent of the Company (the "Applicable Board"), (B) the instructions of the Chief Executive Officer of the Company (unless you are the Chief Executive Officer at the time of any such instruction) or (C) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company. The cessation of your employment shall not be deemed to be for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding you, if you are a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to you and you are given an opportunity, together with your counsel, to be heard before the Applicable Board), finding that, in the good faith opinion of the Applicable Board, you are guilty of the conduct described in this Section 3(b)(ii), and specifying the particulars thereof in detail.

(iii) Upon your termination of employment as a result of your death or Disability on or prior to December 31, 2014, the Units shall immediately vest and the Shares shall be immediately issuable to you on the Date of Issuance; provided that the number of such Units vesting and such Shares shall be equal to the product of (x) the Target Award amount as specified above and (y) a fraction, the numerator of which is the number of days from January 1, 2012, through the date of such death or Disability and the denominator of which is 1,096; and provided further that in such case the Date of Issuance shall be as soon as practicable following your death or Disability and in all events on or before the later of December 31 of the year of termination or 2.5 months following such termination. Upon your termination of employment as a result of your death or Disability on or after January 1, 2015, but prior to the Date of Issuance, the number of Units that shall vest and the number of Shares that shall be issuable to you shall be as calculated in Section 3(a) above.

(iv) Upon your Retirement on or before December 31, 2014, the number of Units that shall vest and the number of Shares that shall be issuable to you shall be as calculated in Section 3(a) above.

(c) Effect of Change of Control. Upon a Change of Control, the Units shall vest and the Shares shall become issuable to you in full upon or after the closing date of the transaction giving rise to the Change of Control, provided that, after such Change of Control, the number of Units that shall vest and the number of Shares that shall be issuable to you shall be calculated based on a performance period from January 1, 2012 through the end of the fiscal quarter immediately preceding the closing date of the transaction giving rise to the Change of Control; and provided further that the Date of Issuance in such case shall be as soon as practicable after the closing date of such transaction and certification of performance by the Committee, and in all events on or before March 15 of the year following the year of such Change of Control and in all events within 60 days following such Change of Control.

4. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Board or the Committee and subject to the Board's right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and Capital One; provided, that changes, modifications and amendments not detrimental to you may be made in writing signed only by Capital One. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

5. Dividends. Dividends with respect to the Shares shall accrue beginning on January 1, 2012, through the applicable Date of Issuance when the Shares underlying the Units are delivered, at which time such accrued dividends shall be paid out in the form of additional shares of common stock of the Corporation based on the Fair Market Value of a share of the Company's common stock on the business day prior to the Date of Issuance. The accrued dividends that shall be paid out to you shall be only such amount that has accrued with respect to the Shares underlying the Units that vest on the Date of Issuance.

6. Tax Withholding. If you become subject to withholding under applicable tax laws, you agree to pay Capital One the amount required to be withheld by one or more of the following methods:

(d) Capital One's designated agent will automatically withhold the number of Shares having a Fair Market Value equal to the amount required to be withheld and deliver the proceeds thereof to Capital One, unless you otherwise instruct Capital One or its designated agent as provided in (b) or (c) below;

(e) by making a timely election to send cash or check payment; or

(f) by such other methods as Capital One may make available from time to time.

7. Governing Law. This Agreement shall be governed by federal law and, to the extent not preempted thereby, by the laws of the State of Delaware. Capital One and you hereby consent and submit to the personal jurisdiction and venue of any state or federal court located in any city or county of Delaware for resolution of any and all claims, causes of action or disputes arising out of this Agreement. You and Capital One agree that the court shall not set aside the Committee's determinations unless there is clear and convincing evidence of bad faith or fraud.

8. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of this Agreement shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

9. Bound by Plan. In consideration of the grant of the Units and the Shares, you agree that you will comply with such conditions as the Committee may impose on the Units and the Shares and be bound by the terms of the Plan.

10. Employment Status. This Agreement does not constitute a contract of employment nor does it alter your terminable at will status or otherwise guarantee future employment.

14. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of you and your legatees, distributees and personal representatives, and Capital One and its successors and assigns.

15. Forfeiture Event. You agree to reimburse the Company with respect to the Units and the Shares to the extent required under Section 304 of the Sarbanes-Oxley Act of 2002 or as otherwise required by law.

16. Clawback.

(a) If, prior to the third anniversary of the Date of Issuance, a Restatement Date occurs, you shall deliver to the Company on the Restatement Delivery Date the Clawback Shares (each as defined below), if any, as determined under this Section 13(a).

For purposes of this Section 13(a):

(viii) "Amended Adjusted ROA" means the Adjusted ROA over the Performance Period and taking into account the financial results of the Company as reflected in the Restatement.

(ix) "Held Shares" means the Shares held by you as of the Restatement Delivery Date in the event that such number of Shares is less than the Clawback Shares.

(x) "Clawback Shares" means the number of Shares equal to (A) the number of Shares that were issued to you under this Agreement on the Date of Issuance minus (B) the number of shares of common stock of the Company that would have been issuable to you on the Date of Issuance as determined based on the Amended Adjusted ROA and certified by the Committee following the Restatement Date. For any member of the Peer Group that restates its financial results for all or any portion of the Performance Period prior to the date that the number of Clawback Shares is certified by the Committee, the cumulative Adjusted ROA for such member of the Peer Group used for purposes of calculating the Clawback Shares shall take into account such restatement. For the avoidance of doubt, neither you nor the Company shall have any obligation with respect to the Clawback Shares in the event that the number of Shares in clause (B) of the preceding sentence exceeds the number of Shares in clause (A) of the preceding sentence. The Clawback Shares shall be delivered to the Company in Shares; provided, however, that in the event that on the Restatement Delivery Date you do not hold a number of Shares equal to or greater than the Clawback Shares, you shall deliver to the Company (x) all Held Shares plus (y) the pre-tax proceeds from sales or other transfers of all Recovery Shares. Such pre-tax proceeds shall be calculated starting with the most recent sale or other transfer of Recovery Shares prior to the Restatement Delivery Date and continuing in reverse chronological order with any prior sales or transfers of Recovery Shares until the pre-tax proceeds of all Recovery Shares are determined. The "pre-tax proceeds" for any Recovery Shares that were transferred by you in a transaction other than a sale on the New York Stock Exchange shall be the Fair Market Value of such Recovery Shares as of the date of such transaction. The "pre-tax proceeds" for any Recovery Shares that were withheld pursuant to Section 6 shall be the Fair Market Value of such Recovery Shares as of the date they were withheld.

(xi) “Recovery Shares” means the number of Shares equal to the difference between the Clawback Shares and your Held Shares.

(xii) “Restatement” means an accounting restatement of the Company’s financial statements, covering all or any portion of the Performance Period, due to the noncompliance of the Company with any financial reporting requirement under the securities laws. For the avoidance of doubt, in the event that the Company makes any accounting restatement solely due to (A) any change after the Date of Issuance in U.S. generally accepted accounting principles or (B) any change after the Date of Issuance in financial reporting requirements under the securities laws, such restatement shall not constitute a “Restatement” under this Section 13(a).

(xiii) “Restatement Date” means the date after the Date of Issuance upon which the Company first files (A) a Restatement or (B) a Current Report on Form 8-K with the Securities and Exchange Commission (or otherwise publicly announces) that the Company expects to issue a Restatement.

(xiv) “Restatement Delivery Date” means the date that is 30 days after the number of Clawback Shares is certified by the Committee in accordance with this Section 13(a), or such earlier date upon which you deliver the Clawback Shares to the Company.

(b) If prior to the first anniversary of the Date of Issuance the Committee determines that you have willfully engaged in illegal conduct or gross misconduct that in either case is materially and demonstrably injurious to the Company, you shall deliver to the Company on the Forfeiture Delivery Date the Forfeiture Shares.

For purposes of this Section 13(b):

(i) No act or failure to act on your part shall be considered “willful” unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Applicable Board, (B) the instructions of the Chief Executive Officer of the Company (unless you are the Chief Executive Officer at the time of any such instruction) or (C) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company.

(ii) “Forfeiture Shares” means (i) the number of Shares that were issued to you under this Agreement on the Date of Issuance and held by you as of the Forfeiture Delivery Date plus (ii) the pre-tax proceeds from sales or other transfers, if any, of Shares that you have sold or otherwise transferred prior to the Forfeiture Delivery Date. The “pre-tax proceeds” for any Shares that were transferred by you in a transaction other than a sale on the New York Stock Exchange shall be the Fair Market Value of such Shares as of the date of such transaction. The “pre-tax proceeds” for any Shares that were withheld pursuant to Section 6 shall be the Fair Market Value of such Shares as of the date they were withheld.

(iii) “Forfeiture Delivery Date” means the date that is 30 days after the Committee makes the determination referenced in the first sentence of this Section 13(b), or such earlier date upon which you deliver the Forfeiture Shares to the Company.

(c) It is your responsibility to ensure that the shares of common stock of the Company you deliver on a Delivery Date are Shares. In the absence of Company records or written documentation from your broker demonstrating this fact, you must deliver to the Company the Fair Market Value of any Clawback Shares or Forfeiture Shares, as applicable, as of the date that such Shares are transferred from your stock plan account or otherwise become indistinguishable from other shares of common stock of the Company that you may hold on the Delivery Date. “Delivery Date” means any Restatement Delivery Date or Forfeiture Delivery Date, as applicable.

14. Miscellaneous.

(a) Your obligations under this Agreement shall survive any termination of your employment with the Company for any reason.

(b) You acknowledge that any of the Company’s rights or remedies under this Agreement shall be cumulative and in addition to whatever other remedies the Company may have under law or equity.

(c) You agree that any recovery by the Company under this Agreement will be a recovery of Shares to which you were not entitled under this Agreement and is not to be construed in any manner as a penalty.

(d) The Company may, to the maximum extent permitted by applicable law, retain for itself funds or securities otherwise payable to you pursuant to this Agreement to satisfy any obligation or debt that you owe to the Company, including any obligations hereunder. The Company may not retain such funds or securities until such time as they would otherwise be distributable to you in accordance with this Agreement.

[Signature page follows.]

Capital One from time to time distributes and makes available to associates a disclosure document relating to the Plan. You may also contact the HR Help Center to obtain a copy of the Plan disclosure document and the Plan. You should carefully read the Plan disclosure document and the Plan. By accepting the benefits of this Agreement you acknowledge receipt of the Plan and the Plan disclosure document and agree to be bound by the terms of this Agreement and the Plan.

IN WITNESS WHEREOF, CAPITAL ONE FINANCIAL CORPORATION has caused this Agreement to be signed on its behalf.

CAPITAL ONE FINANCIAL CORPORATION

By:

Jory Berson
Chief Human Resources Officer

Exhibit 10.2.12

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Restricted Stock Unit Award Agreement

No. of Units: 157,378

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (this “Agreement”), dated January 31, 2012 (the “Date of Grant”), between CAPITAL ONE FINANCIAL CORPORATION, a Delaware corporation (“Capital One” or the “Company”), and **Richard D. Fairbank** (“you”), is made pursuant and subject to the provisions of the Company’s 2004 Stock Incentive Plan, as amended and restated (the “Plan”). All capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless otherwise defined herein.

WHEREAS, Article 8 of the Plan provides for the award from time to time in the discretion of the Committee of Restricted Stock Units, representing shares of common stock of Capital One, $.01 par value per share (“Common Stock”), the vesting and issuance of which are subject to continued employment with Capital One or other conditions;

W I T N E S S E T H:

1. Grant of Restricted Stock Units. Capital One hereby grants to you **XXX,XXX** Restricted Stock Units (the “Restricted Stock Units”). The Restricted Stock Units shall vest only in accordance with the provisions of this Agreement and of the Plan.

2. Non-Transferability. Subject to the provisions of Section 3 hereof, the rights represented by the Restricted Stock Units shall not be assignable or transferable, or otherwise alienated or hypothecated, under any circumstances. Any purported or attempted transfer of such units or such rights shall be null and void and shall result in the immediate forfeiture and cancellation of the Restricted Stock Units.

3. Payment of Restricted Stock Units.

(a) Vesting. Except as provided in Sections 3(b) and 13 below, and to the extent not previously vested as provided herein, the Restricted Stock Units shall vest in full on February 10, 2015 (the “Vesting Date”); or, if earlier, upon (i) the termination of your employment due to death or Disability or (ii) a Change of Control, and the date of such death, Disability or Change of Control shall be the Vesting Date. The period between January 1, 2012, and the Vesting Date shall be the “Performance Period.”

Upon vesting, the Restricted Stock Units shall become payable in cash in an amount equal to the product of (i) the average Fair Market Value of the Common Stock for the 20 trading days preceding the Vesting Date and (ii) the number of Restricted Stock Units vesting on the Vesting Date (subject to Section 5 below).

(b) Effect of Termination of Employment for Cause or as a Result of Retirement.

(i) Upon your termination of employment with Capital One for Cause (as defined herein), all Restricted Stock Units shall immediately be forfeited (to the extent not previously vested as provided herein).

For the purposes of this Agreement, “Cause” shall be defined as the willful and continued failure by you to perform substantially your duties with the Company or any affiliated company (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to you by the Board or the Committee that specifically identifies the manner in which the Board or the Committee believe that you have not substantially performed your duties, or the willful engaging by you in illegal conduct or gross misconduct that in either case is materially and demonstrably injurious to the Company.

For purposes of this Section 3(b), no act, or failure to act, on your part shall be considered “willful” unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the affiliated companies and is not publicly-traded, the board of directors of the ultimate parent of the Company (the “Applicable Board”), or (B) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company. The cessation of your employment shall not be deemed to be for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding you, if you are a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to you and you are given an opportunity, together with your counsel, to be heard before the Applicable Board), finding that, in the good faith opinion of the Applicable Board, you are guilty of the conduct described in this Section 3(b)(i), and specifying the particulars thereof in detail.

(ii) Upon your termination of employment with Capital One as a result of Retirement, the Restricted Stock Units shall continue to vest and become payable to you on the Vesting Date and remain subject to reduction pursuant to Section 13.

4. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Committee and subject to the Committee’s right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and Capital One; provided that, changes, modifications and amendments not detrimental to you may be made in writing signed only by Capital One. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

5. Tax Withholding. If you become subject to withholding under applicable tax laws, you agree to pay Capital One the amount required to be withheld by one or more of the following methods:

(a) automatically through payroll withholding; and

(b) by such other methods as Capital One may make available from time to time.

6. Dividends Equivalents. With respect to the Restricted Stock Units, you shall be credited with dividend equivalents as and when dividends are paid to the Company's other stockholders. Such dividend equivalents shall accumulate and be paid to you in cash (without interest) as and when you receive payment under Section 3 with respect to the Restricted Stock Units from which such dividend equivalents are derived. All such dividend equivalents shall be subject to the same vesting requirements that apply to the Restricted Stock Units from which such dividend equivalents are derived.

7. Governing Law. This Agreement shall be governed by federal law and, to the extent not preempted thereby, by the laws of the State of Delaware.

8. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

9. Bound by Plan. In consideration of the grant of the Restricted Stock Units, you agree that you will comply with such conditions as the Committee may impose on the Restricted Stock Units and be bound by the terms of the Plan.

10. Employment Status. This Agreement does not constitute a contract of employment nor does it alter your terminable at will status or otherwise guarantee future employment.

11. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of you and your legatees, distributees and personal representatives, and Capital One and its successors and assigns.

12. Forfeiture Event. You agree to reimburse the Company with respect to the Restricted Stock Units to the extent required under Section 304 of the Sarbanes-Oxley Act of 2002 or as otherwise required by law.

13. Performance-Based Adjustment.

(a) The number of Restricted Stock Units vesting on the Vesting Date shall be subject to reduction as follows:

(i) For each fiscal year of the Company ending during the Performance Period, if any, that (A) Core Earnings for the Company for such fiscal year, as certified by the Committee, are not positive (i.e., Core Earnings are not greater than zero) and (B) Base ROA for the Company for such fiscal year, as certified by the Committee, is better than or equal to negative two percent (-2%), the number of Restricted Stock Units scheduled to vest on the Vesting Date shall be reduced by 26,229; and

(ii) For each fiscal year of the Company ending during the Performance Period, if any, that Base ROA for the Company for such fiscal year, as certified by the Committee, is not better than or equal to negative two percent (-2%), the number of Restricted Stock Units scheduled to vest on the Vesting Date shall be reduced by 52,459 regardless the Core Earnings of the Company for such fiscal year, and there shall be no additional reduction for such fiscal year pursuant to subsection 13(a)(i) above.

(b) For purposes of this Section 13:

(i) “Core Earnings” means the Company’s net income available to common stockholders, excluding, on a tax-adjusted basis, the impact of (A) impairment or amortization of intangible assets, (B) the credit portion of other than temporary impairment of the securities portfolio, (C) the build or release of the allowance for loan and lease losses, calculated as the difference between the provision for loan and lease losses and charge-offs, net of recoveries, and (D) the change in the combined uncollectible finance charge and fee reserve;

(ii) “Base ROA” means the ratio, expressed as a percentage, of (A) the Company’s net income available to common stockholders, excluding, on a tax-adjusted basis, the impact of any impairment of intangible assets, to (B) the Company’s average total assets for the period; and

(iii) In the event of any change to U.S. generally accepted accounting principles affecting the treatment or classification of any component of Core Earnings or Base ROA, such metric shall be calculated in a manner consistent with the definitions herein to the extent practicable.

14. <u>Miscellaneous.</u>

(a) Your obligations under this Agreement shall survive any termination of your employment with the Company for any reason.

(b) You acknowledge that any of the Company’s rights or remedies under this Agreement shall be cumulative and in addition to whatever other remedies the Company may have under law or equity.

(c) You agree that any recovery by the Company under this Agreement will be a recovery of Restricted Stock Units to which you were not entitled under this Agreement and is not to be construed in any manner as a penalty.

(d) The Company may, to the maximum extent permitted by applicable law and Section 409A of the Code, retain for itself funds or securities otherwise payable to you pursuant to this Agreement to satisfy any obligation or debt that you owe the Company, including any obligations hereunder. The Company may not retain such funds or securities until such time as they would otherwise be distributable to you in accordance with this Agreement.

Capital One from time to time distributes and makes available to associates a disclosure document relating to the Plan. You may also contact the HR Help Center to obtain a copy of the Plan disclosure document and the Plan. You should carefully read the Plan disclosure document and the Plan. By accepting the benefits of this Agreement you acknowledge receipt of the Plan and the Plan disclosure document and agree to be bound by the terms of this Agreement and the Plan.

IN WITNESS WHEREOF, CAPITAL ONE FINANCIAL CORPORATION has caused this Agreement to be signed on its behalf.

CAPITAL ONE FINANCIAL CORPORATION

By: ______________________________

Mayo A. Shattuck III
Chairman, Compensation Committee

____

Richard D. Fairbank
Chairman of the Board, Chief Executive Officer and President

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Restricted Stock Unit Award Agreement

No. of Units: %%TOTAL_SHARES_GRANTED%-%

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (this "Agreement"), dated January 31, 2012 (the "Date of Grant"), between **CAPITAL ONE FINANCIAL CORPORATION**, a Delaware corporation ("Capital One" or the "Company"), and **%%FIRST_NAME%-% %%LAST_NAME%-%** ("you"), is made pursuant and subject to the provisions of the Company's 2004 Stock Incentive Plan, as amended and restated (the "Plan"), and all capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless otherwise defined herein.

WHEREAS, Article 8 of the Plan provides for the award from time to time in the discretion of the Committee of Restricted Stock Units, representing shares of common stock of Capital One, $.01 par value per share ("Common Stock"), the vesting and issuance of which are subject to continued employment with Capital One or other conditions;

W I T N E S S E T H:

1. Grant of Restricted Stock Units. Capital One hereby grants to you %%TOTAL_UNITS_GRANTED%-% Restricted Stock Units (the "Restricted Stock Units"). The Restricted Stock Units shall vest only in accordance with the provisions of this Agreement and of the Plan.

2. Non-Transferability. Subject to the provisions of Section 3 hereof, the rights represented by the Restricted Stock Units shall not be assignable or transferable, or otherwise alienated or hypothecated, under any circumstances. Any purported or attempted transfer of such units or such rights shall be null and void and shall result in the immediate forfeiture and cancellation of the Restricted Stock Units.

3. Payment of Restricted Stock Units.

(a) Vesting. Except as provided in subsections 3(b) and 3(c) below, and to the extent not previously vested or forfeited as provided herein, 100% of the Restricted Stock Units shall vest on December 15, 2012 (the "Vesting Date"); or, if earlier, in full upon (i) the termination of your employment due to death or Disability; or (ii) a Change of Control, and the date of such death, Disability or Change of Control shall be the Vesting Date.

Upon vesting, the Restricted Stock Units shall become payable in cash in an amount equal to the product of (i) the average Fair Market Value of the Common Stock for the 20 trading days preceding the Vesting Date and (ii) the number of Restricted Stock Units vesting on the Vesting Date (subject to Section 5 below).

(b) Effect of Termination of Employment. Upon your termination of employment with Capital One for any reason other than death, Disability or a Change of Control, prior to the

Vesting Date (such date of termination, the “Termination Date”), the Units shall immediately vest and become payable in cash on the Termination Date provided that in such case the amount payable shall be equal to the product of (a) and (b) where (a) shall be equal to the product of (i) the average Fair Market Value of the Common Stock for the 20 trading days preceding the Termination Date and (ii) the number of Restricted Stock Units that would have vested on the Vesting Date if your employment had not been terminated and (b) is a fraction, the numerator of which is the number of calendar days from January 1, 2012 through and including the Termination Date and the denominator of which is 366.

4. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Committee and subject to the Committee’s right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and Capital One; provided that, changes, modifications and amendments not detrimental to you may be made in writing signed only by Capital One. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

5. Tax Withholding. If you become subject to withholding under applicable tax laws, you agree to pay Capital One the amount required to be withheld by one or more of the following methods:

(c) automatically through payroll withholding; and

(d) by such other methods as Capital One may make available from time to time.

6. Dividends Equivalents. With respect to the Restricted Stock Units, dividend equivalents shall be paid to you in cash as soon as is practicable after dividends are paid to the Company’s other stockholders.

7. Governing Law. This Agreement shall be governed by federal law and, to the extent not preempted thereby, by the laws of the State of Delaware.

8. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

9. Bound by Plan. In consideration of the grant of the Restricted Stock Units, you agree that you will comply with such conditions as the Committee may impose on the Restricted Stock Units and be bound by the terms of the Plan.

10. Employment Status. This Agreement does not constitute a contract of employment nor does it alter your terminable at will status or otherwise guarantee future employment.

11. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of you and your legatees, distributees and personal representatives, and Capital One and its successors and assigns.

12. Forfeiture Event. You agree to reimburse the Company with respect to the Restricted Stock Units to the extent required under Section 304 of the Sarbanes-Oxley Act of 2002 or as otherwise required by law.

Capital One from time to time distributes and makes available to associates a disclosure document relating to the Plan. You may also contact the HR Help Center to obtain a copy of the Plan disclosure document and the Plan. You should carefully read the Plan disclosure document and the Plan. By accepting the benefits of this Agreement you acknowledge receipt of the Plan and the Plan disclosure document and agree to be bound by the terms of this Agreement and the Plan.

IN WITNESS WHEREOF, CAPITAL ONE FINANCIAL CORPORATION has caused this Agreement to be signed on its behalf.

CAPITAL ONE FINANCIAL CORPORATION

By:

Jory Berson
Chief Human Resources Officer

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Restricted Stock Unit Award Agreement

No. of Units: %%TOTAL_SHARES_GRANTED%-%

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (this “Agreement”), dated January 31, 2012 (the “Date of Grant”), between CAPITAL ONE FINANCIAL CORPORATION, a Delaware corporation (“Capital One” or the “Company”), and **%%FIRST_NAME%-% %%LAST_NAME%-%** (“you”), is made pursuant and subject to the provisions of the Company’s 2004 Stock Incentive Plan, as amended and restated (the “Plan”), and all capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless otherwise defined herein.

WHEREAS, Article 8 of the Plan provides for the award from time to time in the discretion of the Committee of Restricted Stock Units, representing shares of common stock of Capital One, $.01 par value per share, the vesting and issuance of which are subject to continued employment with Capital One or other conditions;

W I T N E S S E T H:

1. Grant of Restricted Stock Units. Capital One hereby grants to you %%TOTAL_SHARES_GRANTED%-% Restricted Stock Units (the “Restricted Stock Units). The Restricted Stock Units shall vest only in accordance with the provisions of this Agreement and of the Plan.

2. Non-Transferability. Subject to the provisions of Section 3 hereof, the rights represented by the Restricted Stock Units shall not be assignable or transferable, or otherwise alienated or hypothecated, under any circumstances. Any purported or attempted transfer of such units or such rights shall be null and void and shall result in the immediate forfeiture and cancellation of the Restricted Stock Units.

3. Payment of Restricted Stock Units.

(a) Vesting. Except as provided in subsections 3(b) and 3(c) below, and to the extent not previously vested or forfeited as provided herein, the Restricted Stock Units shall vest as follows:

One-third of the Restricted Stock Units on February 10, 2013
One-third of the Restricted Stock Units on February 10, 2014
One-third of the Restricted Stock Units on February 10, 2015

Each of the anniversaries of the Date of Grant above shall be a “Vesting Date.” Notwithstanding the foregoing, the Restricted Stock Units shall vest in full upon (i) the termination of your employment due to death or Disability; or (ii) a Change of Control, and the date of such death, Disability or Change of Control shall be the Vesting Date for all applicable Restricted Stock Units.

Upon vesting, the Restricted Stock Units shall become payable in cash in an amount equal to the product of (i) the average Fair Market Value of the Common Stock for the 20 trading days preceding the Vesting Date and (ii) the number of Restricted Stock Units vesting on the Vesting Date (subject to Section 5 below).

(b) Effect of Termination of Employment Not For Cause. Upon your termination of employment with Capital One due to Retirement or for any reason other than for Cause (as defined herein), death, Disability or a Change of Control, the Units shall continue to vest and become payable in cash on the regularly scheduled Vesting Dates specified in Section 3(a) (to the extent not previously vested or forfeited as provided herein).

(c) Effect of Termination of Employment For Cause. Upon your termination of employment with the Company for Cause prior to any Vesting Date, all Restricted Stock Units, as of such date of termination, shall be immediately forfeited (to the extent not previously vested as provided herein).

For the purposes of this Agreement, “Cause” shall be defined as the willful and continued failure by you to perform substantially your duties with the Company or any affiliated company (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to you by the Board, the Committee, or the Chief Executive Officer of the Company that specifically identifies the manner in which the Board, the Committee or the Chief Executive Officer of the Company believes that you have not substantially performed your duties, or the willful engaging by you in illegal conduct or gross misconduct that in either case is materially and demonstrably injurious to the Company.

For purposes of this Section 3(c), no act, or failure to act, on your part shall be considered “willful” unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the affiliated companies and is not publicly-traded, the board of directors of the ultimate parent of the Company (the “Applicable Board”), (B) the instructions of the Chief Executive Officer of the Company (unless you are the Chief Executive Officer at the time of any such instruction) or (C) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company. The cessation of your employment shall not be deemed to be for Cause unless and until there shall have been delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding you, if you are a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to you and you are given an opportunity, together with your counsel, to be heard before the Applicable Board), finding that, in the good faith opinion of the Applicable Board, you are guilty of the conduct described in this Section 3(c), and specifying the particulars thereof in detail.

4. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Committee and subject to the Committee’s right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and

Capital One; provided that, changes, modifications and amendments not detrimental to you may be made in writing signed only by Capital One. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

5. Tax Withholding. If you become subject to withholding under applicable tax laws, you agree to pay Capital One the amount required to be withheld by one or more of the following methods:

(e) automatically through payroll withholding; and

(f) by such other methods as Capital One may make available from time to time.

6. Dividends Equivalents. With respect to the Restricted Stock Units, dividend equivalents shall be paid to you in cash as soon as is practicable after dividends are paid to the Company's other stockholders.

7. Governing Law. This Agreement shall be governed by federal law and, to the extent not preempted thereby, by the laws of the State of Delaware.

8. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

9. Bound by Plan. In consideration of the grant of the Restricted Stock Units, you agree that you will comply with such conditions as the Committee may impose on the Restricted Stock Units and be bound by the terms of the Plan.

10. Employment Status. This Agreement does not constitute a contract of employment nor does it alter your terminable at will status or otherwise guarantee future employment.

11. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of you and your legatees, distributees and personal representatives, and Capital One and its successors and assigns.

12. Forfeiture Event. You agree to reimburse the Company with respect to the Restricted Stock Units to the extent required under Section 304 of the Sarbanes-Oxley Act of 2002 or as otherwise required by law.

13. Miscellaneous.

(a) Your obligations under this Agreement shall survive any termination of your employment with the Company for any reason.

(b) You acknowledge that any of the Company's rights or remedies under this Agreement shall be cumulative and in addition to whatever other remedies the Company may have under law or equity.

(c) You agree that any recovery by the Company under this Agreement will be a recovery of Restricted Stock Units to which you were not entitled under this Agreement and is not to be construed in any manner as a penalty.

(d) The Company may, to the maximum extent permitted by applicable law and Section 409A of the Code, retain for itself funds or securities otherwise payable to you pursuant to this Agreement to satisfy any obligation or debt that you owe the Company, including any obligations hereunder. The Company may not retain such funds or securities until such time as they would otherwise be distributable to you in accordance with this Agreement.

Capital One from time to time distributes and makes available to associates a disclosure document relating to the Plan. You may also contact the HR Help Center to obtain a copy of the Plan disclosure document and the Plan. You should carefully read the Plan disclosure document and the Plan. By accepting the benefits of this Agreement you acknowledge receipt of the Plan and the Plan disclosure document and agree to be bound by the terms of this Agreement and the Plan.

IN WITNESS WHEREOF, CAPITAL ONE FINANCIAL CORPORATION has caused this Agreement to be signed on its behalf.

CAPITAL ONE FINANCIAL CORPORATION

By:

Jory Berson
Chief Human Resources Officer

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Restricted Stock Award Agreement

No. of Shares: %%TOTAL_SHARES_GRANTED%-%

THIS RESTRICTED STOCK AWARD AGREEMENT (this “Agreement”), dated January 31, 2012 (the “Date of Grant”), between **CAPITAL ONE FINANCIAL CORPORATION**, a Delaware corporation (“Capital One” or the “Company”), and **%%FIRST_NAME%-% %%LAST_NAME%-%** (“you”), is made pursuant and subject to the provisions of the Company’s 2004 Stock Incentive Plan, as amended and restated (the “Plan”), and all capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless otherwise defined herein.

WHEREAS, Article 8 of the Plan provides for the award from time to time in the discretion of the Committee of shares of common stock of Capital One, $.01 par value per share (“Common Stock”), the vesting of which is subject to continued employment or other conditions;

W I T N E S S E T H:

1. Grant of Restricted Stock. Capital One hereby grants to you %%TOTAL_SHARES_GRANTED%-% shares of Common Stock (the “Restricted Stock”). The Restricted Stock shall vest and become freely transferable only in accordance with the provisions of this Agreement and of the Plan.

2. Non-Transferability. Subject to the provisions of Section 3 hereof, the rights represented by the Restricted Stock shall not be assignable or transferable, or otherwise alienated or hypothecated, under any circumstances. Any purported or attempted transfer of such shares or such rights shall be null and void and shall result in the immediate forfeiture and cancellation of the Restricted Stock.

3. Lapse of Restrictions.

(a) Vesting. Except as provided in Sections 3(b), 3(c), 3(d) and 16 below and to the extent not previously vested as provided herein, the Restricted Stock shall become transferable and the restrictions shall lapse in full according to the following schedule:

One-third of the Restricted Stock on February 10, 2013
One-third of the Restricted Stock on February 10, 2014
One-third of the Restricted Stock on February 10, 2015

Each of the immediately above dates shall be a “Scheduled Vesting Date.”

(b) Effect of Termination of Employment.

(i) Upon your termination of employment with Capital One for any reason other than death, Disability, Retirement, or Change of Control, all shares of Restricted Stock shall immediately be forfeited (to the extent not previously vested or forfeited as provided herein).

(ii) Upon your termination of employment with Capital One as a result of your death or Disability, all of the shares of the Restricted Stock shall immediately vest and become transferable and all restrictions thereon shall lapse upon such termination of employment (to the extent not previously vested or forfeited as provided herein).

(iii) Upon your termination of employment with Capital One as a result of Retirement, the Restricted Stock shall continue to vest on the Scheduled Vesting Dates (to the extent not previously vested or forfeited as provided herein) and remain subject to reduction pursuant to Section 16.

(c) Vesting Schedule Upon Eligibility for Retirement.

(i) Unless otherwise determined by the Committee or the independent members of the Board of Directors, as applicable, and to the extent permitted or required by law, the Restricted Stock shall become transferable upon you becoming eligible for Retirement, only and to the extent sufficient, if sold at Fair Market Value, on the date of such eligibility, to provide for the payment of any tax liability caused as a consequence of such eligibility condition in accordance with applicable tax laws. It is understood that the remaining portion of the Restricted Stock shall continue to vest on the Scheduled Vesting Dates as provided herein.

(ii) Notwithstanding any other provision of this Agreement to the contrary, Capital One will instruct the Plan administrator to withhold and transfer to Capital One the Restricted Stock that becomes transferable pursuant to the immediately foregoing paragraph in satisfaction of your tax withholding liability, unless you notify Capital One of your intention to satisfy such tax withholding obligations in another permissible manner not less than 60 days prior to such eligibility date. Capital One reserves the right to change this instruction at any time.

(d) Effect of Change of Control. If a Change of Control of Capital One occurs, then all of the shares of the Restricted Stock shall vest and become transferable and all restrictions thereon shall lapse immediately upon the occurrence of such Change of Control (to the extent not previously vested or forfeited as provided herein).

4. Prohibition of Tax Election. You shall not attempt or purport to elect under Section 83(b) of the Internal Revenue Code with respect to the Restricted Stock to pay income tax within 30 days of the Date of Grant, and any such attempted or purported election shall result in the immediate forfeiture and cancellation of all of the Restricted Stock granted to you under this Agreement.

5. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Committee and subject to the Committee's right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and Capital One; provided that, changes, modifications and amendments not detrimental to you may be made in writing signed only by Capital One. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

6. Tax Withholding. If you become subject to withholding under applicable tax laws, you agree to pay Capital One the amount required to be withheld by one or more of the following methods:

(a) Capital One's designated agent will automatically withhold the number of shares having a Fair Market Value equal to the amount required to be withheld and deliver the proceeds thereof to Capital One, unless you otherwise instruct Capital One or its designated agent as provided in (b) or (c) below;

(b) by making a timely election to send cash or check payment; or

(c) by such other methods as Capital One may make available from time to time.

7. Dividends. With respect to shares of the Restricted Stock that have vested, dividends shall be paid to you in cash as soon as is practicable after dividends are paid to the Company's other stockholders. With respect to shares of Restricted Stock that have not vested, you shall be credited with dividends as and when dividends are paid to the Company's other stockholders. By accepting this Award, you agree that such dividends shall accumulate and be paid to you in cash (without interest) as and when the shares of Restricted Stock from which such dividends are derived vest pursuant to Section 3. You further agree that all such dividends shall be subject to the same vesting requirements that apply to the Restricted Stock from which such dividends are derived.

8. Governing Law. This Agreement shall be governed by federal law and, to the extent not preempted thereby, by the laws of the State of Delaware.

9. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

10. Bound by Plan. In consideration of the grant of the Restricted Stock, you agree that you will comply with such conditions as the Committee may impose on the Restricted Stock and be bound by the terms of the Plan.

11. Employment Status. This Agreement does not constitute a contract of employment nor does it alter your terminable at will status or otherwise guarantee future employment.

12. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of you and your legatees, distributees and personal representatives, and Capital One and its successors and assigns.

13. Forfeiture Event. You agree to reimburse the Company with respect to the Restricted Stock to the extent required under Section 304 of the Sarbanes-Oxley Act of 2002 or as otherwise required by law.

14. Clawback.

(a) In the event that the Committee determines that you have willfully engaged in illegal conduct or gross misconduct that in either case is materially and demonstrably injurious to the Company, you shall deliver to the Company on the Forfeiture Delivery Date the Forfeiture Shares (each as defined below), if any.

For purposes of this Section 14(a):

(i) No act or failure to act on your part shall be considered "willful" unless it is done, or omitted to be done, by you in bad faith or without reasonable belief that your action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Board of Directors, or if the Company is not the ultimate parent corporation of the affiliated companies and is not publicly-traded, the board of directors of the ultimate parent company, (B) the instructions of the Chief Executive Officer of the Company (unless you are the Chief Executive Officer at the time of any such instruction) or (C) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by you in good faith and in the best interests of the Company.

(ii) "Clawback Period" means the one-year period ending on the date the Committee makes the determination referenced in the first sentence of this Section 14(a).

(iii) "Forfeiture Shares" means (i) the number of shares of the Restricted Stock that vested under this Agreement within the Clawback Period and that are held by you as of the Forfeiture Delivery Date plus (ii) the pre-tax proceeds from sales or other transfers, if any, of the shares of Restricted Stock that vested under this Agreement during the Clawback Period and that you have sold or otherwise transferred prior to the Forfeiture Delivery Date. The "pre-tax proceeds" for any shares that were transferred by you in a transaction other than a sale on the New York Stock Exchange shall be the Fair Market Value of such shares as of the date of such transaction. The "pre-tax proceeds" for any shares that were withheld pursuant to Section 6 shall be the Fair Market Value of such shares as of the date they were withheld.

(iv) "Forfeiture Delivery Date" means the date that is 30 days after the Committee makes the determination referenced in the first sentence of this Section 14(a), or such earlier date upon which you deliver the Forfeiture Shares to the Company.

(b) It is your responsibility to ensure that the shares of Common Stock you deliver on a Forfeiture Delivery Date are shares of the Restricted Stock. In the absence of Company records or written documentation from your broker demonstrating this fact, you must deliver to the Company the Fair Market Value of any Forfeiture Shares as of the date that such shares of Restricted Stock are transferred from your stock plan account or otherwise become indistinguishable from other shares of Common Stock that you may hold on the Forfeiture Delivery Date.

15. Mandatory Holding Requirement.

(a) You agree that with respect to the Applicable Holding Shares you may not transfer, sell, pledge, hypothecate or otherwise dispose of such Applicable Holding Shares until the Holding Date; provided that the requirements set forth in this Section 15 shall immediately lapse and be of no further force and effect upon your death, Disability or a Change of Control.

(b) For purposes of this Section 15:

(i) "Applicable Holding Shares" means 50% of the shares of Restricted Stock acquired hereunder (not including any shares sold or retained by the Company to fund the payment of any tax withholding obligation payable in connection with the Restricted Stock) during your term of employment with the Company and during the one-year period after termination of your employment for any reason; and

(ii) "Holding Date" means the first anniversary of the date of acquisition of any Applicable Holding Shares.

16. Performance-Based Adjustment.

(a) The number of shares of Restricted Stock vesting on any Scheduled Vesting Date shall be subject to reduction as follows:

(i) In the event that the Core Earnings of the Company for the Company's fiscal year ended immediately prior to such Scheduled Vesting Date, as certified by the Committee, are not positive (i.e., Core Earnings are not greater than zero), the number of shares of Restricted Stock scheduled to vest on such Scheduled Vesting Date shall be reduced by 50%, rounding up to the nearest whole share; and

(ii) In the event that the Base ROA of the Company for the Company's fiscal year ended immediately prior to such Scheduled Vesting Date, as certified by the Committee, is not better than or equal to negative two percent (-2%), all shares of Restricted Stock scheduled to vest on such Scheduled Vesting Date shall be forfeited, regardless the Core Earnings of the Company for such fiscal year.

(b) For purposes of this Section 16:

(i) "Core Earnings" means the Company's net income available to common stockholders, excluding, on a tax-adjusted basis, the impact of (A) impairment or amortization of intangible assets, (B) the credit portion of other than temporary impairment of the securities portfolio, (C) the build or release of the allowance for loan and lease losses, calculated as the difference between the provision for loan and lease losses and charge-offs, net of recoveries, and (D) the change in the combined uncollectible finance charge and fee reserve;

(ii) "Base ROA" means the ratio, expressed as a percentage, of (A) the Company's net income available to common stockholders, excluding, on a tax-adjusted basis, the impact of any impairment of intangible assets, to (B) the Company's average total assets for the period; and

(iii) In the event of any change to U.S. generally accepted accounting principles affecting the treatment or classification of any component of Core Earnings or Base ROA, such metric shall be calculated in a manner consistent with the definitions herein to the extent practicable.

17. Miscellaneous.

(a) Your obligations under this Agreement shall survive any termination of your employment with the Company for any reason.

(b) You acknowledge that any of the Company's rights or remedies under this Agreement shall be cumulative and in addition to whatever other remedies the Company may have under law or equity.

(c) You agree that any recovery by the Company under this Agreement will be a recovery of shares of the Restricted Stock to which you were not entitled under this Agreement and is not to be construed in any manner as a penalty.

(d) The Company may, to the maximum extent permitted by applicable law, retain for itself funds or securities otherwise payable to you pursuant to this Agreement to satisfy any obligation or debt that you owe the Company, including any obligations hereunder. The Company may not retain such funds or securities until such time as they would otherwise be distributable to you in accordance with this Agreement.

[Signature page follows.]

Capital One from time to time distributes and makes available to associates a disclosure document relating to the Plan. You may also contact the HR Help Center to obtain a copy of the Plan disclosure document and the Plan. You should carefully read the Plan disclosure document and the Plan. By accepting the benefits of this Agreement you acknowledge receipt of the Plan and the Plan disclosure document and agree to be bound by the terms of this Agreement and the Plan.

IN WITNESS WHEREOF, CAPITAL ONE FINANCIAL CORPORATION has caused this Agreement to be signed on its behalf.

CAPITAL ONE FINANCIAL CORPORATION

By:

Jory Berson
Chief Human Resources Officer

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Restricted Stock Unit Award Agreement

No. of Units: %%TOTAL_SHARES_GRANTED%-%

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (this "Agreement"), dated May 11, 2011 (the "Date of Grant"), between **CAPITAL ONE FINANCIAL CORPORATION**, a Delaware corporation ("Capital One" or the "Company"), and **%%FIRST_NAME%-% %%LAST_NAME%-%** ("you"), is made pursuant and subject to the provisions of the Company's 2004 Stock Incentive Plan, as amended and restated (the "Plan"). All capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless otherwise defined herein:

W I T N E S S E T H:

1. Grant of Restricted Stock Units. Pursuant and subject to the terms and conditions set forth in this Agreement and in the Plan, Capital One hereby grants to you 3,206 Restricted Stock Units (the "Share Units"). The Share Units shall vest, and the shares of common stock of the Company, $.01 par value per share, underlying the Share Units shall be issuable, only in accordance with the provisions of this Agreement and of the Plan.

2. Non-Transferability. Subject to the provisions of Section 3 hereof, the rights represented by the Share Units and the underlying Shares related thereto shall not be assignable or transferable, or otherwise alienated or pledged or hypothecated or otherwise encumbered under any circumstances. Any purported or attempted assignment, transfer, alienation, pledge, hypothecation or encumbrance of such rights or of the Share Units or the underlying Shares related thereto prior to their issuance to you shall be null and void and shall result in the immediate forfeiture of such rights or Share Units, including the underlying Shares, and cancellation of this Agreement.

3. Issuance of Common Stock.

(a) Vesting. Except as provided in Sections 3(b) and 3(c) below, all Share Units shall, to the extent not previously vested or forfeited as provided herein, vest on the first anniversary of the Date of Grant (the "Vesting Date"); provided, however, that the underlying Shares shall not be issued to you or be assignable or transferable by you until the date of termination of your service as a Director of the Company (the "Termination Date"), as provided in Sections 3(b) and 3(c) below.

The vesting of the Share Units and the issuance of the underlying Shares shall be subject to Sections 6 through Section 9 of this Agreement.

(b) Effect of Termination of Service. Upon your termination of service as a Director of the Company for any reason other than by removal for cause, all Share Units shall, to the extent not previously vested or forfeited as provided herein, immediately vest, and the underlying Shares shall immediately be issuable to you in full without restrictions on transferability. Upon your termination of service as a Director by removal for cause, all Share Units and the underlying Shares, including any Shares accrued in connection with the payment of dividends as provided in Section 5 below, shall immediately be forfeited, whether or not previously vested.

(c) Effect of Change of Control. Upon a Change of Control, the Share Units shall, to the extent not previously vested or forfeited as provided herein, immediately vest, and the underlying Shares shall be issuable to you in full without restrictions on transferability on the closing date of the transaction giving rise to the Change of Control. In order to comply with Section 409A of the Internal Revenue Code, as amended, for purposes of this Section 3(c), Change of Control shall be defined as set forth in Treasury Regulation section 1.409A-3(i)(5).

4. Modification and Waiver. Except as provided in the Plan with respect to determinations of the Board of Directors or the Committee and subject to the Committee's right to amend the Plan, neither this Agreement nor any provision hereof can be changed, modified, amended, discharged, terminated or waived orally or by any course of dealing or purported course of dealing, but only by an agreement in writing signed by you and the Company; provided that changes, modifications and amendments not detrimental to you may be made in writing signed only by the Company. No such agreement shall extend to or affect any provision of this Agreement not expressly changed, modified, amended, discharged, terminated or waived or impair any right consequent on such a provision. The waiver of or failure to enforce any breach of this Agreement shall not be deemed to be a waiver or acquiescence in any other breach thereof.

5. Dividends. Dividends with respect to the Share Units shall accrue beginning on the Date of Grant through the Termination Date, at which time such accrued dividends shall be paid out in the form of additional Shares based on the Fair Market Value, of a Share on the business day prior to the Termination Date. The accrued dividends that shall be paid out to you shall be only such amount that has accrued with respect to the underlying Shares that vest on the Vesting Date or as described in Section 3(b) or 3(c) above.

6. Governing Law. This Agreement shall be governed by federal law and, to the extent not preempted thereby, by the laws of the State of Delaware.

7. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

8. Bound by Plan. In consideration of this grant of Share Units, you agree that you will comply with such conditions as the Board of Directors and the Committee may impose on the Share Units and be bound by the terms of the Plan.

9. Binding Effect. This Agreement shall be binding upon, enforceable against and inure to the benefit of you and your legatees, distributees and personal representatives, and the Company and its successors and assigns.

You represent that you are familiar with the terms of the Plan and have had the opportunity to ask questions and receive answers concerning the terms and conditions of the Share Units. As a condition of this award and your right to receive Share Units and the underlying Shares, you must accept this Agreement. By doing so, you confirm the accuracy of the statement set forth in the first sentence of this paragraph and evidence your acceptance of and agreement to be bound by the terms of this Agreement and the Plan.

IN WITNESS WHEREOF, CAPITAL ONE FINANCIAL CORPORATION has caused this Agreement to be signed on its behalf, and you have affixed your signature hereto.

CAPITAL ONE FINANCIAL CORPORATION

Mayo Shattuck III
Chairman, Compensation Committee

Exhibit 10.3.5

CAPITAL ONE FINANCIAL CORPORATION
2004 Stock Incentive Plan
Nonqualified Stock Option Agreement

No. of Shares Subject to Option: %TOTAL_SHARES_GRANTED%-%

THIS AGREEMENT (this “Agreement”), dated May 11, 2011 (the “Date of Grant”) between **CAPITAL ONE FINANCIAL CORPORATION**, a Delaware corporation (the “Company”), and **%%FIRST_NAME%-% %%LAST_NAME%-%** (“Optionee”), is made pursuant and subject to the provisions of the Company’s 2004 Stock Incentive Plan, as amended and restated (the “Plan”), and all capitalized terms used herein that are defined in the Plan shall have the same meaning given them in the Plan unless otherwise defined herein:

W I T N E S S E T H:

1. Grant of Options. Pursuant and subject to the terms and conditions of the Plan, this Agreement and the Election Form, dated as of the Date of Grant, executed by Optionee (the “Election Form”), the Company hereby grants to Optionee, options to purchase from the Company (each an “Option,” collectively, the “Options”) all or any part of an aggregate of **%%TOTAL_SHARES_GRANTED%-%** shares of common stock of the Company, $.01 par value per share at the purchase price per share of $%%OPTION_PRICE%-% (the “Option Price”), being not less than 100% of the Fair Market Value per share on the Date of Grant, such Options to be exercisable as hereinafter provided. The Options shall be nonqualified options that do not receive favorable tax treatment under Section 422 of the Internal Revenue Code.

In satisfaction of a condition of the grant of the Options, Optionee has agreed to forgo that amount of compensation from the Company that Optionee has designated in the Election Form, in the manner designated in such Election Form.

2. Terms and Conditions. The Options evidenced by this Agreement are subject to the following terms and conditions:

(a) Expiration Date. The Options shall expire on May 10, 2021 (the “Expiration Date”), unless earlier terminated as provided for herein.

(b) Transferability.

(i) Except as provided in the following sentence, the Options shall be nontransferable except by will or by the laws of descent and distribution and, during the lifetime of Optionee, may be exercised only by Optionee, except as provided in Section 3 below. The Options (or any portion thereof) may be transferred by the Optionee to (1) the spouse, children or grandchildren of Optionee (“Immediate Family Members”); (2) a trust or trusts for the exclusive benefit of Optionee and/or such Immediate Family Members; or (3) a partnership in which Optionee and/or such Immediate Family Members are the only partners; provided that (a) no consideration is paid to the Optionee in connection with the transfer; (b) in the event of a transfer to an individual, the Options are exercisable, during the original transferee’s lifetime, only by the transferee or by his or her guardian or legal representative; (c) following such transfer, Optionee retains no interest or reversion in the Options (or the underlying Shares upon exercise) and has no right to alter or amend the Options or revoke the transfer; and (d) subsequent transfer of the Options by the transferee (excluding transfers by will or by the laws of descent and distribution) is prohibited. Following transfer, the Options shall continue to be subject to the same terms and conditions as were applicable to the Options immediately before transfer (including terms and conditions based on the status of Optionee as a Director of the Company); provided that, where appropriate, all references in this Agreement to "Optionee" shall be deemed to refer to the transferee.

(ii) Promptly upon transfer of any Options, the Optionee shall deliver written notice of the transfer to the Company's executive compensation team at the Company's headquarters in McLean, Virginia. That written notice shall identify the transferee and the effective date of the transfer.

(iii) If the sale to the transferee of the Shares issuable upon exercise of the Options is not registered under the Securities Act of 1933, as amended, the Company, in its sole discretion, may condition such sale upon such terms and requirements as it deems appropriate to comply with applicable law.

(c) <u>Vesting of Options</u>. Subject to the provisions of Section 3 below, the Options shall become exercisable in full on the first anniversary of the Date of Grant. Notwithstanding the foregoing, the Options shall become fully exercisable if a Change of Control occurs, as defined in the Plan, or upon termination of Optionee's service as a Director for any reason other than by removal for cause.

(d) <u>Method of Exercising and Payment for Shares</u>.

(i) The Options may be exercised by delivering a notice of intent to exercise to the Company's designated stock option broker. Contact information for the Company's current stock option broker may be obtained from the Corporate Secretary's Office in McLean, VA. Such notice shall be accompanied by payment of the Option Price in full by cash (which shall include payment by check, bank draft or money order payable to the order of the Company). Optionee may by election substitute for all or any portion of the cash payment, the delivery of Shares that Optionee owns (valued at their Fair Market Value on the date of exercise) that are duly endorsed for transfer, or Optionee may exercise the Options by means of a "cashless exercise" pursuant to which Shares may be issued directly to Optionee's designated broker/dealer upon receipt by the Company of the Option Price in cash from such broker/dealer.

(ii) The exercise date will be the date upon which all of the procedures have been completed by the Optionee, or such later date as agreed to by the Optionee and the Company or its designated agent.

3. <u>Exercise Following Termination of Service as a Director</u>. As set forth in Section 2(c) above, and notwithstanding any other provisions herein, the Options shall become fully exercisable upon termination of Optionee's service as a Director for any reason, other than by removal for cause, or if a Change of Control occurs. The Optionee, or any transferee as described in Section 2(b) above, may exercise any outstanding Options at any time following such termination (but no later than the Expiration Date). If Optionee's service as a Director of the Company or any Subsidiary terminates for cause, Optionee shall forfeit all rights under the Options, and any unexercised Options, whether or not vested, shall be forfeited and cancelled.

4. Governing Law. This Agreement shall be governed by federal law and, to the extent not preempted thereby, by the laws of the State of Delaware.

5. Conflicts. In the event of any conflict between the provisions of the Plan as in effect on the Date of Grant and the provisions of this Agreement, except terms otherwise defined herein, the provisions of the Plan shall govern. All references herein to the Plan shall mean the Plan as in effect on the date hereof.

6. Bound by Plan. In consideration of the grant of the Options, Optionee agrees to comply with such conditions as the Board of Directors or the Committee may impose on the exercise of the Options and be bound by the terms of the Plan.

7. Tax Obligations Upon Exercise. The exercise of the Options is subject to the payment by the Optionee of all applicable federal, state and local taxes. Optionee is required to make arrangements for the payment of all applicable withholding taxes directly to the appropriate taxation authority.

8. Binding Effect. This Agreement shall be binding upon, enforceable against, and inure to the benefit of Optionee, his legatees, distributees, transferees, and personal representatives, and the Company and its successors and assigns.

Optionee represents that he/she is familiar with the terms of the Plan and has had the opportunity to ask questions and receive answers concerning the terms and conditions of the Options. By accepting this Agreement, Optionee confirms the accuracy of the statement set forth in the first sentence of this paragraph and evidences Optionee’s acceptance of and agreement to be bound by the terms of this Agreement and the Plan.

IN WITNESS WHEREOF, CAPITAL ONE FINANCIAL CORPORATION has caused this Agreement to be signed on its behalf, and Optionee has affixed his signature hereto.

CAPITAL ONE FINANCIAL CORPORATION

Mayo Shattuck III
Chairman, Compensation Committee

Exhibit 10.4

Capital One Financial Corporation
Executive Severance Plan

Amended and Restated, effective July 16, 2011

Section I. In General

Capital One Financial Corp., on behalf of itself and its wholly-owned subsidiaries (collectively, “Capital One” or the “Company”), hereby amends and restates the plan document for the Capital One Financial Corporation Executive Severance Plan, effective as of July 16, 2011, as it may be amended from time to time (the “Plan”), to provide eligible associates who have been involuntarily terminated due to job elimination or poor performance as determined by the Plan Administrator in its discretion, with a reasonable amount of financial security so as to allow a smooth transition to other employment. The group of eligible associates covered by the Plan constitutes a select group of management or highly compensated employees.

The Plan as set forth herein applies to all associates whose termination of employment occurs on or after July 16, 2011. For any associate who is terminated on or before July 15, 2011, benefits under the Plan will be based on the terms of the Plan in effect at the time of the associate’s termination, as applicable. The severance benefit that applies to an eligible associate will depend upon the associate’s job level as set forth below.

In order to receive any benefits under the Plan, an associate must also execute and not revoke a legally binding general release of claims in a form acceptable to the Plan Administrator (a “Release”) within the period designated in the Release. The Release will not be deemed to affect legal claims or rights that cannot under any circumstances be validly waived or released under law, such as a claim for vested benefits under a qualified retirement plan.

Notwithstanding the above, any associate otherwise eligible under the Plan who has not signed a non-solicitation of employee agreement with Capital One, as determined by the Plan Administrator, restricting such associate from soliciting other associates for a two year period following such associate’s separation from service, shall be required to execute a non-solicitation of employee covenant in a form acceptable to Capital One as part of the Release.

Notwithstanding the above, the Plan Administrator (or its designee) may in its sole and unfettered discretion designate an associate as severance-eligible if the associate is otherwise qualified under the Plan, but is involuntarily terminated for reasons other than job elimination or poor performance. Such exception shall not be made to an associate terminated for cause, as determined by the Plan Administrator. Further, no such exception or designation shall be binding as to any other associate not so designated, nor shall it purport to amend the Plan or otherwise create a separate right to eligibility under the Plan. In the event the Plan Administrator designates someone as eligible under the Plan for reasons other than job elimination or poor performance, the Plan Administrator may also determine what benefit(s) shall be provided to such associate.

Section II. Eligibility

Notwithstanding the above, to be eligible for benefits under the Plan, an associate must meet all of the following eligibility requirements (and not be ineligible for benefits as provided below):

- Be a full-time associate on the U.S. payroll designated by the Plan Administrator as terminated due to job elimination or poor performance, or be a part-time associate on the U.S. payroll designated by the Plan Administrator as terminated due to job elimination.
    - Notwithstanding the foregoing, if an associate who is designated as part-time at the time of his notification of separation was designated as full time (defined as "Standard Hours" of 33 or more hours per week) for more than 50% of the 12-month period immediately prior to the separation date, the associate will be eligible to receive benefits whether he is terminated due to job elimination or poor performance. In such case, all benefits will be paid based on the base pay the associate received on the last day of the period in which he was classified as a full-time associate, but in no event later than the base pay in effect on July 15, 2011. For associates hired on or after July 16, 2011, base pay means the associate's regular rate of base pay in effect upon date of hire, as determined by the Plan Administrator.
    - For purposes of this Plan, a part-time associate is defined as an associate whose "Standard Hours" in the Company's system of record are 20 or greater, but less than 33 hours per week at the time the associate is notified of his separation. Standard Hours are the number of hours associates are scheduled to work each week, as maintained in Capital One's system of record. Standard Hours are used to determine benefits eligibility and are maintained by managers in Capital One's system of record. Standard Hours may not be reflective of actual hours worked in any given week.
    - To be eligible for benefits provided due to poor performance, an associate must have been employed by the Company for a period of 6 consecutive months immediately prior to his separation date.
- The associate must be classified by the Company in one of the following internal job levels at the time of his termination of employment: Vice President ("VP"); Managing Vice President ("MVP"); Senior Vice President ("SVP"); Executive Vice President ("EVP"); or Executive Committee Member ("EC"). If an associate is classified in any other position, he is not eligible under the Plan.
- Generally, the Plan Administrator must designate the associate as terminated by Capital One due to job elimination or poor performance. For these purposes, the Plan Administrator retains the discretion to determine whether severance benefits are payable in cases where jobs are being eliminated due to outsourcing, the sale of all or a portion of Capital One's business or assets or another corporate transaction having similar effect.

- The associate must continue to work for Capital One and perform in a satisfactory manner until the associate’s services are no longer required.
- The associate must return all Capital One property immediately upon termination of employment. Property includes, but is not limited to, confidential information, telephones, fax machines, personal computers, blackberries or similar technology, corporate credit and phone cards, all memoranda, notes, documents, business plans, customer lists, computer programs and any other records. This also includes any copies made or compiled by the associate or made available to the associate during his employment with Capital One.

An associate is not eligible for any Plan benefits if:

- The associate is classified by Capital One as a part-time associate with Standard Hours in the Company’s system of record of less then 20 hours per week at the time of his termination, or is classified as a temporary worker (including, but not limited to, individuals engaged as contingent labor, contractors or other non-associate labor) as determined by the Plan Administrator.
- The associate’s employment is terminated for Cause, as determined by the Plan Administrator in its discretion or for any other reason not deemed by the Plan Administrator to be eligible under the Plan. For purposes of this Plan, cause shall be defined as the willful and continued failure by the associate to perform substantially his duties with Capital One or misconduct, as determined by the Plan Administrator (including by way of example, violation of any Capital One rules, policy, or any law or regulation).
- The associate voluntarily terminates employment with Capital One for any reason, including any claim of a “good reason termination” or “constructive termination” or any similar separation not designated by the Plan Administrator, in its discretion, as involuntary.
- The associate is not legally eligible for employment with Capital One, as provided under any applicable law or regulation.
- The associate declines reassignment to a comparable employment position as an employee of Capital One, or as otherwise determined by the Plan Administrator. The Plan Administrator will determine, in its discretion, whether an employment position within Capital One is comparable. The Plan Administrator may document, in writing, such comparability determinations, and may further adopt written guidelines for determining comparability. The Plan Administrator will apply such guidelines in a uniform and non-discriminatory manner with respect to similarly-situated individuals.
- The associate is eligible for severance-type benefits under another severance plan or agreement sponsored by the Company.

An associate who meets the Plan’s eligibility requirements and meets all other conditions for the receipt of benefits under the Plan may be referred to hereinafter as a “participant”.

Section III. Severance Benefits

A. Severance Payment

A participant's cash severance benefits ("Severance Payment") will be determined as set forth in the applicable Appendix to the Plan.

Any Severance Payment payable to a participant shall be offset dollar-for-dollar by any amounts payable to the participant under any Intellectual Property Protection Agreement, Non-Competition Agreement, or similar agreement (collectively, "NCA").

The Severance Payment shall be paid to the participant in a lump sum within 60 days of Capital One's receipt of participant's fully executed Release (but to the extent the payment is intended to be subject to the short-term deferral rule under Section 409A of the Internal Revenue Code of 1986, in no event later than March 15th of the year after the associate's termination of employment occurs); provided, however, that if the NCA non-competition provisions are enforced by Capital One, one-half of the Severance Payments (but in no event more than the amount specified in Treasury Regulation section 1.409A-1(b)(9)(iii)(A) as of the participant's termination of employment) shall be paid to the participant in a lump sum following the end of the non-competition period under the NCA (but in no event later than 30 days following the end of the non-competition period), and the balance shall be paid to the participant in a lump sum within 60 days following the participant's termination of employment.

B. Corporate Incentive Plan Annual Cash Bonus

If the associate is involuntarily terminated due to job elimination, and such termination occurs within the last three months of the performance period used to determine the associate's Corporate Incentive Plan Annual Cash Bonus ("Annual Cash Bonus"), he will be eligible for a prorated Annual Cash Bonus based on the mid-point of the target bonus range. The Annual Cash Bonus will be prorated based on his period of employment in that performance period. If the associate is involuntarily terminated due to job elimination after the last day of the performance period but before the Annual Cash Bonus is paid, the associate will be paid his full Annual Cash Bonus. The amount of the Annual Cash Bonus will be based on the mid-point of the associate's target bonus range, or if bonuses have been approved by the Board of Directors at the time of separation, the actual approved Annual Cash Bonus amount.

If the associate's termination is for reasons other than job elimination, the associate will not receive an Annual Cash Bonus.

The amount (if any) payable pursuant to this paragraph shall be subject to the same Annual Cash Bonus corporate and Board of Director approval and adjustment process applicable to employees generally and will be paid at the time Annual Cash Bonuses are normally paid to associates, no later than March 15th of the calendar year following the year the Annual Cash Bonus is earned.

C. *Outplacement services*

Outplacement services may be provided to eligible associates. The Plan Administrator will determine what services will be offered and for how long they will be available.

D. *Subsidized COBRA Coverage Payment*

Eligible associates can elect to continue their health insurance coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) and receive subsidized coverage from Capital One pursuant to the terms set forth in Appendices A through E, as applicable.

In such case, Capital One will directly pay the COBRA administrator on the participant’s behalf an amount equal to the employer-paid health care coverage premium in effect at that time, plus a 2% administrative fee. The participant will remain responsible for the remainder of the COBRA premium. The participant’s COBRA coverage subsidy from Capital One will continue for the period set forth in the applicable Appendix. Participants on an NCA will receive the greater of the COBRA benefit provided under the NCA or the Plan, but not both.

E. *Executive Life Insurance*

Executives covered under the Executive Life Insurance Program will continue to be provided term coverage (but not accidental death and dismemberment insurance) for 12 months following termination of employment at the same coverage level in effect immediately before termination.

Section IV. Plan Administration

Capital One has designated the Capital One Compensation Committee (the “Compensation Committee”) as the Plan Administrator, which is the named fiduciary of the Plan and has the discretionary power to administer the Plan. The Plan Administrator’s discretionary powers include, but are not limited to, the power to:

- Make and enforce such rules and regulations as the Plan Administrator deems necessary or proper for the efficient administration of the Plan;
- Make and approve any exceptions under the Plan, including but not limited to increasing or decreasing amounts payable under the Plan and granting benefits to associates who terminate for reasons other than job elimination or poor performance;
- Interpret the Plan, to decide all questions concerning the Plan, including without limitation the right to remedy possible ambiguities, inconsistencies, or omissions, by general rule or particular decision, and to determine the eligibility of any person to participate in the Plan and the entitlement of any person to any benefits under the Plan; and

- Appoint other persons to render it advice and assist it in administering the Plan and to designate other persons to carry out any of its responsibilities under the Plan.

Benefits shall be payable to a participant only if the Plan Administrator so determines in its discretion. Any interpretation, decision, or determination made by the Plan Administrator in good faith shall be final and binding on all persons claiming benefits under the Plan. The Plan Administrator may delegate all or any portion its duties hereunder to one or more individuals or committees and, to the extent of such delegation, any reference herein to the Plan Administrator shall include a reference to such individual or committee.

The Plan Administrator has designated the Chief Human Resource Officer the discretion to make and approve exceptions under the Plan for benefits provided to associates at the level of Executive Vice President and below.

Notwithstanding the above, the Capital One Board of Directors must approve all benefits payable under the Plan to members of the Executive Committee, including any exceptions provided under the Plan.

Section V. Claims Procedures

An individual who does not receive benefits to which he believes he is entitled under the Plan may file a written claim for such benefits with the Plan Administrator. The written claim should include the benefits being claimed and the reason(s) the claimant believes he is entitled to such benefits. The claimant may designate, in writing on such form as may be provided by the Plan Administrator or is otherwise acceptable to the Plan Administrator, an authorized representative to act on his behalf in pursuing the claim or a subsequent appeal. The claimant must exhaust his rights under these claims procedures before he may file suit to recover any benefits claimed.

Within 90 days of filing a claim, the claimant will receive written notice of the grant or denial of the claim. If special circumstances require an extension of time to consider the claim, the claimant will be notified in writing of the need for an extension prior to the expiration of the initial 90-day period. The notice of extension will explain the reasons for the extension and will indicate a date by which the Plan Administrator expects to make a decision. The extension may not exceed 90 days, for a total of 180 days from the date the claim was initially filed.

If the claim is being denied, the notice will explain the reason for the denial, cite the Plan provisions on which it is based, describe the procedure for appealing the decision, and explain the claimant’s right to file suit under section 502 of ERISA following denial of the claim on appeal. The notice also will describe any additional material or information necessary to demonstrate eligibility for the benefits requested.

Within 60 days of receiving a denial notice, the claimant may submit a written appeal to the Plan Administrator requesting a review of the denial. During this 60-day period, the claimant may also review and receive copies of relevant documents and may submit written issues, comments and additional information to the Plan Administrator. The Plan Administrator will consider all new information submitted by the claimant without regard to whether the information was submitted or considered during the initial claim.

Within 60 days after the request for review is received, a decision on appeal will be made. If special circumstances require an extension of time to consider the appeal, the claimant will be notified in writing of the need for an extension prior to the expiration of the initial 60-day period. The notice of extension will explain the reasons for the extension and will indicate a date by which the Plan Administrator expects to make a decision. The extension may not exceed 60 days, for a total of 120 days from the date the appeal was initially filed. If the claim is being denied upon appeal, the claimant will receive a written decision, including the basis for the decision, references to the Plan provisions on which the decision is based, a statement that the claimant has a right to receive copies of all documents relevant to the claim, and an explanation of the claimant's right to sue under section 502(a) of ERISA following the denial on appeal. To the extent permitted by law, the decision of the Plan Administrator on appeal is final and binding on all parties.

Notwithstanding the above, any claims or appeals brought by an Executive Committee member shall be reviewed and determined by the Board of Directors and not the Plan Administrator.

In no event may any legal or equitable action for benefits under the Plan be brought in a court of law or equity with respect to any claim for benefits more than one (1) year after the final denial of the appeal by the Plan Administrator (or, as applicable, the Board of Directors).

Section VI. Amendment and Termination

The Plan may be amended in whole or in part, prospectively or retroactively, at any time and from time to time, by action of the Compensation Committee. The Compensation Committee will effect any such amendment by adopting a resolution setting forth, or incorporating the specific terms of, the amendment or by approving the amendment itself. Notwithstanding the foregoing, no amendment to the Plan will apply to change the amount of any Severance Payment that begins before the amendment is adopted (or made effective, if later). The appropriate officers of Capital One may take all actions necessary or appropriate to implement any amendment to the Plan.

Capital One's Human Resources Division (the "Human Resources Division") has been authorized by the Compensation Committee to make technical and conforming amendments to the Plan and any other amendments that do not result in an annual cost to Capital One reasonably estimated by the Human Resources Division to be in excess of $500,000. The Human Resources Division will effect any such amendment by adopting the specific amendment.

Capital One has no obligation to maintain the Plan for any particular length of time, and reserves the right to discontinue or, by action of its Board of Directors, to terminate the Plan, partially or in its entirety, as of any date specified by the Board of Directors (or its delegate) by duly adopted written instrument.

Section VII. Miscellaneous

A. Compliance with Obligations

To the fullest extent permitted by applicable law, if the participant violates any provision of this Plan, any confidentiality, intellectual property, non-competition, non-solicitation, or other covenant or agreement with Capital One (including, without limitation, the Non-Competition Agreement in any respect (or challenges the enforceability of any such covenant or agreement in any in any administrative proceeding, arbitration, or litigation)), fails to repay any amounts owed to Capital One (including, without limitation, overpayment of salary, bonus, vacation pay, severance benefits or personal expenditures on a Capital One credit card), or violates the terms of the Release, or it is subsequently determined that the participant's employment could have been terminated for Cause (as determined in the Plan Administrator's reasonable discretion), all benefits hereunder shall cease and, except as otherwise required by the Age Discrimination in Employment Act of 1967, as amended, the Plan shall be entitled to cease paying benefits, reduce benefits, and/or recover any benefits previously paid by remedies including, without limitation, the equitable remedy of constructive trust.

B. Impact of Other Benefits on Severance Benefits

If a participant will receive benefits pursuant to a disability certification under the Capital One's disability benefit program as defined in its Summary Plan Description or pursuant to a Workers' Compensation certification, such benefits shall have no impact on Severance Payment provided hereunder, and Severance Payment provided under this Plan shall have no impact on such disability or Worker's Compensation benefits.

C. Interaction with WARN Act

This Plan is not intended to duplicate payments already required by the Worker Adjustment and Retraining Notification Act or any similar state or local law requiring prior notice of plant closing or mass layoff (collectively, "WARN"). Therefore, notwithstanding any of the above, benefits payable under the Plan will be reduced by any payments required to be provided to eligible associates pursuant to WARN, without regard to whether the associate asserts such rights. Continued payment of compensation for services performed during a notice period, however, will not count against any benefits payable under the Plan.

D. Taxation

Cash payments under this Plan are treated as wages for federal income tax purposes. Capital One makes appropriate arrangements to take deductions from Plan payments for withholding taxes. The associate is responsible for all taxes on Plan benefits to the extent that no taxes are withheld, irrespective of whether withholding is required.

Payments under this Plan are intended to be excluded from coverage under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). However, notwithstanding any provision of this Plan to the contrary, if, at the time of the participant's termination of employment, he is a "specified employee" as defined in Section 409A of the Code, and one or more of the payments or benefits received or to be received by the participant pursuant to this Plan would constitute deferred compensation subject to Section 409A, such payment or benefit under this Plan shall be delayed until the earlier of (a) the date that is six (6) months following the participant's termination of employment, or (b) the participant's death. The provisions of this paragraph shall only apply to the extent required to avoid the participant's incurrence of any penalty tax or interest under Section 409A of the Code or any regulations or Treasury guidance promulgated thereunder. In addition, if any provision of this Plan would cause the participant to incur any penalty tax or interest under Section 409A of the Code or any regulations or Treasury guidance promulgated thereunder, Capital One may reform such provision to maintain to the maximum extent practicable the original intent of the applicable provision without violating the provisions of Section 409A of the Code.

E. Re-employment with Capital One

In the event a participant is rehired as a Capital One associate between his separation date and the period of time used to calculate his Severance Payment (as defined in Appendices A through E, as applicable), the participant will be required to repay a pro-rated portion of the Severance Payment received as a condition of reemployment with Capital One. The amount of the repayment will be based on the number of days between the participant's separation date and the date of reemployment ("Period of Separation"), and will be an amount equal to the difference between (i) the Severance Payment received; and (ii) that portion of the Severance Payment that is calculated based on the Period of Separation.

By way of example, if an associate received a Severance Payment equal to 12 months of his regular base pay, and is re-hired eight months after his separation date, as a condition of reemployment, the associate will be required to repay Capital One an amount equal to four months of his regular base pay, as defined in Appendices A through E.

Notwithstanding the above, if an associate receives payment under an NCA, only that portion of Severance Payment not offset by the NCA payment will be subject to the terms of this provision.

The Plan Administrator may, in its discretion, establish procedures regarding timing and method(s) of repayment, and may, in its discretion, make exceptions to any such procedures, as necessary or applicable.

F. Funding of the Plan

Associates do not pay for coverage under the Plan, and the benefits provided under the Plan are paid solely from Capital One's general assets. Capital One is not required to maintain any fund or to segregate any amount for the benefit of any associate under the Plan, and no associate has any claim against, right to, or security or other interest in, any fund, account or asset of Capital One from which any Plan payment may be made.

G. Payments to Estates

If a participant dies before receiving all Severance Payment due under the Plan, any remaining payments are made to the participant's estate.

H. Plan Document Governs

The extent of eligibility for Plan benefits is governed solely and in all respects by the terms of the Plan. The Plan Administrator has ultimate authority to interpret the Plan.

I. Severability

If any Plan provision is held illegal or invalid for any reason, such illegality or invalidity does not affect remaining parts of the Plan, and the Plan is applied as if the illegal or invalid provision was never part of the Plan.

J. Gender

Whenever any words are used herein in the masculine, feminine or neuter gender, they shall be construed as though they were also used in another gender in all cases where they would so apply, and whenever any words are used herein in the singular or plural form, they shall be construed as though they were also used in the other form in all cases where they would so apply.

K. Overpayment or Wrongful Receipt

In the event of the overpayment to or wrongful receipt of any amounts by a participant pursuant to this Plan, the Plan shall be entitled to recovery of such funds by remedies including, without limitation, the equitable remedy of constructive trust.

L. Not an Employment Contract

Nothing in this Plan or any action taken with respect to it shall be construed as an employment contract or confer upon any person the right to continue employment with Capital One.

M. Plan Year

The records of the Plan shall be maintained on the basis of a 12-month period beginning on each January 1 and ending each December 31.

N. Governing Law

The Plan is construed, administered and regulated in accordance with the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, and to the extent not preempted thereby, in accordance with Virginia laws.

Adoption of the Plan

To record the adoption of the Amended and Restated Plan document, effective as of July 16, 2011, Capital One has caused this document to be signed by its duly authorized officer on the date set forth below.

CAPITAL ONE FINANCIAL CORPORATION

By: /s/ Frederick C. Knowles

Title: SVP, Enterprise Human Resources

Date: July 14, 2011

Appendix

Executive Committee (EC)*

The severance benefits for an EC member holding a President or "C" role title shall be the following amount or such lesser amount as determined by the Administrator:

- Severance Payment in an amount up to 30% of the associate's Target Total Compensation ("TTC") as defined in the most recent Total Compensation Statement Capital One provided the associate prior to the associate's termination; plus
- Subsidized COBRA coverage for a period of 18 months; plus
- If NCA Non-Competition Provisions are enforced, an amount up to 90% of the Severance Payment ("Release of Claims Payment").

For purposes hereof, TTC with respect to a Performance Year shall mean the cash value of all target amounts designated as being part of the Executive's annual compensation by the Company in the most recent Total Compensation Statement (or any similar document setting forth the Executive's total annual compensation) for that Performance Year. TTC shall not include retention awards, spot bonus awards, sign-on bonuses, special equity awards, the value of Company provided benefits, pay associated with perquisites or relocation, and other bonuses and incentives not communicated as part of the Executive's total target annual compensation as set forth in his Total Compensation Statement. Performance Year shall mean the 12-month period of time over which an Executive's Target Total Compensation is calculated, as designated by the Company. At the discretion of the Plan Administrator, Severance Payments may also be deemed to include all or a portion of commissions and sales incentive pay.

Any Severance Payments shall be offset dollar-for-dollar by amounts payable to the participant under any applicable NCA. No Release of Claims Payment shall be offset by payments under an NCA.

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* Refers to internal job levels as determined by the Plan Administrator.

Exhibit 10.5

CAPITAL ONE FINANCIAL CORPORATION

NON-EMPLOYEE DIRECTORS DEFERRED COMPENSATION PLAN

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CAPITAL ONE FINANCIAL CORPORATION

NON-EMPLOYEE DIRECTORS DEFERRED COMPENSATION PLAN

SECTION 1

PURPOSE

The 1994 Deferred Compensation Plan was originally adopted by the Board of Directors of Capital One Financial Corporation (together with the Compensation Committee of the Board of Directors to the extent it has been delegated authority with respect to the Plan, the “Board”) on October 28, 1994. Effective as of January 1, 1996, only non-employee directors were eligible to participate in the Plan, and the balance of the Accounts of then-eligible employees were transferred, with the consent of the eligible employee, to an account established for the eligible employee under the Capital One Financial Corporation Excess Savings Plan. Effective as of January 1, 2008, the Plan is hereby amended and restated and is renamed as the Capital One Financial Corporation Non-Employee Directors Deferred Compensation Plan. The purpose of the Plan is to permit members of the Capital One Financial Corporation Board of Directors who are not employees of Capital One Financial Corporation or any affiliate to defer compensation as provided in the Plan.

Notwithstanding anything to the contrary the Plan shall at all times be administered in accordance with Section 409A of the Code and the regulations thereunder and such rules are incorporated into the Plan by reference. To the extent any Plan provisions are inconsistent with such rules, the Plan shall be interpreted and administered in accordance with Section 409A of the Code and its regulations.

SECTION 2

DEFINITIONS

Whenever used in the Plan, the following terms shall have the meanings set forth below unless the context clearly requires a different meaning:

2.1 Account. The book account established by the Company for each Participant pursuant to Section 3 which shall reflect Deferral Amounts, transferred credits from an Included Plan and investment earnings credited under Section 3.

2.2 Alternate Payee. Any spouse, former spouse, child or other person set forth in a Domestic Relations Order as having a right to receive all or a portion of the benefits payable under the Plan with respect to such Participant.

2.3 Beneficiary. The person or persons or other entity that a Participant designates on a form acceptable to the Committee to receive benefit payments Section 4.2. If a Participant does not execute a valid form, or if the designated Beneficiary or Beneficiaries fail to survive the

Participant or otherwise fail to take the benefit, the Participant's beneficiary or beneficiaries shall be the first of the following persons who survive the Participant: a Participant's spouse (the person legally married to the Participant when the Participant dies); the Participant's children in equal shares. If none of these persons survive the Participant, the Beneficiary shall be the Participant's estate.

2.4 Change of Control. A "Change of Control" shall mean any of the following events:

(a) The acquisition, other than from the Company, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Company Voting Securities"), provided, however, that any acquisition by (x) the Company or any of its subsidiaries, or any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries or (y) any corporation with respect to which, following such acquisition, more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, shall not constitute a Change of Control; or

(b) Individuals who constitute the Board immediately prior to, or at the time of consummation of, the Distribution (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any individual becoming a director subsequent to the Distribution Date whose election or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

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

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

(e) Neither the sale of Company common stock in an initial public offering, nor the distribution of Company common stock by Capital One's parent corporation to its shareholders in a transaction to which Section 355 of the Internal Revenue Code applies, nor any restructuring of the Company or its Board of Directors in contemplation of or as the result of either of such events, shall constitute a Change of Control.

(f) Notwithstanding anything to the contrary, if one or more of the events outlined in (a)-(e) above occur, and such events are not considered a Change of Control under Section 409A of the Code, then for purposes of this Plan a Change of Control has not occurred.

2.5 Code. The Internal Revenue Code of 1986, as amended from time to time.

2.6 Committee. The Company's Compensation Committee.

2.7 Company. Capital One Financial Corporation and its subsidiary corporations.

2.8 Compensation. Fees (including the annual retainer and committee participation fees) earned by a Director. "Compensation" shall be determined before taking into account any amounts deferred pursuant to an election under the Plan. For the avoidance of doubt, "Compensation" shall not include contributions under any other plan of deferred compensation maintained by the Company (other than amounts deferred pursuant to Section 3.1), and variable pay, and "Compensation" shall not include special allowances, non-recurring payments or imputed income (such as amounts received upon the exercise of a stock appreciation right or nonqualified stock option, distributions from any nonqualified deferred compensation plans, and any other extraordinary form of remuneration) and any additional compensation in any form received by a Participant on any date following his final period of service.

2.9 Deferral Amount. The amounts elected to be withheld from Compensation (or components of Compensation) and credited from time to time to a Participant's Account pursuant to Section 3.1.

2.10 Director. Any person serving as a non-employee director of Capital One Financial Corporation.

2.11 Disability. "Disability" shall have the same meaning as that term is defined in Treasury regulation Section 1.409A-3(i)(4).

2.12 Distribution. The distribution of the Company's common stock to shareholders of the Company's parent corporation in a transaction to which Code Section 355 applied.

2.13 Distribution Date. The date on which the Distribution occurred.

2.14 Domestic Relations Order. Any judgment, decree or order (including approval of a property settlement agreement) which relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of a Participant made pursuant to a State domestic relations law (including a community property law).

2.15 ERISA. The Employee Retirement Income Security Act of 1974, as amended.

2.16 Investment Fund. One or more deemed investment alternatives offered to Participants from time to time.

2.17 Participant. A Director currently providing services to the Company who elects to defer compensation under the Plan and any former Director who continues to have an Account balance under the Plan. Notwithstanding any other provision of the Plan, no individual who is not a current Director or a former Director with an Account balance under the Plan shall actively participate in the Plan after December 31, 1995.

2.18 Plan. This Capital One Financial Corporation Non-Employee Directors Deferred Compensation Plan, as it may be amended from time-to-time. The Plan is hereby amended and restated effective as of January 1, 2008.

2.19 Spouse. The person to whom a Participant is legally married as determined under applicable state law, but limited by the provisions of the Federal Defense of Marriage Act.

2.20 Year. A calendar year; provided, that, beginning with the Board meeting at the annual shareholders meeting in 2009, the Year shall be the period commencing with the Board meeting at the annual shareholders meeting and running until the day before the next such annual meeting.

SECTION 3

DEFERRAL AMOUNTS AND CREDITS

3.1 Elections. A Director may elect to reduce his or her Compensation by a designated percentage as provided in Section 3.3 on such forms and at such times as may be prescribed by the Committee; provided that, effective January 1, 2005, a Participant shall be eligible to participate for a Year only in the event a deferral election is filed no later than December 31 of the prior year or such later date as permitted under Section 409A of the Code. The election shall be for the entire Year and shall not be revocable except to the extent permitted under Section 409A of the Code; provided, however, that the Committee may permit a separate election that does not apply for an entire Year to the extent permitted by Section 409A of the Code. Notwithstanding the foregoing, a single election shall be made by December 31, 2008 for deferrals for the period from January 1, 2009 through the Board meeting at the annual shareholders meeting in 2009 and the Year commencing with the Board meeting at the annual shareholders meeting, provided that the Committee may, in its discretion, permit separate elections by December 31, 2008 for deferrals relating to such periods.

3.2 Deferral Percentages. The Committee shall provide forms and, when appropriate, consistent with Section 3.1, formulate rules governing the making of deferred elections consistent with the terms of the Plan. A Participant may elect Deferral Amounts in any whole percentage up to 100 percent or his or her Compensation.

3.3 Accounts. The Company will establish for bookkeeping purposes only an Account for each Participant and credit to the Account from time to time as the Compensation is earned the Deferral Amounts elected by the Participant under the Plan. To the extent a Director was covered under another Company-sponsored non-qualified deferred compensation plan, the balances from any such accounts were credited to his or her Account under this Plan.

3.4 Vesting of Account. Each Participant will be fully vested in Deferrals credited to his or her Account pursuant to Section 3.1.

3.5 Investment Funds. Each Participant shall have the right to direct the deemed investment of the Participant’s Account among the Investment Funds. The Committee shall determine the number and type of Investment Funds that will be available for investment in any Year. At its sale discretion, the Committee may change the number and type of Investment Funds at any time and may establish procedures for the transition between Investment Funds. Amounts deferred under the Plan shall be credited to an Investment Fund as of the date on which the deferred Compensation would have been paid to the Participant or as soon as administratively practicable thereafter. A separate bookkeeping account shall be established for each Participant who has directed a deemed investment in an Investment Fund. Deemed transfers between Investment Funds in the Participant’s Account shall be charged and credited as the case may be to each Investment Fund account. The Investment Fund account shall be charged or credited with net earnings, gains, losses and expenses, as well as any appreciation or depreciation in market value during each Year for the deemed investment in the Investment Fund.

3.6 Certain Transfers. Effective January 1, 1996, the balance in the Account of any then-participant who was an eligible employee was transferred, with the consent of the eligible employee, to an account established for the eligible employee under the Capital One Financial Corporation Excess Savings Plan. Following any such transfer, the eligible employee was no longer entitled to any benefit under the Plan.

SECTION 4

PAYMENT OF DEFERRED COMPENSATION

4.1 Commencement of Payments. Unless otherwise elected by the Participant on a distribution election form, the Participant shall receive a single lump sum payment of his or her entire Account upon attaining age 80. Alternatively, a Participant may elect, in accordance with procedures adopted by the Committee, to receive a distribution of his or her Account commencing upon his or her separation from service (as determined pursuant to Section 409A of the Code), Disability, or following the attainment of such other age as the Participant shall specify. Any such election, which shall also specify whether the distribution is to be paid in a single lump sum or in annual installment payments over a period of up to fifteen years, shall be made no later than the latest of (a) thirty (30) days after commencing participation in the Plan, (b) December 31, 2008 (pursuant to the payment transition rule in IRS Notice 2007-86), or (c) with respect to Compensation deferrals (and earnings or losses thereon pursuant to Section 3.5) for periods commencing on or after January 1, 2009 only, December 31 of the calendar year preceding the Year in which such Compensation is earned. Any distribution pursuant to this Section 4.1 shall commence no later than the later of December 31 of the calendar year in which the distribution event occurs or two and one-half months after the distribution event occurs. With respect to installment payments, the amount of each installment shall equal the balance in the Account as of the date of payment, divided by the number of remaining installments (including the installment being determined). If the amount credited to the Account is paid in installments, the undistributed Account and subsequent installments shall be adjusted as provided in Section 3.5 to reflect investment earnings (or losses) credited on the amounts that remain undistributed.

4.2 Payments on Death. If a Participant dies prior to the commencement of payments under this Section 4, the Account shall be paid to his or her Beneficiary in a lump sum or, if elected by the Participant at the same time an election is required pursuant to Section 4.1, in annual installments over up to fifteen years, commencing in each case as soon as reasonably practicable following such death, and in all events no later than the later of December 31 of the year of death or two and one-half months following such death. If a Participant dies after payments have commenced, any remaining installments will be paid to the Participant’s Beneficiary at the same time such installments were due to the Participant unless the Participant has elected that his Beneficiary shall receive a lump sum payment of any remaining installments upon the Participant’s death.

4.3 Payment Upon Change of Control. Notwithstanding any other provision of the Plan to the contrary, if a Change of Control occurs, the Company shall pay to such Participant, within 30 days of such Change of Control a lump sum in cash equal to the amount credited to his or her Account as of the Change of Control.

4.4 Specified Employees. Notwithstanding any other provision of this Section 4 to the contrary, to the extent required by Section 409A of the Code, if the Participant is a "specified employee" (as determined pursuant to Section 409A of the Code) at the time of his or her separation from service, then no distribution payable in connection with such Participant's separation from service (other than due to the Participant's death or Disability shall be made (or begin to be made) until the date which is at least six (6) months after the date of separation from service.

SECTION 5

AMENDMENT OR TERMINATION

5.1 Right to Amend or Terminate. Except at otherwise provided, this Plan may be altered, amended or suspended at any time by the Committee. In addition, the Company's Benefits Committee may adopt amendments that are procedural or administrative in nature (but not any amendment that changes the Plan's design). The Committee (or, as applicable, the Benefits Committee) shall effect any such amendment by adopting a resolution setting forth, or incorporating the specific terms of, the amendment.

5.2 Assignment by Company. The Company has the unconditional right to assign its responsibilities and obligations under this Plan to a successor or other entity without notice to Participants, Beneficiaries or Alternate Payees.

SECTION 6

GENERAL PROVISIONS

6.1 No Funding. Nothing contained in this Plan shall require the Company to segregate any assets from their general funds, or to create any trusts, or to make any special deposits for any amounts to be paid to any Participant, former Participant or Beneficiary. Participants, former Participants and any Beneficiary of a Participant shall not have any right, title or interest in or to any specific funds or property of the Company, and their interest shall be those of a general creditor.

6.2 ERISA Exemption. The Plan is an unfunded plan of deferred compensation covering a select group of management or highly compensated employees, intended to be exempt from the participation, vesting, funding and fiduciary provisions of ERISA pursuant to Sections 201(2), 301(a)(3) and 401(a) (1) of that statute.

6.3 No Contract of Employment. The existence of this Plan does not constitute a contract for continued employment between an Eligible Executive or a Participant and the Company or any other entity.

6.4 Withholding Taxes. All payments under the Plan shall be subject to and net of an amount sufficient to satisfy all federal, state or local withholding tax requirements.

6.5 Restrictions on Transfer. Any benefits to which a Participant, his Beneficiary or Alternate Payee may become entitled under this Plan are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, or encumbrance, and any attempt to do so is void. Benefits are not subject to attachment or legal process for the debts, contracts, liabilities, engagements or torts of a Participant, his Beneficiary or Alternate Payee. This Plan does not give a Participant, his Beneficiary or Alternate Payee any interest, lien, or claim against any specific assets of the Company. Participants and their Beneficiaries have only the rights of general creditors of the Company.

6.6 Domestic Relations Order/Alternate Payee.

(a) Notwithstanding the provisions of Section 6.5, an Alternate Payee shall be entitled to receive a benefit under the Plan, computed by reference to the Participant's benefit in accordance with the terms of the Domestic Relations Order, at the time and in the manner benefits begin to be paid or are paid to the Participant. If the Alternate Payee predeceases the Participant before payments begin to be paid or are paid to the Participant, the Alternate Payee's interest in the Plan shall begin to be paid or shall be paid (i) at the time and in the manner the Alternate Payee would have received or began to receive payment had the Alternate Payee survived, and (ii) if not inconsistent with the terms of the Domestic Relations Order, to the person or persons designated by the Alternate Payee in a writing filed with and acknowledged by the Company, or, if no writing has been filed or if the person or persons designated predecease the Alternate Payee, to the legal representative of the Alternate Payee.

(b) The Domestic Relations Order shall clearly specify (i) the name and last known mailing address of the Participant and the name and mailing address of each Alternate Payee covered by the order, (ii) the amount or percentage of the Participant's benefit to be paid by the Plan to each Alternate Payee, or the manner in which such amount or percentage is to be determined, and (iii) any limitation on the number of payments or period to which such order applies. The Company shall not be required to make payments to an Alternate Payee pursuant to a Domestic Relations Order that requires the Plan to (i) provide any type or form of benefit, or payment option, not otherwise provided under the Plan, (ii) provide increased benefits (determined on the basis of actuarial value), or (iii) pay benefits to an Alternate Payee otherwise required to be paid to another Alternate Payee under an order previously determined to be a Domestic Relations Order.

(c) The Company shall have the right to delay any payment of a benefit under the Plan to an Alternate Payee for up to 180 days if necessary to determine whether the Domestic Relations Order complies with the provisions of this section.

(d) If an Alternate Payee cannot be located after a diligent search has been conducted, the interest of the Alternate Payee can be forfeited at the direction of the Company at any time after a two-year period and restored to the Participant on such conditions and terms as the Company shall determine.

6.7 Administration.

(a) This Plan shall be administered by the Committee. The Committee shall interpret the Plan, establish regulations to further the purposes of the Plan and take any other action necessary to the proper operation of the Plan. Prior to paying any benefit under the Plan, the Committee may require the Participant, former Participant or Beneficiary to provide such information or material as the Committee, in its sole discretion, shall deem necessary for it to make any determination it may be required to make under the Plan. The Committee may withhold payment of any benefit under the Plan until it receives all such information and material and is reasonably satisfied of its correctness and genuineness.

(b) The Committee shall provide adequate notice in writing to any Participant, former Participant, beneficiary or contingent beneficiary whose claim for benefits under the Plan has been denied, setting forth the specific reasons for such denial. A reasonable opportunity shall be afforded to any such member, former Participant or Beneficiary for a full and fair review by the Committee of its decision denying the claim. The Committee's decision on any such review shall be final and binding on the Participant, former Participant or Beneficiary and all other interested persons. To the extent required by ERISA, the claims procedure under the Plan shall in all events comply with the requirements of Section 503 of ERISA.

(c) All acts and decisions of the Committee shall be final and binding upon each Participant, former Participant and Beneficiary and employees of the Company and its affiliates.

(d) The Committee may appoint an administrator and delegate its administrative and fiduciary responsibilities to such administrator.

6.8 Construction. For construction, one gender includes the other, and the singular and plural include each other where the meaning would be appropriate. This Plan is construed in accordance with the laws of the Commonwealth of Virginia, except to the extent that the laws of the United States of America have superseded those laws. The headings in this Plan have been inserted for convenience of reference only and are to be ignored in any construction of the provision. If a provision of this Plan is not valid, that invalidity does not affect the remaining provisions.

6.9 Binding Upon Successors and Assigns. The provisions of the Plan shall be binding upon the Participant and the Company and their successors, assigns, heirs, executors and beneficiaries.

6.10 Life Insurance and Funding. The Company in its discretion may apply for and procure as owner and for its own benefit insurance on the life of the Participant, in such amounts and in such forms as the Company may choose. The Participant shall have no interest whatsoever in any such policy or policies, but, as a condition of participation and at the request of the Company, the Participant shall submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to whom the Company has applied for insurance.

6.11 Form of Communication. All notices or election required under the Plan must be in writing. A notice or election shall be deemed delivered if it is delivered personally, sent registered or certified mail to the person at the person's last known business address or sent via email return receipt requested to the person's email address.

IN WITNESS WHEREOF, this instrument has been executed this 18th day of December, 2008.

CAPITAL ONE FINANCIAL CORPORATION

By: /s/ Robert D. Rose

Robert D. Rose

Its: SVP, Human Resources,
Associate Compensation and Benefits

Exhibit 10.6

CAPITAL ONE FINANCIAL CORPORATION

VOLUNTARY NON-QUALIFIED DEFERRED

COMPENSATION PLAN

Amended and Restated Effective January 1, 2012

CAPITAL ONE FINANCIAL CORPORATION

VOLUNTARY NON-QUALIFIED DEFERRED COMPENSATION PLAN

BACKGROUND

The Capital One Financial Corporation Voluntary Non-Qualified Deferred Compensation Plan (the “Plan) was originally adopted effective as of May 15, 2004 by Capital One Financial Corporation (the “Company”), for the benefit of a select group of the management and highly compensated employees of the Company and of its affiliated entities. The Plan was amended and restated effective as of January 1, 2005 to comply with new requirements for nonqualified deferred compensation plans that were enacted as part of the American Jobs Creation Act of 2004 (the “Act”), and to make certain other changes, and again was amended and restated effective as of January 1, 2008 to (i) reflect the final regulations issued pursuant to the Act, (ii) reflect the merger of the Merged Plans into the Plan effective as of the end of the day on December 31, 2007, and (iii) make certain other changes. The Plan was further amended and restated effective as of July 1, 2010 to reflect a revised Company contribution structure and to make certain administrative changes. The Plan is hereby again amended and restated to make certain other administrative changes. Except as otherwise specifically provided herein, a Participant who is not an employee at any time after December 31, 2011 shall be entitled to benefits, if any, under the Plan based upon the provisions of the Plan in effect on or prior to that date. The Board of Directors reserves the right to further amend the Plan as appropriate to cause the Plan to comply with the Act and all present and future regulations and rulings of the Secretary of the Treasury of the United States or his or her delegate relating to the Act.

1. DEFINITIONS. The following definitions apply to this Plan and to any related documents.

(a) **Accounts** mean a Participant’s Deferral Account and a Participant’s Company Contribution Account.

(b) **Administrator** means the Committee.

(c) **Applicable Limitations** means the limitation under Code Section 401(a)(17).

(d) **Associate Savings Plan** means the Capital One Financial Corporation Associate Savings Plan.

(e) **Base Salary** means the Participant’s annual rate of base pay, without regard to bonuses or any other amount reported as compensation income.

(f) **Beneficiary** or **Beneficiaries** means a person or persons or other entity that a Participant designates on a Beneficiary Designation Form to receive Benefit payments pursuant to Plan Section 7(f). If a Participant does not execute a valid Beneficiary Designation Form, or if the designated Beneficiary or Beneficiaries fail to survive the Participant or otherwise fail to take the Benefit, the Participant’s Beneficiary or Beneficiaries shall be the first of the following persons who survive the Participant: a Participant's spouse (the person legally married to the Participant when the Participant dies); the Participant's children in equal shares. If none of these persons survive the Participant, the Beneficiary shall be the Participant's estate.

(g) **Beneficiary Designation Form** means the form, written or electronic, that a Participant uses to name the Participant's Beneficiary or Beneficiaries.

(h) **Benefit** means collectively, a Participant's Deferred Benefit.

(i) **Board** means the Board of Directors of Capital One Financial Corporation.

(j) **Bonus** means the discretionary annual cash incentive based performance bonus that may be paid to Company employees each year by the Company for attaining certain Company and/or individual performance goals.

(k) **Capital One Company** means any organization under common control (as described in Code Sections 414(b) and (c)) with the Company or any organization that is a member of an affiliated service group (as described in Code Section 414(m)) of which the Company is a member, and any other organization required to be aggregated with the Company pursuant to Code Section 414(o).

(l) **Change of Control** means the occurrence of any of the following events:

(i) The acquisition by an individual, entity or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either (A) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Company Voting Securities"), provided, however, that any acquisition by (x) the Company or any of its Subsidiaries, or any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its Subsidiaries or (y) any corporation with respect to which, immediately following such acquisition, more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Company Voting Securities immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the Outstanding Company Common Stock and Company Voting Securities, as the case may be, shall not constitute a Change of Control; or

(ii) Individuals who constitute the Board as of January 17, 2002 (the "Incumbent Board") cease for any reason to constitute at least a majority of the

Board, provided that any individual becoming a director subsequent to January 17, 2002 whose appointment to fill a vacancy or to fill a new Board position or whose nomination for election by the Company's shareholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

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

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

(v) Notwithstanding anything to the contrary, if one or more of the events outlined in (i)-(iv) above occur, and such events are not considered a change in the ownership or effective control of the Company pursuant to Treasury Regulation Section 1.409A-3(i)(5), then for purposes of this Plan a Change in Control has not occurred.

(m) **Code** means the Internal Revenue Code of 1986, as amended.

(n) **Commissions and Similar Incentives** means amounts payable to an Eligible Associate from (i) line of business incentive plans (other than Bonuses under corporate annual bonus plans) that provide cash payments for achievement of business-defined results or goals (which amounts may be paid annually, quarterly, or more frequently), and (ii) commission-based incentive plans that provide cash payments linked to the achievement of sales goals or other business-defined goals (which amounts typically are paid quarterly or monthly).

(o) **Committee** means the Company's Benefits Committee.

(p) **Company** means Capital One Financial Corporation and any Capital One Company that is designated by the Committee as covered by this Plan, and any successor business by merger, purchase, or otherwise that maintains the Plan.

(q) **Company Contribution Account** means a bookkeeping record established for each Participant who is eligible to receive credits pursuant to Section 5(a) and/or Section 5(c). A Company Contribution Account shall be established only for purposes of measuring a Deferred Benefit and not to segregate assets or to identify assets that may be used to satisfy a Deferred Benefit. A Company Contribution Account shall be credited with amounts determined pursuant to Sections 5(a) and 5(c). A Company Contribution Account also shall be credited periodically with deemed investment gain or loss under Plan Section 6.

(r) **Compensation** means the Base Salary, Commissions and Similar Incentives, and Bonus for services preformed for the Company that is currently includable in gross income for the applicable Plan Year. Compensation does not include stock, stock options, and gains from stock option grants; however, it does include restricted stock units salary ("RSU Salary"). If an Eligible Associate Terminates during a Plan Year and is rehired during such Plan Year, first becomes an Eligible Associate during the Plan Year, or is transferred to a position with a Capital One Company that results in the loss of his or her eligibility to participate in the Plan, Compensation for purposes of Section 5(a) includes amounts earned by such Eligible Associate for the entire Plan Year, including periods in which the Eligible Associate did not actively participate in the Plan. The Committee may determine whether to include or exclude an item of income from Compensation. In addition, notwithstanding anything to the contrary in this Section 1(r), for purposes of Section 5(a) only, the following rules shall apply:

(i) For 2010 only, for Participants classified by the Company as Senior Vice Presidents, the Bonus component of Compensation includes only the amount designated by the Company as the Participant's target bonus (or, for such individuals who were not provided a 2010 target bonus, their 2009 notional bonus); provided, however, that for such a Participant who first became an Eligible Associate in 2010 due to a promotion, the Bonus Component of Compensation for 2010 shall be the actual bonus paid in 2010 with respect to the 2009 bonus year.

(ii) For Participants classified by the Company as Executive Vice Presidents or as members of the Executive Committee, Compensation includes only the Target Total Compensation for the Plan Year communicated to the Participant (provided that, for such individuals newly promoted or demoted into such status for a Plan Year, Compensation for the year of promotion or demotion shall include the amount communicated to the Participant at the time of such promotion demotion or such other amount as determined by the Committee).

(s) **Deferral** means the amount of Compensation that a Participant has elected to defer under a Deferral Election Form.

(t) **Deferral Account** means a bookkeeping record established for each Participant who is eligible to receive a Deferred Benefit. A Deferral Account shall be established only for purposes of measuring a Deferred Benefit and not to segregate assets or to identify assets that may be used to satisfy a Deferred Benefit. A Deferral Account shall be credited with that amount of a Participant's Compensation deferred according to a Participant's Deferral Election Form. A Deferral Account also shall be credited periodically with deemed investment gain or loss under Plan Section 6.

(u) **Deferral Election Form** means the form, written or electronic, that a Participant uses to elect to defer Compensation pursuant to Plan Section 4.

(v) **Deferred Benefit** means the benefit available to a Participant who has executed a valid Deferral Election Form and/or who is credited with amounts pursuant to Section 5(a).

(w) **Disability** or **Disabled** means, with respect to a Participant, that the Participant is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last of a continuous period of not less than 12 months, or (ii) by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for period of not less than 3 months under the Company's accident and health plan.

(x) **Distribution Election Form** means a form, written or electronic, that a Participant uses to establish the duration of the deferral of Compensation and the frequency of payments of a Benefit. If a Participant does not execute a valid Distribution Election Form, the distribution of a Benefit shall be governed by Plan Section 5.

(y) **Election Date** means the date by which an Eligible Associate must submit a valid Deferral Election Form for Compensation. For each Plan Year, the Election Date shall be the December 31st of the preceding Plan Year for elections to defer Base Salary, Commissions and Similar Incentives, and Bonus. For the avoidance of doubt, the Election Date to defer a Bonus shall be December 31st of the Plan Year preceding the year in which the applicable performance period commences.

(z) **Eligible Associate** means an individual who (i) is on the Company's United States Payroll, (ii) is designated by the Company as a Director or at a higher level (including, without limitation, any such person in the Banking Segment), (iii) is not designated by the Company as a temporary employee, and (iv) is age 18 or older.

(aa) **Investment Fund** means one or more deemed investment alternatives offered to Participants from time to time. The Company may compute deemed investment gain or loss under the Investment Funds based on the actual investment performance of assets that it has deposited in a grantor trust (as described in Plan Section 9).

(bb) **Merged Plan** means a nonqualified deferred compensation plan described in Appendix A that was merged with the Plan effective as of the end of the day on December 31, 2007. Benefits accrued under a Merged Plan shall be separately accounted for from the Benefit accrued under this Plan. However, the benefits accrued under a Merged Plan (including any earnings or losses thereon pursuant to Article 7 after December 31, 2007) shall be subject to the provisions of Articles 3 through 17 of the Plan except to the extent inconsistent with provisions applicable to the Merged Plan as set forth in Appendix A; provided, however, that (i) distributions attributable to a Merged Plan shall be made in accordance with the distribution form and timing as elected by the Participant or as otherwise in effect under the Merged Plan as of December 31, 2007, and (ii) to the extent that benefits under a Merged Plan were "earned and vested" as of December 31, 2004 (within the meaning of IRS Notice 2005-1) and the Merged Plan permitted modifications of distribution elections, such a modification shall continue to be permitted pursuant to the terms of the applicable Merged Plan. To the extent that an Appendix refers to a distribution election by a Participant, such term shall mean either the distribution form and timing elected by the Participant or, if the Participant made no such election or no such election was available under the terms of the Merged Plan, the form and timing of distribution otherwise provided under the Merged Plan as of December 31, 2007.

(cc) **Participant** means an individual presently employed by the Company who meets one or more of the requirements of Plan Section 3(a). Individuals who were formerly employed by the Company and have an Account under the Plan will remain Participants in the Plan, but only for purposes of Plan Sections 6 and 7.

(dd) **Plan** means the Capital One Financial Corporation Voluntary Non-Qualified Deferred Compensation Plan.

(ee) **Plan Year** means a calendar year.

(ff) **Retirement** means either, at the time of the Participant's Termination, (i) the Participant has attained age 55 and has ten (10) years of service with the Company, or (ii) the Participant has attained age 65.

(gg) **Separation from Service** has the same meaning as is set forth in Code Section 409A and the regulations thereunder. A Participant who is absent from work due to military leave, sick leave, or other bona fide leave of absence shall incur a Separation from Service on the first date immediately following the later of (i) the six-month anniversary of the commencement of the leave or (ii) the expiration of the Participant's right, if any, to reemployment under statute or contract.

(hh) **Terminate** or **Termination**, with respect to a Participant, a Separation from Service due to the cessation of the Participant's employment with the Company (and, to the extent required by Section 409A, the members of its controlled group) for any reason.

(ii) **Year-Certain In-Service Distribution** means a distribution elected by a Participant payable in a specified year before the Participant experiences a Termination. In the event of the Participant's Termination before amounts are paid pursuant to a Year-Certain In-Service Distribution election, such election shall no longer apply and the distribution shall be made pursuant to the rules under Section 7 applicable to such Termination.

2. PURPOSE. The Plan is intended to benefit a "select group of management or highly compensated employees," as that term is used under Title I of the Employee Retirement Income Security Act of 1974, as amended. The Plan is intended to permit Eligible Associates to defer their Compensation.

3. PARTICIPATION.

(a) An individual presently employed by the Company is a Participant if he or she is with respect to any Plan Year, an Eligible Associate who executes a valid Deferral Election Form for that Plan Year as provided in Plan Section 3(b).

(b) An Eligible Associate may become a Participant for any Plan Year by filing a valid Deferral Election Form according to Plan Section 4 on or before the Election Date for that Plan Year.

(c) An individual remains a Participant as long as the Participant is entitled to a Benefit under the Plan. A Participant who ceases to be an Eligible Associate during a Plan Year shall continue making Deferrals for the remainder of the Plan Year unless cessation of Deferrals is permitted under Section 409A of the Code.

4. <u>DEFERRAL ELECTION</u>. A Participant may elect on or before the Election Date to defer receipt of a portion of the Participant's Compensation. Except as provided in Plan Section 4(a), a Participant may elect a Deferral for any Plan Year only if he or she is an Eligible Associate on the Election Date for that Plan Year. The deferral election will remain in place for the entire Plan Year, including for those years in which the Participant ceases to be an Eligible Associate during the year. The following provisions apply to deferral elections:

(a) <u>Compensation Eligible for Deferral</u>. A Participant may defer a percentage (in 1% increments) of up to 50% of the Participant's Base Salary and a percentage (in 1% increments) of up to 100% of the Participant's RSU Salary, Bonus, and Commissions and Similar Incentives. Compensation for deferrals under the Associate Savings Plan shall be based on a Participant's compensation after any Deferrals made under this Plan, or any other deferred compensation plan of the Company. Any Deferrals made by the Participants pursuant to this Section 4 are totally independent of any election a Participant may or may not make in order to participate or receive benefits under the Associate Savings Plan.

(b) <u>Deferral Elections</u>. Before each Plan Year's Election Date, each Eligible Associate shall be provided with a Deferral Election Form. Except as provided below, a deferral election shall be valid only when the Deferral Election Form is completed, signed by the electing Eligible Associate, and received by the Committee on or before the Election Date for that Plan Year. The Deferral Election Form may be in hard copy written form or electronic form. To the extent permitted by Section 409A of the Code, in the year in which an individual first becomes an Eligible Associate for purposes of this Plan, the Eligible Associate may make a deferral election by completing a Deferral Election Form within 30 days of his or her being provided enrollment materials by the Committee or such other date established by the Committee (and the Participant shall be deemed to have first become an Eligible Associate under the Plan following the provision of such enrollment materials to the Eligible Associate). The deferral election will be effective for periods and Compensation earned after the Committee receives it; provided, however, that (i) with respect to any deferral of a Bonus, such election shall only apply to the portion of the Bonus earned beginning on the first of the month following the month in which the Deferral Election is received (and, in such case, the election shall be prorated on a monthly basis based on the ratio that the number of full months remaining in the year after the Deferral Election Form is received bears to the number of months (either full or partial) in which the Eligible Associate was employed by a Capital One Company during the calendar year), and (ii) with respect to any deferral of RSU Salary, such election shall only apply to the portion of the RSU Salary earned beginning on the first of the month following the month in which the Deferral Election is received (and, in such case, the election shall be prorated on a monthly basis based on the ratio that the number of full months remaining in the year after the Deferral Election Form is received bears to the number of months (either full or partial) in which the Eligible Associate was eligible to receive RSU Salary during the calendar year). If a Participant is eligible and then ceases to be an Eligible Associate for purposes of the Plan and in a subsequent Plan Year again becomes an Eligible Associate, he or she will only be eligible to make deferrals for the Plan Years following the year in which such Participant again becomes an Eligible Associate; except that such a Participant who has been ineligible under the Plan for a period of no less than three (3) calendar years who again becomes an Eligible Associate may make a deferral election by completing a Deferral Election Form within 30 days of being provided enrollment materials by the Committee or such other date established by the Committee. In such case, the effective the deferral period and Compensation earned described above in this paragraph (b) will apply

(c) No Deferral if No Valid Form. Except as provided in Section 4(b), an Eligible Associate who has not submitted a valid Deferral Election Form to the Committee on or before the relevant Election Date may not defer any part of the Eligible Associate's Compensation for the Plan Year under this Plan.

(d) Investment Elections for Deferrals. An Eligible Associate must complete an investment election form for all amounts in the Eligible Associate's Deferral Account. The Investment Election Form may be in hard copy written form or electronic form. The Compensation deferred under a Deferral Election Form shall be allocated among available Investment Funds in percentages as specified on the investment election form. If a Participant fails to designate among which Investment Funds the deferred Compensation is to be allocated, the Committee shall allocate the deferred Compensation to the most conservative Investment Fund as determined by the Committee.

(e) Distribution Elections. An Eligible Associate must complete a Distribution Election Form for the distribution of the Eligible Associate's Deferral Account. The Distribution Election Form may be in hard copy written form or electronic form. The Participant may receive distribution of his or her Benefit at Termination or as a Year-Certain In-Service Distribution, in each case pursuant to Section 7 below. For each year in which a Participant makes a Deferral, a Distribution Election Form must be completed and accompany the Deferral Election Form indicating the manner in which that year's deferral is to be distributed; provided however that each Deferral payable pursuant to a Year-Certain In-Service Distribution must be deferred for a minimum of two years (provided, however, that such two year limitation does not apply in the event distribution is made as a result of the Participant's Termination).

(f) Rejection/Modification of Elections. The Committee may reject any Deferral Election Form or any Distribution Election Form or both that does not conform to the provisions of the Plan. The Committee may modify any Distribution Election Form at any time to the extent necessary to comply with any federal tax, securities laws or regulations. The Committee's rejection or modification must be made on a uniform basis with respect to similarly situated Eligible Associates. If the Committee rejects a Deferral Election Form, the Eligible Associate shall be paid the amounts the Eligible Associate would have been entitled to receive if the Eligible Associate had not submitted the rejected Deferral Election Form. Any such rejection shall be no later than the applicable Election Date.

(g) Limited Rights to Revoke Deferral Elections. An Eligible Associate may not revoke a Deferral Election Form after the Plan Year (or period for which the election is made) except, to the extent permitted by Section 409A, if the Eligible

Associate incurs an Unforeseeable Emergency (as defined in Section 8(b)). Any revocation before the beginning of the Plan Year (or period for which the election is made) has the same effect as a failure to submit a Deferral Election Form. Any writing signed by an Eligible Associate expressing an intention to revoke the Eligible Associate's Deferral Election Form and delivered to the Committee before the close of business on the relevant Election Date shall be a revocation.

(h) Limited Rights to Revoke or Modify Distribution Elections. An Eligible Associate may revoke or modify an existing Distribution Election Form in accordance with the requirements of Plan Section 7(e).

(i) 100% Vesting of Deferrals. An Eligible Associate is 100% vested in his or her Deferral Account.

5. COMPANY CONTRIBUTION CREDITS.

(a) Company Credits.

(i) Executive Committee Members. The Company Contribution Account of an Eligible Associate who is classified by the Company as a member of the Executive Committee shall be credited with the following Company credits if the Participant defers at least 1% of Compensation for the applicable Plan Year pursuant to Section 4:

(A) 3% of all Deferrals by the Participant under the Plan for the Plan Year; and

(B) 3% of the Participant's Compensation for the Plan Year in excess of the sum of the Applicable Limitations and the Participant's Deferrals for such Plan Year.

The applicable Company contributions for the Plan Year shall be credited under the Plan on or after each calendar quarter (or more frequently if determined by the Company). Notwithstanding anything to the contrary in the Plan, such contributions attributable to a calendar quarter shall be made only if the Eligible Associate is actively employed by the Company or one of its affiliates on the last day of such calendar quarter.

(ii) Executive Vice Presidents. The Company Contribution Account of an Eligible Associate who is classified by the Company as an Executive Vice President shall be credited with the following Company credits if the Participant defers at least 1% of Compensation for the applicable Plan Year pursuant to Section 4:

(A) 3.25% of all Deferrals by the Participant under the Plan for the Plan Year; and

(B) 3.25% of the Participant's Compensation for the Plan Year in excess of the sum of the Applicable Limitations and the Participant's Deferrals for such Plan Year.

The applicable Company contributions for the Plan Year shall be credited under the Plan on or after each calendar quarter (or more frequently if determined by the Company). Notwithstanding anything to the contrary in the Plan, such contributions attributable to a calendar quarter shall be made only if the Eligible Associate is actively employed by the Company or one of its affiliates on the last day of such calendar quarter.

(iii) Senior Vice Presidents and Below. The Company Contribution Account of an Eligible Associate who is classified by the Company as a Senior Vice President or at a lower level and who defers at least 1% of Compensation for the applicable Plan Year pursuant to Section 4 shall be credited with a Company contribution credit of 7.5% of the sum of (A) all Deferrals by the Participant under the Plan for the Plan Year, and (B) the Participant's Compensation for the Plan Year in excess of the sum of the Applicable Limitations and the Participant's Deferrals for such Plan Year. Such Company contributions shall be credited promptly following the end of each payroll period to which the contributions relate (provided that, for Senior Vice Presidents, such contributions shall be credited on a quarterly basis for 2010). To the extent that Company contributions (A) are credited on a payroll period basis pursuant to the immediately-preceding sentence, if a Participant ceases to be an Eligible Associate, Compensation taken into account hereunder shall include all Compensation earned by the Participant through the end of the payroll period in which the Participant ceases to be an Eligible Associate, or (B) are credited on a quarterly basis pursuant to the immediately-preceding sentence, Company contributions attributable to a calendar quarter shall be made only if the Eligible Associate is actively employed by the Company or one of its affiliates on the last day of such calendar quarter.

For the avoidance of doubt, because the Company contribution methodology changed in mid-year 2010, the Company contributions for a Participant for the six months ending June 30, 2010 shall be determined using the contribution formula in effect through such date applied to Compensation paid to the Participant through such date, and the Company contributions for the period from July 1, 2010 through December 31, 2010 shall be determined using the applicable contribution formula above applied to Compensation paid to the Participant from July 1, 2010 through December 31, 2010. In addition, for the avoidance of doubt, in no event shall any Discretionary Credit made pursuant to Section 5(c) be matched or considered Compensation for purposes of this Section 5(a).

(b) Vesting. Amounts credited, if any, pursuant to paragraph (a) of this Section 5 shall be 100% vested.

(c) Discretionary Credits. In addition to the credits described in Section 5(a), the Company may, in its discretion, make additional Company credits ("Discretionary

Credits") on behalf of any Eligible Associate. In its sole discretion, the Company shall determine the Eligible Associates to be credited with any Discretionary Credit, the amount of any such Discretionary Credit and the vesting schedule applicable thereto (including any accelerated vesting thereof and the events of such acceleration). In addition, the Company may permit the Participant to elect the timing and form of distribution of such Discretionary Credits, provided that any such election shall be made no later than the latest time permitted by Section 409A of the Code (which, (i) for sign-on bonuses, shall be the day before the Participant commences employment, and (ii) for discretionary bonuses for which the Participant is required to provide services for at least 12 months from the date the Participant receives a legally binding right to avoid forfeiture of the bonus, shall be 30 days after such legally binding right is obtained, provided that such election is made at least 12 months before the earliest date on which the forfeiture condition could lapse), and the default distribution provisions under Section 7 shall apply if a valid election is not timely received.

(d) Investment of Credits. Company credits made pursuant to Sections 5(a) and 5(c) may be invested in accordance with the procedures set forth in Section 4(c), above and, will be will be distributed in the same manner as elected by the Participant with respect to his or her Deferrals for such Plan Year (provided, however, that the Company may permit a separate distribution election for Discretionary Credits as provided in Section 5(c) above).

(e) Independent from Associate Savings Plan. Any amounts credited by the Company pursuant to this Section 5 are totally independent of any election an Eligible Associate may or may not make in order to participate or receive benefits under the Associate Savings Plan.

6. INVESTMENT FUNDS.

(a) Direction of Deemed Investments. Each Participant shall have the right to direct the deemed investment of the Participant's Deferral Account among the Investment Funds. The Committee shall determine the number and type of Investment Funds that will be available for investment in any Plan Year. At its sole discretion, the Committee may change the number and type of Investment Funds at any time and may establish procedures for the transition between Investment Funds.

(b) Procedures. Deferrals shall be credited to an Investment Fund as of the date on which the deferred Compensation would have been paid to the Participant or as soon as administratively practicable, thereafter. A separate bookkeeping account shall be established for each Participant who has directed a deemed investment in an Investment Fund. Deemed transfers between Investment Funds in the Participant's Deferral Account shall be charged and credited as the case may be to each Investment Fund account. The Investment Fund account shall be charged or credited with net earnings, gains, losses and expenses, as well as any appreciation or depreciation in market value during each Plan Year for the deemed investment in the Investment Fund. The Committee may charge or credit such earnings, gains, losses, appreciation and depreciation based on the actual investment performance of assets that it has deposited in a grantor trust (as described in Plan Section 9).

7. DISTRIBUTIONS.

(a) General. All vested Benefits, less withholding for applicable income and employment taxes, shall be paid in cash by the Company or its designee. A Participant may elect to receive a distribution of all or a portion of the Participant's vested Benefits subject to the provisions of this Section. Payment of each distribution of vested Benefits shall be made in one lump sum or in installments as provided in this Section.

(b) Form of Distribution.

(i) For Vested Benefits paid on account of Retirement, death, Disability, or pursuant to an In-Service Year Certain Distributions, Participants may elect to receive a lump sum payment or installment payments in five (5), ten (10) or fifteen (15) year annual installments. Payments will not be made more than once a year. Notwithstanding the foregoing, Vested Benefits paid on account of Termination (other than due to Retirement, death or Disability), shall automatically be paid in a lump sum.

(ii) For a Benefit payable in a form other than a lump sum, the unpaid balance of a Participant's Deferral Account and vested Company Contribution Account, if any, shall continue to be maintained in Investment Funds. For purposes of calculating a Participant's installment payments, the total Deferral Account and Company Contribution Account for a particular year shall be divided by the remaining number of installment payments to be paid to the Participant. The installment payment for a particular year will equal the quotient obtained from the foregoing calculation. The remaining amounts credited to a Participant's Deferral Account and vested Company Contributions Account will continue to be invested in accordance with a Participant's investment selections.

(c) Time of Distribution.

(i) Except as specified on a Participant's Distribution Election Form and for an In-Service Year-Certain Distribution, any lump sum payment shall be paid, or installment payments shall begin, on or before the later of (i) December 31 of the calendar year in which the Participant's Termination occurs, or (ii) 2-1/2 months after the Participant's Termination.

(ii) For Year-Certain In-Service Distributions, any lump sum payment will be paid, or installment payments will commence, no later than March 31 of the calendar year specified in the Participant's Distribution Election Form (provided that such amounts are deferred for a period of at least two years).

(d) Effect of No Election. The Deferred Benefit of an Eligible Associate who submits a valid Deferral Election Form but fails to submit a valid Distribution Election Form (either as to the form or commencement of payment) before the relevant Election Date shall be distributed in a lump sum following the Eligible Associate's Termination and on or before the later of (i) December 31 of the calendar year in which the Participant's Termination occurs, or (ii) 2-1/2 months after the Participant's Termination.

(e) Election Changes. Participants may change with respect to each Deferral and Company credit, the form of payment and the date on which the Deferral and vested Company credit is to be distributed to the Participant; provided written or electronic notice of such change is received by the Committee not less than twelve months prior to the date on which the Deferral and vested Company credit was scheduled to begin to be distributed to the Participant; and provided further that (i) the first payment with respect to which such election is made to be deferred for a period of not less than five (5) years from the date such payment would otherwise have been made, and (ii) the election will not be effective until at least twelve months after the date on which such election is made. In addition, to the extent permitted by the Committee, a Participant may modify his or her distribution election pursuant to any payment transition rule applicable under Section 409A.

(f) No Assignment of Benefits/Payment to Beneficiary. A Participant or Beneficiary may not assign Benefits. A Participant may use only one Beneficiary Designation Form to designate one or more Beneficiaries for all of the Participant's Benefits under the Plan. Such designations are revocable. Each Beneficiary shall receive the Beneficiary's portion of the Participant's Accounts on or before the later of (i) December 31 of the calendar year in which the Participant's Termination occurs, or (ii) 2-1/2 months after the Participant's death. The Committee may require that multiple Beneficiaries agree upon a single distribution method.

(g) Distributions to Specified Employees. Notwithstanding anything in the Plan to the contrary, distributions to a Specified Employee upon his or her Termination (other than death or Disability) shall not be made (or begin to be made) until the date which is at least six (6) months after the date of Separation from Service with the Company (provided, however, that this Section 7(g) shall not apply to any portion of a Participant's Accounts (including under any Merged Plans) that were "earned and vested" (within the meaning of IRS Notice 2005-1) as of December 31, 2004). For purposes of the preceding sentence, a "Specified Employee" is a key employee (as defined in Code Section 416(1) without regard to paragraph (5) thereof) of a Capital One Company.

8. DISTRIBUTIONS UPON UNFORESEEABLE EMERGENCY.

(a) At its sole discretion and at the request of a Participant before or after the Participant's Termination, or at the request of any of the Participant's Beneficiaries after the Participant's death, the Committee may pay all or part of any amount attributable to a Participant's vested Benefits in the event of an Unforeseeable Emergency as defined in Plan Section 8(b). An accelerated distribution under this Section shall be limited to the amount necessary to satisfy the Unforeseeable Emergency.

(b) Unforeseeable Emergency is a severe financial hardship to the Participant resulting from an illness or accident of the Participant or of a dependent (defined in Code Section 152(a)) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute a Unforeseeable Emergency will depend upon the facts of each case, but, in any case, payment, if any, that may be made pursuant to this section do not exceed the amounts necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

(c) Distributions under this Plan Section 8 shall be made in one lump sum payment in cash. Distributions shall be made proportionately from all of the Investment Funds in the Participant's Accounts. The Investment Funds in the Participant's Accounts shall be valued as of the last business day prior to the distribution, or as of such other date as may be determined in the discretion of the Committee.

(d) A distribution under this Plan Section 8 shall be in lieu of that portion of a Participant's vested Benefit that would have been paid otherwise. A Benefit shall be adjusted by reducing the balance of the Participant's Accounts by the amount of the distribution. If a distribution upon an Unforeseeable Emergency is made pursuant to this Section, the Participant shall not be permitted to again make Deferrals to the Plan until the second January 1st following the date on which the distribution is made.

9. COMPANY'S OBLIGATION.

(a) The Plan shall be unfunded. The Company shall not be required to segregate any assets that at any time may represent a Benefit. The Company may establish a grantor trust (within the meaning of Sections 671 through 679 of the Code) for Participants and Beneficiaries and may deposit funds with the trustee of such trust to provide the Deferred Benefits to which Participants and Beneficiaries may be entitled under the Plan. The funds deposited with the trustee or trustees of such trust, and the earnings thereon, will be dedicated to the payment of Benefits under the Plan but shall remain subject to the claims of the general creditors of the Company. Any liability of the Company to a Participant or Beneficiary under this Plan shall be based solely on any contractual obligations that may be created pursuant to this Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

(b) Notwithstanding the foregoing, if a Participant is Terminated within twenty-four months following a Change of Control, the Company shall as soon as practicable following the Termination pay in one lump sum to such Participant or Beneficiary his or her Benefit under the Plan.

10. CONTROL BY PARTICIPANT. A Participant shall have no control over the Participant's Benefit except according to the Participant's Deferral Election Forms, Distribution Election Forms, Investment Election Form and Beneficiary Designation Form.

11. CLAIMS AGAINST PARTICIPANT'S BENEFIT. An Account shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, or charge, and any attempt to do so shall be void. A Benefit shall not be subject to attachment or legal process for a Participant's debts or other obligations. Nothing contained in this Plan shall give any Participant any interest, lien, or claim against any specific asset of the Company. A Participant or the Participant's Beneficiary shall have no rights other than as a general creditor of the Company. Nothing contained in the Plan shall be deemed to give any Participant or employee the right to be retained in the service of the Company or to interfere with the right of the Company to discharge any Participant or employee at any time, regardless of the effect which such discharge shall have upon him or her as a Participant in the Plan. The payment of benefits due under the Plan to a Participant or Beneficiary shall discharge the Company's obligations under the Plan. Neither the Participant nor Beneficiary shall have any further rights under the Plan upon receipt by the appropriate person of all benefits. The Committee may require the Participant or Beneficiary to execute a receipt and release therefore in such form as shall be determined by the Committee.

12. AMENDMENT OR TERMINATION. Except at otherwise provided, this Plan may be altered, amended or suspended at any time by the Committee (provided that the Committee shall not have authority to modify the design of the Plan). The Compensation Committee of the Board shall have the authority to adopt amendments that modify the design of the Plan. The Company's Human Resources Division has been authorized by the Committee to make technical and conforming amendments to the Plan and any other amendments that do not result in an annual cost to the Company reasonably estimated by the Company's Human

Resources Division to be in excess of $500,000. The Committee shall effect any such amendment by adopting a resolution setting forth, or incorporating the specific terms of, the amendment. The Human Resources Division shall effect any such amendment by adopting the specific amendment. Except at otherwise provided, this Plan may be terminated at any time by the Board.

13. <u>ADMINISTRATION</u>.

(a) This Plan shall be administered by the Administrator. The Administrator shall interpret the Plan, establish regulations to further the purposes of the Plan and take any other action necessary to the proper operation of the Plan. To the extent authorized by the Administrator, any action required to be taken by a Participant may be taken in writing, by electronic transmission, by telephone, or by facsimile. Prior to paying a Benefit under the Plan, the Administrator may require the Participant, former Participant or Beneficiary to provide such information or material as the Administrator, in its sole discretion, shall deem necessary to make any determination it may be required to make under the Plan. The Administrator may withhold payment of a Benefit under the Plan until it receives all such information and material and is reasonably satisfied of its correctness and genuineness. The Administrator may delegate all or any of its responsibilities and powers to any persons selected by it, including designated officers or employees of the Company.

The Administrator shall have the discretionary authority to interpret, administer, and make amendments (other than design changes) to the Plan, including the power and authority to determine the amount of any payment or withdrawal hereunder, provided that the Administrator shall not have the authority to terminate the Plan. Decisions, interpretations, and actions of the Administrator hereunder shall be final, conclusive and binding upon the Company and upon Participants and Beneficiaries hereunder. The Administrator shall be further empowered to engage the services of such independent actuaries, accountants, attorneys and other administrative personnel as it deems necessary or appropriate to administer the Plan.

(b) Any Participant, Beneficiary or other individual (hereinafter a “Claimant”) entitled to benefits under the Plan, or otherwise eligible to participate herein, shall be required to file a written claim with the Administrator (or its designee) requesting payment or distribution of such Plan benefits (or written confirmation of Plan eligibility, as the case may be), on such form and in such manner as the Administrator shall prescribe. Unless and until a Claimant makes proper application for benefits in accordance with the rules and procedures established by the Administrator, such Claimant shall have no right to receive any distribution from or under the Plan. In all events, any claim for benefits under the Plan must be brought by the Claimant no later than one (1) year after the Termination of the Eligible Associate or other individual with respect to whom benefits are claimed hereunder. In addition, in no event may any lawsuit relating to any claim for benefits under the Plan be brought more than one (1) year the final denial of such claim pursuant to this Article 14.

(c) If a Claimant's application is wholly or partially denied, the Administrator (or its designee) shall, within ninety (90) days (forty-five (45) days in the case of a claim based on a Disability), furnish to such Claimant a written notice of its decision, unless special circumstances require an extension of time for processing, in which case a determination shall be made as soon as possible, but not later than one hundred twenty (120) days (one hundred five (105) days in the case of a claim based on a Disability) after the Administrator receives the initial claim request. Claim denial notices shall be written in a manner calculated to be understood by such Claimant, and shall contain at least the following information:

(i) the specific reason or reasons for such denial;

(ii) specific reference to pertinent Plan provisions upon which such denial is based;

(iii) a description of any additional material or information necessary for such Claimant to perfect his claim, and an explanation of why such material or information is necessary; and

(iv) an explanation of the Plan's claim review procedure describing the steps to be taken by such Claimant, if he wishes to submit his claim for review, and the time limits applicable to the procedures, including a statement of the Claimant's right to bring a civil action under Section 502(a) of ERISA following a denial upon review of the claim.

(d) Within sixty (60) days (one-hundred eighty (180) days in the case of a claim based on a Disability) after the receipt of such notice from the Administrator, such Claimant, or the duly authorized representative thereof, may request, by written application to the Plan, a review by the Administrator of the decision denying such claim. In connection with such review, such Claimant, or duly authorized representative thereof, shall be entitled to receive any and all documents pertinent to the claim or its denial and shall also be entitled to submit issues and comments in writing. The decision of the Administrator upon such review shall be made promptly and not later than sixty (60) days (forty-five (45) days in the case of a claim based on a Disability) after the receipt of such request for review. Certain claim appeals, except appeals of claims based on a Disability, may present special circumstances that require an extension of time for processing, in which case a decision shall be rendered as soon as possible, but not later than one hundred twenty (120) days after the Administrator's receipt of a request for review. Any such decision on review shall be in writing and shall include specific reasons for the decision, specific references to the pertinent Plan provisions on which the decision is based, a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of all documents, records and other information relevant to the Claimant's claim and a statement of the Claimant's right to bring an action under Section 502(a) of ERISA.

(e) Notwithstanding the above, and pursuant to the delegation authority granted to the Committee in this Section 13, initial claims determinations under Section 13(c) will be made by the executive in charge of Human Resources Benefits (or in his absence such other individual as determined by the Committee). Determinations of appeals under Section 13(d) will be made by the executive in charge of Associate Compensation and Benefits (or in his absence such other individual as determined by the Committee). Notwithstanding the foregoing, each executive at his discretion may convene a committee of two or more associates of his choosing to determine, together with him the claim or appeal as applicable.

14. NOTICES. All notices or election required under the Plan must be in writing. A notice or election shall be deemed delivered if it is delivered personally, sent registered or certified mail to the person at the person's last known business address or sent via email return receipt requested to the person's email address.

15. WAIVER. The waiver of a breach of any provision in this Plan does not operate as and may not be construed as a waiver of any later breach.

16. CONSTRUCTION. This Plan shall be adopted and maintained according to the laws of the Commonwealth of Virginia (except its choice-of-law rules and except to the extent that such laws are preempted by applicable federal law). Headings and captions are only for convenience; they do not have substantive meaning. If a provision of this Plan is not valid or enforceable, the validity or enforceability of any other provision shall not be affected. Use of one gender includes all, and the singular and plural include each other.

IN WITNESS WHEREOF, this instrument has been executed this 21 day of December, 2011.

CAPITAL ONE FINANCIAL CORPORATION

By: /s/ Frederick C. Knowles
Frederick C. Knowles
SVP, Enterprise Human Resources

APPENDIX A
MERGED PLANS

A. Greenpoint Financial Corp. Deferred Compensation Plan (the “Greenpoint Plan”)

1. The account balance of each participant in the Greenpoint Plan (a “Greenpoint Participant”) shall be transferred to the Plan effective as of the end of the day on December 31, 2007 (including earnings or losses pursuant to Article 7 of the Plan, the “Greenpoint Transferred Accounts”). This Paragraph A of Appendix A prescribes the treatment under the Plan of the Greenpoint Transferred Accounts. The rights of the Greenpoint Participants with respect to the Greenpoint Transferred Accounts shall be governed by the terms of the Plan as set forth in Articles 1 through 17 of the Plan, except to the extent that such terms are inconsistent with this Paragraph A of Appendix A. All Greenpoint Transferred Accounts were “earned and vested” as of December 31, 2004 (within the meaning of IRS Notice 2005-1).

2. A Greenpoint Participant shall actively participate in the Plan on and after January 1, 2008 only if otherwise eligible pursuant to Article 3 of the Plan.

3. A Greenpoint Participant may voluntarily withdraw in a lump sum all or a portion of his or her Greenpoint Transferred Account, subject to a penalty of 10% of the amount withdrawn.

4. The Greenpoint Participant’s distribution election with respect to the Greenpoint Transferred Accounts pursuant to the Greenpoint Plan shall continue to apply to the Greenpoint Transferred Accounts; provided, however, that distribution of the Greenpoint Transferred Accounts shall be in the form of a lump sum as soon as reasonably practicable following the Greenpoint Participant’s Termination for reasons other than Retirement (as defined in the Greenpoint Plan), Disability or involuntary Termination (other than for Cause (as defined in the Greenpoint Plan)).

5. The Greenpoint Transferred Accounts may be withdrawn in the event of an Unforeseeable Emergency pursuant to Section 8 of the Plan.

6. Distributions of the Greenpoint Transferred Accounts shall be paid from the Greenpoint Financial Corp. Grantor Trust Agreement to the extent provided therein.

B. Hibernia Corporation 2005 Deferred Compensation Plan (“Hibernia 2005 Plan”)

1. The account balance of each participant in the Hibernia 2005 Plan (a “Hibernia 2005 Plan Participant”) shall be transferred to the Plan effective as of the end of the day on December 31, 2007 (including earnings or losses pursuant to Article 7 of the Plan, the “Hibernia 2005 Plan Transferred Accounts”). This Paragraph B of Appendix A prescribes the treatment under the Plan of the Hibernia 2005 Plan Transferred Accounts. The rights of the Hibernia 2005 Plan Participants with respect to the Hibernia 2005 Plan Transferred Accounts shall be governed by the terms of the Plan as set forth in Articles 1 through 17 of the Plan, except to the extent that such terms are inconsistent with this Paragraph B of Appendix A.

2. A Hibernia 2005 Plan Participant shall actively participate in the Plan on and after January 1, 2008 only if otherwise eligible pursuant to Article 3 of the Plan.

3. The Hibernia 2005 Plan Participant's distribution election with respect to the Hibernia 2005 Plan Transferred Accounts pursuant to the Hibernia 2005 Plan shall continue to apply to the Hibernia 2005 Plan Transferred Accounts; provided, however, that Section 7.7 of the Hibernia 2005 Plan (regarding payments of $10,000 or less) shall not apply.

4. The Hibernia 2005 Plan Transferred Accounts may be withdrawn in the event of an Unforeseeable Emergency pursuant to Section 8 of the Plan.

C. Hibernia Corporation Deferred Compensation Plan for Key Management Employees (the "Hibernia DC Plan")

1. The account balance of each participant in the Hibernia DC Plan (a "Hibernia DC Participant") shall be transferred to the Plan effective as of the end of the day on December 31, 2007 (including earnings or losses pursuant to Article 7 of the Plan, the "Hibernia DC Transferred Accounts"). This Paragraph C of Appendix A prescribes the treatment under the Plan of the Hibernia DC Transferred Accounts. The rights of the Hibernia DC Participants with respect to the Hibernia DC Transferred Accounts shall be governed by the terms of the Plan as set forth in Articles 1 through 17 of the Plan, except to the extent that such terms are inconsistent with this Paragraph C of Appendix A. All Hibernia DC Transferred Accounts were "earned and vested" as of December 31, 2004 (within the meaning of IRS Notice 2005-1).

2. A Hibernia DC Participant shall actively participate in the Plan on and after January 1, 2008 only if otherwise eligible pursuant to Article 3 of the Plan.

3. The Hibernia DC Participant's distribution election with respect to the Hibernia DC Transferred Accounts pursuant to the Hibernia DC Plan shall continue to apply to the Hibernia DC Transferred Accounts. Notwithstanding any other provision of the Plan to the contrary, (a) the Hibernia DC Transferred Accounts of a Hibernia DC Participant whose Termination occurs prior to his or her attainment of age 55 for any reason other than death shall be paid to the Participant in a single-sum, and (b) the Hibernia DC Transferred Accounts of a Hibernia DC Participant who dies before the distribution of his or her benefits commences (whether before or after age 55) shall be paid to the Participant's Beneficiary in a single-sum, in lieu of any other form of benefit).

4. The Hibernia DC Transferred Accounts may be withdrawn in the event of an Unforeseeable Emergency pursuant to Section 8 of the Plan.

D. Capital One Financial Corporation Section 415 Excess Plan ("COF 415 Excess Plan")

1. The account balance of each participant in the COF 415 Excess Plan (a "COF 415 Excess Participant") shall be transferred to the Plan effective as of the end of the day on December 31, 2007 (including earnings or losses pursuant to Article 7 of the Plan, the "COF 415

Excess Transferred Accounts”). This Paragraph D of Appendix A prescribes the treatment under the Plan of the COF 415 Excess Transferred Accounts. The rights of the COF 415 Excess Participants with respect to the COF 415 Excess Transferred Accounts shall be governed by the terms of the Plan as set forth in Articles 1 through 17 of the Plan, except to the extent that such terms are inconsistent with this Paragraph D of Appendix A.

2. A COF 415 Excess Participant shall actively participate in the Plan on and after January 1, 2008 only if otherwise eligible pursuant to Article 3 of the Plan.

3. The COF 415 Excess Participant’s distribution election with respect to the COF 415 Excess Transferred Accounts shall continue to apply to the COF 415 Excess Transferred Accounts.

4. The COF 415 Excess Transferred Accounts may be withdrawn in the event of an Unforeseeable Emergency pursuant to Section 8 of the Plan.

E. Capital One Financial Corporation Excess Savings Plan (“COF Excess Savings Plan”)

1. The account balance of each participant in the COF Excess Savings Plan (a “COF Excess Savings Participant”) shall be transferred to the Plan effective as of the end of the day on December 31, 2007 (including earnings or losses pursuant to Article 7 of the Plan, the “COF Excess Savings Transferred Accounts”). This Paragraph E of Appendix A prescribes the treatment under the Plan of the COF Excess Savings Transferred Accounts. The rights of the COF Excess Savings Participants with respect to the COF Excess Savings Transferred Accounts shall be governed by the terms of the Plan as set forth in Articles 1 through 17 of the Plan, except to the extent that such terms are inconsistent with this Paragraph E of Appendix A.

2. A COF Excess Savings Participant shall actively participate in the Plan on and after January 1, 2008 only if otherwise eligible pursuant to Article 3 of the Plan.

3. The COF Excess Savings Participant’s distribution election with respect to the COF Excess Savings Transferred Accounts shall continue to apply to the COF Excess Savings Transferred Accounts.

4. The COF Excess Savings Transferred Accounts may be withdrawn in the event of an Unforeseeable Emergency pursuant to Section 8 of the Plan.

CHANGE OF CONTROL EMPLOYMENT AGREEMENT

CHANGE OF CONTROL EMPLOYMENT AGREEMENT, dated as of the day of , (this "Agreement"), by and between CAPITAL ONE FINANCIAL CORPORATION, a Delaware corporation (the "Company"), and (the "Executive").

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

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

Section 1. Certain Definitions. (a) "Effective Date" means the first date during the Change of Control Period (as defined herein) on which a Change of Control occurs. Notwithstanding anything in this Agreement to the contrary, if the Executive's employment with the Company is terminated within the 12 months prior to the date on which the Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment was (i) at the request of a third party that has taken steps reasonably calculated to effect such Change of Control or (ii) otherwise arose in connection with or anticipation of a Change of Control (such a termination of employment, an "Anticipatory Termination") and if such Change of Control is consummated, then for all purposes of this Agreement, "Effective Date" means the date immediately prior to the date of such termination of employment.

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

(c) "Affiliated Company" means any company controlled by, controlling or under common control with the Company.

(d) “Change of Control” means:

(1) Any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (a “Person”) becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then-outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); *provided*, *however*, that, for purposes of this Section 1(d), the following acquisitions of Outstanding Company Common Stock or Outstanding Company Voting Securities shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Affiliated Company or (iv) any acquisition pursuant to a transaction that complies with Sections 1(d)(3)(A), 1(d)(3)(B) and 1(d)(3)(C);

(2) Individuals who, as of the date hereof, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; *provided*, *however*, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual was a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(3) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar transaction involving the Company or any of its subsidiaries, a sale or other disposition of all or substantially all of the assets of the Company, or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a “Business Combination”), in each case unless, following such Business Combination, (A) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Company Common Stock and the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock (or, for a non-corporate entity, equivalent securities) and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors (or, for a non-corporate entity, equivalent governing body), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity that, as a result of such transaction, owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership immediately prior to such Business Combination of the Outstanding Company Common Stock and the Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then-outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then-outstanding voting securities of such

corporation, except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors (or, for a non-corporate entity, equivalent governing body) of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement or of the action of the Board providing for such Business Combination; or

(4) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(e) "Actual Total Compensation" with respect to a Performance Year means the sum of (i) the Annualized Base Salary actually earned with respect to such Performance Year, (ii) the value of any cash component of any Annual Incentive or Long-Term Incentive Award paid to the Executive with respect to such Performance Year, and (iii) the cash value of any equity, equity-like or other performance-based component of any Annual Incentive or Long-Term Incentive Award granted to the Executive with respect to such Performance Year, in each case inclusive of any amounts earned but deferred by the Company or the Executive. For this purpose, the value of any equity, equity-like or other performance-based awards shall be the fair value of the award under applicable accounting rules at the time such award is granted.

(f) "Annual Incentive" shall include any annual cash bonus and any equity, equity-like or other performance-based award that is designated by the Company as constituting a bonus or a mid-term incentive award (or any similar term), annualized to the extent the Executive was not employed by the Company or otherwise receiving compensation as a full-time employee during any portion of the applicable Performance Year.

(g) "Annualized Base Salary" shall include (i) cash wages designated by the Company as base salary (or any similar term) and payable in regular installments during a Performance Year and, if applicable, (ii) equity, equity-like or other performance-based awards that vest solely due to the passage of time, are awarded at or near the beginning of a Performance Year or in regular installments throughout the Performance Year, and are not designated by the Company as constituting a portion of the Executive's Annual Incentive or Long-Term Incentive Award or as retention, special equity or similar awards, in each case annualized to the extent the Executive was not employed by the Company or otherwise receiving compensation as a full-time employee during any portion of the applicable Performance Year.

(h) "Long-Term Incentive Award" shall include any type of cash incentive plan, equity, equity-like or other performance-based award that is designated by the Company as constituting a long-term incentive award (or any similar term), annualized to the extent the Executive was not employed by the Company or otherwise receiving compensation as a full-time employee during any portion of the applicable Performance Year.

(i) "Performance Year" shall mean the period of time with respect to which the Executive's Actual Total Compensation is paid, as designated by the Company, annualized as appropriate if such period is more or less than twelve months.

(j) "Target Total Compensation" with respect to a Performance Year shall mean all target amounts designated as being part of the Executive's annual compensation by the Company in the Total Compensation Statement (or any similar document setting forth the Executive's target total compensation for a Performance Year) for the applicable time period and which shall include (i) an Annualized Base Salary for such Performance Year (as adjusted pursuant to the Company's normal compensation review process occurring prior to or during such Performance Year); (ii) a target Annual Incentive, the cash value of which shall be determined by the Company at the beginning of the respective Performance Year; and (iii) a target Long-Term Incentive Award, the cash value of which shall be determined by the Company at the beginning of the respective Performance Year. Target Total Compensation shall not include retention awards, spot bonus awards, sign-on bonuses, special equity awards, the value of Company provided benefits, pay associated with perquisites or relocation, and other bonuses and incentives not communicated as part of the Executive's target total compensation. If the Company delivers more than one Total Compensation Statement with respect to a Performance Year, then the Executive's Target Total Compensation for that Performance Year shall be the highest total value reflected in any such statement.

Section 2. Employment Period. The Company hereby agrees to continue the Executive in its employ, subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on the second anniversary of the Effective Date (the "Employment Period"). The Employment Period shall terminate upon the Executive's termination of employment for any reason.

Section 3. Terms of Employment. (a) **Position and Duties.** (1) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Effective Date, (B) the Executive's services shall be performed at the office where the Executive was employed immediately preceding the Effective Date or at any other location less than 35 miles from such office, and (C) the Executive shall not be required to travel on Company business to a substantially greater extent than required during the 120 day period immediately prior to the Effective Date.

(2) During the Employment Period, and excluding any periods of vacation and sick or similar leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period, it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that, to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

(b) **Compensation.** (1) **Total Compensation.** During the Employment Period, the Executive shall receive total cash, equity, equity-like and performance-based compensation for each Performance Year at least equal, in the aggregate, to the highest of the Executive's (A) Actual Total Compensation for the Performance Year prior to the Performance Year in which the Effective Date occurs, (B) Target Total Compensation for the Performance Year prior to the Performance Year in which the Effective Date occurs, and (C) Target Total Compensation for the Performance Year in which the Effective Date occurs. The Company shall provide a Total Compensation Statement (or similar document) to the Executive designating the Executive's Target Total Compensation at least once with respect to each Performance Year, at or near the beginning of such Performance Year and at or near the date any changes to the Executive's compensation become effective during a Performance Year. The Executive shall at all times during the Employment Period be entitled to participate in all Annualized Base Salary, Annual Incentive and Long-Term Incentive Award plans, practices, policies and programs, including the allocation, composition and terms of any cash, equity, equity-like or other performance-based awards, applicable to other peer executives of the Company and the Affiliated Companies, but in no event shall such plans, practices, policies and programs be less favorable than the most favorable of those provided by the Company and the Affiliated Companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and the Affiliated Companies.

(2) **Savings and Retirement Plans.** During the Employment Period, the Executive shall be entitled to participate in all savings and retirement plans, practices, policies, and programs applicable generally to other peer executives of the Company and the Affiliated Companies, but in no event shall such plans, practices, policies and programs provide the Executive with savings opportunities and retirement benefit opportunities less favorable, in the aggregate, than the most favorable of those provided by the Company and the Affiliated Companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and the Affiliated Companies.

(3) **Welfare Benefit Plans.** During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and the Affiliated Companies (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and the Affiliated Companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and the Affiliated Companies.

(4) **Expenses.** During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and the Affiliated Companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and the Affiliated Companies.

(5) **Fringe Benefits.** During the Employment Period, the Executive shall be entitled to fringe benefits, including, without limitation, if applicable, use of an automobile and payment of related expenses, in accordance with the most favorable plans, practices, programs and policies of the Company and the Affiliated Companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and the Affiliated Companies.

(6) **Office and Support Staff.** During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and the Affiliated Companies at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and the Affiliated Companies.

(7) **Vacation and Other Paid Leave.** During the Employment Period, the Executive shall be entitled to paid vacation and other paid leave in accordance with the most favorable plans, policies, programs and practices of the Company and the Affiliated Companies as in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and the Affiliated Companies.

Section 4. Termination of Employment. (a) **Death or Disability.** The Executive's employment shall terminate automatically if the Executive dies during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of "Disability"), it may give to the Executive written notice in accordance with Section 12(b) of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), *provided* that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. "Disability" means the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness that is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative (such agreement as to acceptability not to be unreasonably withheld).

(b) **Cause.** The Company may terminate the Executive's employment during the Employment Period with or without Cause. "Cause" means:

(1) the willful and continued failure of the Executive to perform substantially the Executive's duties (as contemplated by Section 3(a)(1)(A)) with the Company or any Affiliated Company (other than any such failure resulting from incapacity due to physical or mental illness or following the Executive's delivery of a Notice of Termination for Good Reason), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company that specifically identifies the manner in which the Board or the Chief Executive Officer of the Company believes that the Executive has not substantially performed the Executive's duties, or

(2) the willful engaging by the Executive in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Company.

For purposes of this Section 4(b), no act, or failure to act, on the part of the Executive shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon (A) authority given pursuant to a resolution duly adopted by the Board, or if the Company is not the ultimate parent corporation of the Affiliated Companies and is not publicly-traded, the board of directors of the ultimate parent of the Company (the "Applicable Board"), (B) the instructions of the Chief Executive Officer of the Company (unless the Executive is the Chief Executive Officer at the time of any such instruction) or (C) the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding the Executive, if the Executive is a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel for the Executive, to be heard before the Applicable Board), finding that, in the good faith opinion of the Applicable Board, the Executive is guilty of the conduct described in Section 4(b)(1) or 4(b)(2), and specifying the particulars thereof in detail.

(c) **Good Reason.** The Executive's employment may be terminated during the Employment Period by the Executive for Good Reason or by the Executive voluntarily without Good Reason. "Good Reason" means:

(1) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 3(a), or any action by the Company that results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(2) any failure by the Company to comply with any of the provisions of Section 3(b), other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(3) the Company's requiring the Executive (i) to be based at any office or location other than as provided in Section 3(a)(1)(B) of this Agreement or (ii) to travel on Company business to a substantially greater extent than required during the 120-day period immediately prior to the Effective Date;

(4) any other action or inaction that constitutes a material breach by the Company of this Agreement; or

(5) any failure by the Company to comply with and satisfy Section 10(c).

For purposes of this Section 4(c) of this Agreement, any good faith determination of Good Reason made by the Executive shall be conclusive. The Executive's mental or physical incapacity following the occurrence of an event described above in clauses (1) through (5) shall not affect the Executive's ability to terminate employment for Good Reason.

(d) **Notice of Termination.** Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 12(b). "Notice of Termination" means a written notice that (1) indicates the specific termination provision in this Agreement relied upon, (2) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (3) if the Date of Termination (as defined herein) is other than the date of receipt of such notice, specifies the Date of Termination (which Date of Termination shall be not more than 30 days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's respective rights hereunder.

(e) **Date of Termination.** "Date of Termination" means (1) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or such later date specified in the Notice of Termination, as the case may be, (2) if the Executive's employment is terminated by the Company other than for Cause or Disability, the date on which the Company notifies the Executive of such termination, (3) if the Executive resigns without Good Reason, the date on which the Executive notifies the Company of such termination, and (4) if the Executive's employment is terminated by reason of death or Disability, the date of death of the Executive or the Disability Effective Date, as the case may be. The Company and the Executive shall take all steps necessary (including with regard to any post-termination services by the Executive) to ensure that any termination described in this Section 4 constitutes a "separation from service" within the meaning of Section 409A of the Code, and notwithstanding anything contained herein to the contrary, the date on which such separation from service takes place shall be the "Date of Termination."

Section 5. <u>Obligations of the Company upon Termination</u>. (a) <u>Good Reason; Other Than for Cause, Death or Disability</u>. If, during the Employment Period, the Company terminates the Executive's employment other than for Cause, death or Disability or the Executive terminates employment for Good Reason:

(1) the Company shall pay to the Executive, in a lump sum in cash within 30 days after the Date of Termination, the aggregate of the following amounts:

(A) the sum of the value of:

(i) the portion of the Executive's Annualized Base Salary earned (and not otherwise deferred) through the Date of Termination to the extent not paid or payable, including by way of vesting of any equity, equity-like or other performance-based awards according to the award's terms,

(ii) the portion of the Executive's Annualized Base Salary attributable to accrued vacation to the extent not paid or payable, including by way of vesting of any equity, equity-like or other performance-based awards according to the award's terms,

(iii) any Annual Incentive earned (and not otherwise deferred) by the Executive for the most recently completed Performance Year prior to the Date of Termination to the extent not paid or payable, including by way of vesting of any equity, equity-like or other performance-based awards according to the award's terms (the sum of the amounts described in subclauses (i), (ii) and (iii), the "<u>Accrued Obligations</u>"), and

(iv) the product of (x) the Executive's target Annual Incentive for the year in which the Date of Termination occurs and (y) a fraction, the numerator of which is the number of days in the current Performance Year through the Date of Termination and the denominator of which is 365 (the "<u>Pro Rata Incentive</u>"); and

(B) an amount equal to one hundred twelve and one-half percent (112.5%) of the highest of the Executive's (i) Actual Total Compensation for the Performance Year prior to the Performance Year in which the Date of Termination occurs, (ii) Target Total Compensation for the Performance Year prior to the Performance Year in which the Date of Termination occurs, and (iii) Target Total Compensation for the Performance Year in which the Date of Termination occurs; and

(C) an amount equal to the sum of the employer contributions under the Company or its Affiliated Company's (as applicable) qualified defined contribution plans and any excess or supplemental defined contribution plans in which the Executive participates as of the Date of Termination (or, if more favorable to the Executive, the plans as in effect immediately prior to the Effective Date) that the Executive would receive if the Executive's employment continued for two and one-half years after the Date of Termination, assuming for this purpose that (i) the

Executive's benefits under such plans are fully vested, (ii) the Executive's compensation in each of the two and one-half years is that required by Sections 3(b)(1), (iii) the rate of any such employer contribution is equal to the maximum rate provided under the terms of the applicable plans for the year in which the Date of Termination occurs (or, if more favorable to the Executive, or in the event that as of the Date of Termination the rate of any such contribution for such year is not determinable, the rate of contribution under the plans for the plan year ending immediately prior to the Effective Date), and (iv) to the extent that the Company's contributions are determined based on the contributions or deferrals of the Executive, that the Executive's contribution or deferral elections, as appropriate, are those in effect immediately prior to the Date of Termination; and

(D) an amount equal to the employer contributions under the Company or its Affiliated Company's (as applicable) qualified defined contribution plans in which the Executive participates or is otherwise being credited with service for purposes of vesting as of the Date of Termination that are forfeited by the Executive as of the Date of Termination but that would have vested under such plans if the Executive's employment continued for two and one-half years after the Date of Termination; and

(E) the amount equal to the product of (i) the sum of the Company's or any of its Affiliated Company's (as applicable) employer contributions under the Company's health care and life insurance plans in which the Executive actively participates as of the Date of Termination (or, if more favorable to the Executive, the plans as in effect immediately prior to the Effective Date), with such total amount increased by 9.1% for projected cost increases during the two and one-half year period following the Date of Termination, and (ii) two and one-half, plus an additional amount equal to the income and employment taxes on such amount so that after the payment of all taxes on such payment the Executive retains an amount equal to the amount determined under this Section 5(a)(1)(E); and

(2) for purposes of determining the Executive's vested status or percentage, as applicable, under any supplemental or excess defined contribution plan maintained by the Company or its Affiliated Companies in which the Executive participates or is otherwise being credited with service for purposes of vesting as of the Date of Termination, the Executive shall be credited with two and one-half years of additional service credit from the Date of Termination; and

(3) the Company shall take such actions as are necessary to cause the Executive and/or the Executive's family to continue to be eligible to participate in the Company's health care and life insurance benefit plans that the Executive would be eligible to participate in if the Executive continued as an active employee two and one-half years after the Executive's Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy (the "Benefit Continuation Period"), with the Executive to pay the full cost of premiums for such participation at the rate applicable to active employees of the Company, to the extent the Executive elects in writing to continue such coverage within 60 days after the Date of Termination. For purposes

of determining eligibility (but not the time of commencement of benefits or eligibility for any employer premium subsidy) of the Executive for access to retiree welfare benefits pursuant to the retiree welfare benefit plans of the Company as in effect immediately prior to the Effective Date (or, if more favorable to the Executive, the plans as in effect at the end of the Benefit Continuation Period) (the "Retiree Coverage"), the Executive shall be considered to have remained employed until the end of the Benefit Continuation Period and to have retired on the last day of such period, and the Company shall take such actions as are necessary to cause the Executive to be eligible to commence participating in the applicable retiree welfare benefit plans as of the applicable benefit commencement date. To the extent the Executive is not eligible for Retiree Coverage at the end of the Benefit Continuation Period (after taking into account the immediately preceding sentence), following the Benefit Continuation Period, the Executive shall be eligible to elect continued health coverage as provided under Section 4980B of the Code or other applicable law ("COBRA Coverage"), as if the Executive's employment with the Company had terminated as of the end of such period, and the Company shall take such actions as are necessary to cause such COBRA Coverage not to be offset by the provision of benefits under this Section 5(a)(3) and to cause the period of COBRA Coverage to commence at the end of the Benefit Continuation Period; and

(4) the Company shall, at its sole expense as incurred, provide the Executive with outplacement services the scope and provider of which shall be selected by the Executive in the Executive's sole discretion, *provided* that the cost of such outplacement shall not exceed $30,000; and *provided, further,* that such outplacement benefits shall end not later than the last day of the second calendar year that begins after the Date of Termination; and

(5) except as otherwise set forth in the last sentence of Section 6, to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any Other Benefits (as defined in Section 6) in accordance with the terms of the underlying plans or agreements.

Notwithstanding the foregoing provisions of this Section 5(a)(1) and except as otherwise provided in Section 12(g) or Section 12(h), in the event that the Executive is a "specified employee" within the meaning of Section 409A of the Code (as determined in accordance with the methodology established by the Company as in effect on the Date of Termination) (a "Specified Employee"), amounts that would otherwise be payable and benefits that would otherwise be provided under Section 5(a)(1) during the six-month period immediately following the Date of Termination (other than the Accrued Obligations) shall instead be paid, with interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code ("Interest"), or provided on the first business day after the date that is six months following the Executive's "separation from service" within the meaning of Section 409A of the Code (the "Delayed Payment Date").

(b) **Death.** If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, the Company shall provide the Executive's estate or beneficiaries with (i) the Accrued Obligations, (ii) the Pro Rata Incentive, and (iii) the timely payment or delivery of the Other Benefits, and shall have no other severance obligations under this

Agreement. The Accrued Obligations and the Pro Rata Incentive shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of the Other Benefits, the term "Other Benefits" as utilized in this Section 5(b) shall include, without limitation, and the Executive's estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and the Affiliated Companies to the estates and beneficiaries of peer executives of the Company and the Affiliated Companies under such plans, programs, practices and policies relating to death benefits, if any, as in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive's estate and/or the Executive's beneficiaries, as in effect on the date of the Executive's death with respect to other peer executives of the Company and the Affiliated Companies and their beneficiaries.

(c) **Disability.** If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, the Company shall provide the Executive with (i) the Accrued Obligations, (ii) the Pro Rata Incentive, and (iii) the timely payment or delivery of the Other Benefits in accordance with the terms of the underlying plans or agreements, and shall have no other severance obligations under this Agreement. The Accrued Obligations and the Pro Rata Incentive shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination, *provided*, that in the event that the Executive is a Specified Employee, the Pro Rata Incentive shall be paid, with Interest, to the Executive on the Delayed Payment Date. With respect to the provision of the Other Benefits, the term "Other Benefits" as utilized in this Section 5(c) shall include, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Company and the Affiliated Companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive and/or the Executive's family, as in effect at any time thereafter generally with respect to other peer executives of the Company and the Affiliated Companies and their families.

(d) **Cause; Other Than for Good Reason.** If the Executive's employment is terminated for Cause during the Employment Period, the Company shall provide the Executive with the Accrued Obligations and the timely payment or delivery of the Other Benefits, and shall have no other severance obligations under this Agreement. If the Executive voluntarily terminates employment during the Employment Period, excluding a termination for Good Reason, the Company shall provide to the Executive the Accrued Obligations and the Pro Rata Incentive and the timely payment or delivery of the Other Benefits, and shall have no other severance obligations under this Agreement. In such case, all the Accrued Obligations and the Pro Rata Incentive shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination, *provided*, that in the event that the Executive is a Specified Employee, the Pro Rata Incentive shall be paid, with Interest, to the Executive on the Delayed Payment Date.

(e) **Earned Compensation; Valuation Determinations**. For purposes of Section 5 of this Agreement, the Accrued Obligations shall be considered "earned" if the Executive remained employed by the Company or an Affiliated Company through at least the last day of the period to which the amount relates. For purposes of calculating the cash value of the Pro Rata

Incentive and the Accrued Obligations under Section 5 of this Agreement, the value of any equity, equity-like or other performance-based awards shall be the fair value of such award under applicable accounting rules at the time such award was or would have been granted.

Section 6. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or the Affiliated Companies and for which the Executive may qualify, nor, subject to Section 9(a)(2) and Section 12(f), shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement with the Company or the Affiliated Companies. Amounts that are vested benefits or that the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any other contract or agreement with the Company or the Affiliated Companies at or subsequent to the Date of Termination ("Other Benefits") shall be payable in accordance with such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Agreement. Without limiting the generality of the foregoing, the Executive's resignation under this Agreement with or without Good Reason, shall in no way affect the Executive's ability to terminate employment by reason of the Executive's "retirement" under any compensation and benefits plans, programs or arrangements of the Company or the Affiliated Companies, including without limitation any retirement or pension plans or arrangements or to be eligible to receive benefits under any compensation or benefit plans, programs or arrangements of the Company or the Affiliated Companies, including without limitation any retirement or pension plan or arrangement of the Company or the Affiliated Companies or substitute plans adopted by the Company or its successors, and any termination which otherwise qualifies as Good Reason shall be treated as such even if it is also a "retirement" for purposes of any such plan. Notwithstanding the foregoing, if the Executive receives payments and benefits pursuant to Section 5(a) of this Agreement, the Executive shall not be entitled to any severance pay or benefits under any severance plan, program or policy of the Company and the Affiliated Companies, unless otherwise specifically provided therein in a specific reference to this Agreement, or to any payments or benefits under any Non-Competition Agreement between the Executive and the Company or one of its Affiliated Companies (the "NCA") that is in effect as of immediately prior to the Effective Date.

Section 7. Full Settlement; Legal Fees. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense, or other claim, right or action that the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay as incurred (within 10 days following the Company's receipt of an invoice from the Executive), at any time from the Effective Date of this Agreement through the Executive's remaining lifetime (or, if longer, through the 20th anniversary of the Effective Date) to the full extent permitted by law, all legal fees and expenses that the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus, in each case, Interest. In order to comply with Section 409A of the Code, in no event shall the payments by the Company under this Section 7 be made later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred, *provided*, that the Executive shall have submitted an invoice for such fees and expenses at least 10 days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Company is obligated to pay in any other calendar year, and the Executive's right to have the Company pay such legal fees and expenses may not be liquidated or exchanged for any other benefit. Notwithstanding anything contained herein to the contrary, in no event shall the Executive be entitled to the payment of legal fees under this Section 7 in connection with an enforcement action by the Company of the Executive's obligations under the NCA (as modified by Section 9(a) of this Agreement).

Section 8. Certain Additional Payments by the Company.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any Payment would be subject to the Excise Tax, then the Executive shall be entitled to receive an additional payment (the "Gross-Up Payment") in an amount such that, after payment by the Executive of all taxes (and any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, but excluding any income taxes and penalties imposed pursuant to Section 409A of the Code, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 8(a), if it shall be determined that the Executive is entitled to the Gross-Up Payment, but that the Parachute Value of all Payments does not exceed 110% of the Safe Harbor Amount, then no Gross-Up Payment shall be made to the Executive and the amounts payable under this Agreement shall be reduced so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount. The reduction of the amounts payable hereunder, if applicable, shall be made by reducing the payments and benefits under the following sections in the following order and only to the extent necessary: (i) Section 5(a)(4), (ii) Section 5(a)(1)(B), (iii) Section 5(a)(1)(C), (iv) Section 5(a)(1)(D), (v) Section 5(a)(1)(E); (vi) Section 5(a)(1)(A)(iv), (vii) Section 5(a)(2) and (viii) Section 5(a)(3). For purposes of reducing the Payments to the Safe Harbor Amount, only amounts payable under this Agreement (and no other Payments) shall be reduced. If the reduction of the amount payable under this Agreement would not result in a reduction of the Parachute Value of all Payments to the Safe Harbor Amount, no amounts payable under this Agreement shall be reduced pursuant to this Section 8(a). The Company's obligation to make Gross-Up Payments under this Section 8 shall not be conditioned upon the Executive's termination of employment.

(b) Subject to the provisions of Section 8(c), all determinations required to be made under this Section 8, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Deloitte & Touche or such other nationally recognized certified public accounting firm as may be designated by the Executive (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Company should have been made (the "Underpayment"), consistent with the calculations required to be made hereunder. An Underpayment can result from a claim by the Internal Revenue Service or from a determination by the Accounting Firm. In the event the Company exhausts its remedies pursuant to Section 8(c) and the Executive thereafter is required to make a payment of any Excise Tax, or in the event the Accounting Firm otherwise determines that an Underpayment has occurred, the Accounting Firm shall promptly determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable, but no later than 10 business days after the Executive is informed in writing of such claim. The Executive shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which the Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that the Company desires to contest such claim, the Executive shall:

(1) give the Company any information reasonably requested by the Company relating to such claim,

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

(3) cooperate with the Company in good faith in order effectively to contest such claim; and

(4) permit the Company to participate in any proceedings relating to such claim;

provided, *however*, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 8(c), the Company shall control all proceedings taken in connection with such contest, and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either pay the tax claimed to the appropriate taxing authority on behalf of the Executive and direct the Executive to sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided*, *however*, that, if the Company pays such claim and directs the Executive to sue for a refund, the Company shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties) imposed with respect to such payment or with respect to any imputed income in connection with such payment; and *provided*, *further*, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of a Gross-Up Payment or payment by the Company of an amount on the Executive's behalf pursuant to Section 8(c), the Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 8(c), if applicable) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after payment by the Company of an amount on the Executive's behalf pursuant to Section 8(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then the amount previously paid shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

(e) Any Gross-Up Payment, as determined pursuant to this Section 8, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination; *provided* that, the Gross-Up Payment shall in all events be paid no later than the end of the Executive's taxable year next following the Executive's taxable year in which the Excise Tax (and any income or other related taxes or interest or penalties thereon) on a Payment are remitted to the Internal Revenue Service or any other applicable taxing authority or, in the case of amounts relating to a claim described in Section 8(c) that does not result in the remittance of any federal, state, local and foreign income, excise, social security and other taxes, the calendar year in which the claim is finally settled or otherwise resolved. Notwithstanding any other provision of this Section 8, the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of the Executive, all or any portion of any Gross-Up Payment, and the Executive hereby consents to such withholding.

(f) Definitions. The following terms shall have the following meanings for purposes of this Section 8.

(i) "Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

(ii) "Parachute Value" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2), as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment.

(iii) A "Payment" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable pursuant to this Agreement or otherwise.

(iv) The "Safe Harbor Amount" means 2.99 times the Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code.

Section 9. Restrictive Covenants. (a) If, as of immediately prior to the Effective Date, the Executive is a party to an NCA and/or a Confidentiality, Work Product and Non-Solicitation of Employee Agreement ("CWP + NS"), the restrictive covenants set forth in the NCA and the CWP + NS and the enforcement provisions thereof shall continue in full force and effect as if set forth herein in their entirety and Section 9(b) shall be inapplicable to the Executive; *provided*, *however,* that, notwithstanding anything to the contrary contained herein or in the NCA or the CWP + NS, following the Effective Date, (1) the Non-Competition Period and the period of application for the Non-Solicitation of Employees provision set forth in Section 3 of any applicable CWP + NS, shall be limited to one year from the Executive's Date of Termination (or such shorter period as shall apply consistent with the Company's ability to waive the non-competition covenant pursuant to the NCA), (2) the Executive shall not be entitled to receive any payments or benefits under the NCA upon a termination of employment for any reason, and (3) in no event shall an asserted violation of the NCA constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

(b) If the Executive is not party to an NCA as of immediately prior to the Effective Date, following the Effective Date, the Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or the Affiliated Companies, and their respective businesses, which information, knowledge or data shall have been obtained by the Executive during the Executive's employment by the Company or the Affiliated Companies and which information, knowledge or data shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those persons designated by the Company. In no event shall an asserted violation of this Section 9(b) constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

Section 10. Successors. (a) This Agreement is personal to the Executive, and, without the prior written consent of the Company, shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. Except as provided in Section 10(c), without the prior written consent of the Executive this Agreement shall not be assignable by the Company.

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

Section 11. Funding. This Agreement constitutes an unfunded, unsecured obligation of the Company, and any payments made hereunder shall be made from the general assets of the Company. Prior to the Effective Date, the Company may establish a trust pursuant to a trust agreement and may make contributions to such trust in accordance with the terms and conditions of such trust agreement for the purpose of assisting the Company in meeting its payment obligations under this Agreement; *provided, however,* that the trust shall not be funded if the funding thereof would result in taxable income to the Executive by reason of Section 409A(b) of the Code; *and provided, further,* that in no event shall any trust assets at any time be located or transferred outside of the United States, within the meaning of Section 409A(b) of the Code. Any fees and expenses of the trustee shall be paid by the Company.

Section 12. Miscellaneous. (a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified other than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

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

if to the Executive:

At the most recent address on file at the Company.

if to the Company:

Capital One Financial Corporation
1680 Capital One Drive
McLean, Virginia 22102
Attention: General Counsel

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

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

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

(e) The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Sections 4(c)(1) through 4(c)(5), shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company is "at will" and, subject to Section 1(a), prior to the Effective Date, the Executive's employment may be terminated by either the Executive or the Company at any time prior to the Effective Date, in which case the Executive shall have no further rights under this Agreement. From and after the date hereof, this Agreement shall supersede any prior Change of Control Employment Agreement between the Company and the Executive. From and after the Effective Date, except as specifically provided herein including Section 9(a) of this Agreement with respect to the NCA (as modified by Section 9(a)), this Agreement shall supersede any other severance or separation pay agreement or employment agreement containing severance provisions between the Executive and the Company or its Affiliated Companies.

(g) Notwithstanding any provision in this Agreement to the contrary, in the event of an Anticipatory Termination, any payments that are deferred compensation within the meaning of Section 409A of the Code that the Company shall be required to pay pursuant to Section 5(a)(1) of this Agreement shall be paid as follows: (i) if such Change of Control is a "change in control event" within the meaning of Section 409A of the Code, (A) except as provided in clause (B) of this Section 12(g)(i), on the date of such Change of Control, or (B) if the Executive is a Specified Employee and the Delayed Payment Date is later than the Change of Control, on the Delayed Payment Date, and (ii) if such Change of Control is not a "change in the ownership or effective control" of the Company or "a change in the ownership of a substantial portion of the assets" of the Company (each as defined in Section 409A of the Code and the regulations thereunder as in effect from time to time), (A) except as provided in clause (B) of this Section 12(g)(ii), on the first business day following the 12-month anniversary of the date of such Anticipatory Termination (the "<u>Payment Date</u>"), or (B) if the Executive is a Specified Employee and the Delayed Payment Date is later than the date of such Change of Control, on the Delayed Payment Date. In the event of an Anticipatory Termination, any payments or benefits that are not deferred compensation within the meaning of Section 409A of the Code that the Company shall be required to pay or provide pursuant to Section 5(a) of this Agreement shall be paid or shall commence being provided on the date of the Change of Control. Interest with respect to the period, if any, from the date of the Change of Control until the actual date of payment shall be paid on any delayed cash amounts.

(h) Notwithstanding Section 5(a)(1) of this Agreement and if the Executive is party to an NCA, in the event the Change of Control is not a "change in the ownership or effective control" of the Company or "a change in the ownership of a substantial portion of the assets" of the Company (as defined in Section 12(g) above), the payments under Section 5(a)(1)(B) shall be paid as follows: (1) the amount equal to the sum of (A) one times the Executive's Annualized Base Salary otherwise payable in cash and (B) the amount of the employer portion of health care premiums plus the 2% administrative fee (as provided for under the NCA) (the "Installment Amount") shall be paid in installments during the one-year period following the Date of Termination, and (2) the amount determined under Section 5(a)(1)(B) minus the Installment Amount shall be paid in a lump sum, in each case, subject to delayed payment until the Delayed Payment Date if the Executive is a Specified Employee.

(i) Within the time period permitted by the applicable Treasury Regulations, the Company may, in consultation with the Executive, modify the Agreement, in the least restrictive manner necessary and without any diminution in the value of the payments to the Executive, in order to cause the provisions of the Agreement to comply with the requirements of Section 409A of the Code, so as to avoid the imposition of taxes and penalties on the Executive pursuant to Section 409A of the Code.

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

[EXECUTIVE'S NAME]

CAPITAL ONE FINANCIAL CORPORATION

By:

John G. Finneran, Jr.

Amendment Agreement Number 1

Barclays Bank PLC
5 The North Colonnade
Canary Wharf, London E14 4BB
Facsimile: +44 (20) 777 36461
Telephone: +44 (20) 777 36810

c/o Barclays Capital Inc.
as Agent for Barclays Bank PLC
745 Seventh Ave
New York, NY 10019
Telephone: +1 212 412 4000

Capital One Financial Corporation
1680 Capital One Drive
McLean, VA 22102
Attention: Simon Fairclough
Telephone No.: 703-720-1253
Facsimile No.: 703-720-2165

November 1, 2011

Dear Mr. Fairclough:

Reference is made to the Share Forward Transaction letter agreement dated July 14, 2011, as amended and supplemented from time to time, between Barclays Bank PLC, through its agent Barclays Capital Inc., and Capital One Financial Corporation (the "**Agreement**"). The purpose of this letter agreement (this "**Amendment Agreement**") is to amend certain terms set forth in the Agreement as described below. All capitalized terms used, but not defined herein, shall have the meanings assigned thereto in the Agreement. Notwithstanding anything in the Agreement to the contrary, Barclays and Counterparty hereby agree as follows:

1. Settlement Date: The definition of Settlement Date shall be deleted in its entirety and replaced with the following:

   If (i) Cash Settlement or Net Share Settlement is applicable, Three Scheduled Trading Days immediately following the Valuation Date or (ii) Physical Settlement is applicable, one Scheduled Trading Day immediately following the Settlement Notice Date.

2. Counterparts: This Amendment Agreement may be signed in any number of counterparts, each of which shall be an original with the same effect as if the signatures thereto and hereto were upon the same instrument.

3. Governing Law: This Amendment Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Except as expressly modified herein, the Agreements shall remain in full force and effect.

Please confirm that the foregoing correctly sets forth the terms and conditions of our agreement by executing this Amendment Agreement Number 1.

Very truly yours,

BARCLAYS CAPITAL INC.,
acting solely as Agent in connection with this Transaction

By: /s/ Adam Lawlor
Name: Adam Lawlor
Title: Authorised Signatory

Accepted and confirmed as of the Trade Date:

CAPITAL ONE FINANCIAL CORPORATION

By: /s/ Stephen Linehan
Name: Stephen Linehan
Title: EVP, Treasurer

Amendment Agreement Number 2

Barclays Bank PLC
5 The North Colonnade
Canary Wharf, London E14 4BB
Facsimile: +44 (20) 777 36461
Telephone: +44 (20) 777 36810

c/o Barclays Capital Inc.
as Agent for Barclays Bank PLC
745 Seventh Ave
New York, NY 10019
Telephone: +1 212 412 4000

Capital One Financial Corporation
1680 Capital One Drive
McLean, VA 22102
Attention: Simon Fairclough
Telephone No.: 703-720-1253
Facsimile No.: 703-720-2165

November 18, 2011

Dear Mr. Fairclough:

Reference is made to the Share Forward Transaction letter agreement dated July 14, 2011, as amended and supplemented from time to time (including pursuant to Amendment Agreement Number 1 with respect thereto, dated November 1, 2011) , between Barclays Bank PLC, through its agent Barclays Capital Inc., and Capital One Financial Corporation (the "**Agreement**"). The purpose of this letter agreement (this "**Amendment Agreement**") is to amend certain terms set forth in the Agreement as described below. All capitalized terms used, but not defined herein, shall have the meanings assigned thereto in the Agreement. Notwithstanding anything in the Agreement to the contrary, Barclays and Counterparty hereby agree as follows:

1. Settlement Notice Date: Clause (i) of the definition of Settlement Notice Date shall be deleted in its entirety and replaced with the following:

   (i) designated by Counterparty as a Settlement Notice Date by a written notice (a "**Settlement Notice**") delivered to Dealer prior to 11:59 p.m. New York time on the Scheduled Trading Day immediately preceding such Settlement Notice Date which shall also contain the applicable Settlement Shares and the election of Cash Settlement or Net Share Settlement with respect to such Settlement Shares, if applicable; or

2. Counterparts: This Amendment Agreement may be signed in any number of counterparts, each of which shall be an original with the same effect as if the signatures thereto and hereto were upon the same instrument.

3. Governing Law: This Amendment Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Except as expressly modified herein, the Agreement shall remain in full force and effect.

Please confirm that the foregoing correctly sets forth the terms and conditions of our agreement by executing this Amendment Agreement Number 2.

Very truly yours,

BARCLAYS CAPITAL INC.,
acting solely as Agent in connection with this
Transaction

By: /s/ Paul Robinson
Name: Paul Robinson
Title: Managing Director

Accepted and confirmed as of the Trade Date:

CAPITAL ONE FINANCIAL CORPORATION

By: /s/ Stephen Linehan
Name: Stephen Linehan
Title: EVP, Treasurer

Exhibit 10.10.2

Amendment Agreement Number 1

Morgan Stanley & Co. LLC
1585 Broadway
New York, NY 10036-8293
Facsimile: (212) 537-8293
Telephone: (212) 507-0483

Capital One Financial Corporation
1680 Capital One Drive
McLean, VA 22102
Attention: Simon Fairclough
Telephone No.: 703-720-1253
Facsimile No.: 703-720-2165

November 1, 2011

Dear Mr. Fairclough:

Reference is made to the Share Forward Transaction letter agreement dated July 14, 2011, as amended and supplemented from time to time, between Morgan Stanley & Co. LLC, and Capital One Financial Corporation (the "**Agreement**"). The purpose of this letter agreement (this "**Amendment Agreement**") is to amend certain terms set forth in the Agreement as described below. All capitalized terms used, but not defined herein, shall have the meanings assigned thereto in the Agreement. Notwithstanding anything in the Agreement to the contrary, Barclays and Counterparty hereby agree as follows:

1. Settlement Date: The definition of Settlement Date shall be deleted in its entirety and replaced with the following:

   If (i) Cash Settlement or Net Share Settlement is applicable, Three Scheduled Trading Days immediately following the Valuation Date or (ii) Physical Settlement is applicable, one Scheduled Trading Day immediately following the Settlement Notice Date.

2. Counterparts: This Amendment Agreement may be signed in any number of counterparts, each of which shall be an original with the same effect as if the signatures thereto and hereto were upon the same instrument.

3. Governing Law: This Amendment Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Except as expressly modified herein, the Agreements shall remain in full force and effect.

Please confirm that the foregoing correctly sets forth the terms and conditions of our agreement by executing this Amendment Agreement Number 1.

Very truly yours,

MORGAN STANLEY & CO. LLC,

By: /s/ Serkan Savasoglu
Name: Serkan Savasoglu
Title: Managing Director

Accepted and confirmed as of the Trade Date:

CAPITAL ONE FINANCIAL CORPORATION

By: /s/ Stephen Linehan
Name: Stephen Linehan
Title: EVP, Treasurer

Exhibit 10.10.3

Amendment Agreement Number 2

Morgan Stanley & Co. LLC
1585 Broadway
New York, NY 10036-8293
Facsimile: (212) 537-8293
Telephone: (212) 507-0483

Capital One Financial Corporation
1680 Capital One Drive
McLean, VA 22102
Attention: Simon Fairclough
Telephone No.: 703-720-1253
Facsimile No.: 703-720-2165

November 18, 2011

Dear Mr. Fairclough:

Reference is made to the Share Forward Transaction letter agreement dated July 14, 2011, as amended and supplemented from time to time (including pursuant to Amendment Agreement Number 1 with respect thereto , dated November 1, 2011), between Morgan Stanley & Co. LLC and Capital One Financial Corporation (the "**Agreement**"). The purpose of this letter agreement (this "**Amendment Agreement**") is to amend certain terms set forth in the Agreement as described below. All capitalized terms used, but not defined herein, shall have the meanings assigned thereto in the Agreement. Notwithstanding anything in the Agreement to the contrary, Morgan Stanley and Counterparty hereby agree as follows:

1. <u>Settlement Notice Date</u>: Clause (i) of the definition of Settlement Notice Date shall be deleted in its entirety and replaced with the following:

    (i) designated by Counterparty as a Settlement Notice Date by a written notice (a "**Settlement Notice**") delivered via emails to each member of the Settlement Notification Dealer Personnel (as defined below) prior to 11:59 p.m. New York time on the Scheduled Trading Day immediately preceding such Settlement Notice Date which shall also contain the applicable Settlement Shares and the election of Cash Settlement or Net Share Settlement with respect to such Settlement Shares, if applicable; or

2. <u>Settlement Notification Dealer Personnel</u>. Settlement Notification Dealer Personnel means:

Jae	Kang:	<u>Jae.Kang@morganstanley.com</u>
Kerry	Willoughby:	<u>Kerry.Willoughby@morganstanley.com</u>
Serkan	Savasoglu:	<u>Serkan.Savasoglu@morganstanley.com</u>
Anthony	Cicia:	<u>Anthony.Cicia@morganstanley.com</u>

3. <u>Counterparts</u>: This Amendment Agreement may be signed in any number of counterparts, each of which shall be an original with the same effect as if the signatures thereto and hereto were upon the same instrument.

4. Governing Law: This Amendment Agreement shall be governed by and construed in accordance with the laws of the State of New York.

Except as expressly modified herein, the Agreement shall remain in full force and effect.

Please confirm that the foregoing correctly sets forth the terms and conditions of our agreement by executing this Amendment Agreement Number 2.

Very truly yours,

MORGAN STANLEY & CO. LLC

By: /s/ Serkan Savasoglu
Name: Serkan Savasoglu
Title: Managing Director

Accepted and confirmed as of the Trade Date:

CAPITAL ONE FINANCIAL CORPORATION

By: /s/ Stephen Linehan
Name: Stephen Linehan
Title: EVP, Treasurer

Exhibit 10.11

SPECIAL SEPARATION AGREEMENT AND RELEASE

This Special Separation Agreement and Release ("Agreement") is made by and between Lynn A. Carter ("You" or "Your") and Capital One Financial Corporation, including any of its subsidiaries (referred to collectively as "Capital One").

Reason for Agreement

You and Capital One desire to set forth the final terms relating to your employment with Capital One and your separation therefrom. Capital One has notified you of your job elimination effective at the close of business on December 31, 2011 (the "Job Elimination Date"). Notwithstanding the Job Elimination Date, and in exchange for your execution of this Agreement and your agreement to execute a "Supplemental General Release" after your separation (which form of agreement is attached hereto as Appendix A), Capital One will reassign you to a new role effective January 1, 2012, will continue your employment through March 31, 2012, subject to the terms below, and will provide severance payments and benefits as discussed herein. Your separation from service with Capital One will be effective April 1, 2012 (such date, or if earlier the date on which your employment with Capital One and all of its affiliates terminates, the "Separation Date").

Consideration for Signing this Agreement and Appendix A

If you agree to the terms set forth in this Agreement, specifically, but without limitation, your agreement to the provisions under "General Release of Claims," Capital One will continue your employment from January 1, 2012 through March 31, 2012 (the "Transition Period"), in a new role designated by Capital One. During such time, you will be entitled to the same compensation and benefits to which you were entitled on the date immediately preceding your Transition Period, including by way of example, cash and equity compensation (including RSU salary and long-term incentive equity awards for the 2011 performance year to be awarded at the same time as other similarly situated senior executives of Capital One employed as of December 31, 2011) , company-sponsored benefits (including, if applicable, eligibility for certain payments under the

Change of Control Employment Agreement between you and Capital One entered into as of March 1, 2010) (the “Change of Control Employment Agreement”), medical and dental insurance coverage, indemnification rights, and continued vesting of equity under the applicable plans or programs in which you were participating on the date immediately preceding your Transition Period. You further understand and agree that effective on or around September 1, 2011, your job duties were assigned in a reasonable manner and at a senior level by the Chief Executive Officer of Capital One. You shall remain eligible to receive a mid-term RSU incentive award for 2011 at your target level established by the Compensation Committee of the Board of Directors in January 2011 and at the same multiple and the same time as other similarly situated senior executives of Capital One employed as of December 31, 2011.

Subject to your eligibility, if you execute the Supplemental General Release after your termination of employment from Capital One (but within the time specified in the Supplemental General Release), you shall receive the applicable severance and benefits set forth in the Capital One Financial Corporation Executive Severance Plan (the “Severance Plan”), pursuant to the terms of the Severance Plan in place on the date you execute this Agreement, or such greater severance and benefits pursuant to the terms of the Severance Plan in effect as of the date of your termination of employment.

Notwithstanding the above, if, (a) prior to March 31, 2012, (i) you resign your employment after December 31, 2011, (ii) your employment is terminated by Capital One without “Cause,” as that term is defined in the Severance Plan, or (iii) you die; and (b) you or your estate execute the Supplemental General Release attached hereto as Appendix A, you (or your estate, if applicable) will be eligible to receive the applicable severance and benefits under the Severance Plan in place on the date you execute this Agreement or such greater severance and benefits pursuant to the terms of the Severance Plan in effect as of the date of your termination of employment. You will also receive all other benefits provided for under this Agreement. For the avoidance of doubt, Capital One will not withhold severance benefits on the grounds that you have failed, or are alleged by Capital One to have failed, to meet any of the requirements listed in the

Severance Plan under the heading “Eligibility,” except for the conditions set forth herein. If you are terminated for “Cause,” you will not be eligible for severance benefits and you will forfeit all unearned compensation, including by way of example, certain unvested equity, according to the terms of the applicable plan and grant agreements. In the event that, on or prior to March 31, 2012, you become unable to perform your duties due to physical or mental incapacity, Capital One will not terminate your employment prior to April 1, 2012.

If you do not execute this Agreement, you will be terminated, effective on the Job Elimination Date, at which time you will be eligible to receive benefits under the Severance Plan in place at that time, to the extent you are otherwise qualified under such plan.

General Release of Claims

In consideration of the payments and other benefits provided for in this Agreement, which you agree is good, valuable, adequate and sufficient consideration under this Agreement, you acknowledge and agree that, you and your agents, representatives, and heirs, do hereby fully release (*i.e.*, give up) and forever discharge Capital One and its parent, subsidiary and affiliated corporations, organizations and entities, including without limitation CAPITAL ONE FINANCIAL CORPORATION, CAPITAL ONE SERVICES, INC., CAPITAL ONE SERVICES, LLC, CAPITAL ONE, NATIONAL ASSOCIATION, CAPITAL ONE AUTO FINANCE, INC., CAPITAL ONE BANK (USA), NATIONAL ASSOCIATION, CHEVY CHASE BANK, F.S.B. and each of them, and all of their respective past, present and future affiliates, partners, joint ventures, stockholders, predecessors, successors, assigns, insurers, officers, directors, employees, agents, representatives, attorneys and independent contractors of all such released corporations, organizations and entities, as well as their employee benefit plans, and the trustees, administrators, fiduciaries and insurers of such plans (collectively, the “Released Parties”), and each of them, jointly and severally, from any and all claims, causes of action, charges, suits, controversies, and demands of any kind, whether known or unknown, whether for injunctive relief, back pay, fringe benefits, reinstatement, reemployment, or compensatory, punitive or any other kind of damages, which you ever have had in the past or presently have against the Released Parties through the date of this Agreement, arising from or relating to your employment with Capital One or the termination of that employment or any circumstances related thereto.

Types of Claims Waived

Such claims, causes of action, charges or similar actions include but are not limited to claims arising under or relating to employment, employment contracts, employee benefits or purported employment discrimination or violations of civil rights of whatever kind or nature, including without limitation all claims arising under Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Civil Rights Acts of 1866 and/or 1871, 42 U.S.C. Section 1981, the Americans With Disabilities Act of 1990, the Age Discrimination in Employment Act ("ADEA"), the Family Medical Leave Act, Executive Order 11246, the Rehabilitation Act of 1973, the Employee Retirement Income Security Act of 1974, any state human rights act, or any other applicable federal, state or local employment statute, law or ordinance. Except as provided herein, all claims for incentive compensation awards under any Capital One plan or payroll practice, along with any claims under any state wage and hour laws, are specifically subject to this release of claims. You further agree that you will not file or permit to be filed, initiated or prosecuted on your behalf any such claim this Agreement purports to waive.

Claims Not Waived

Notwithstanding the preceding provision or any other provision of the Agreement, your agreement to the provisions under "General Release of Claims" is not intended to prohibit you from bringing an action to challenge the validity of your release of claims under the ADEA.

This Agreement is not intended to interfere with your right to file a charge with an administrative agency in connection with any claim you believe you may have against any of the Released Parties. However, by executing this Agreement, you hereby waive the right to recover, and agree not to seek any damages, remedies or other relief for yourself personally in any proceeding you may bring before such agency or in any proceeding brought by such agency on your behalf. This Agreement is also not intended to apply to claims under ERISA Section 502(a)(1)(B) for accrued benefits (other than claims for severance and severance-related benefits) under any qualified employee benefit plan of Capital One pursuant to the terms of any such plan or to claims under any other compensation or employee benefit plan of Capital One for accrued and vested benefits pursuant to the terms of any such plan.

Further, you understand that you are not releasing your rights under this Agreement, that any claims which cannot be lawfully waived are excluded from this Agreement and that by executing this Agreement you are not waiving any such claims. In addition, you are not releasing any rights you may have to indemnification under applicable corporate law, under the by-laws or certificate of incorporation of Capital One or any of its affiliates or as an insured under any directors' and officers' liability insurance policy now or previously in force, or any rights you may have under Capital One's equity award plans or rights as a stockholder of Capital One.

Likewise, you are not releasing any rights or claims that may arise after the date on which you sign this Agreement. In addition, while this Agreement requires you to waive any and all claims against Capital One arising under workers' compensation laws (e.g., claims of retaliation for filing a workers' compensation claim), it is not intended to prohibit you from filing in good faith for and from receiving any workers' compensation benefits from Capital One's workers' compensation carrier for compensable injuries incurred during your employment. Accordingly, pursuit of any such workers' compensation benefits with Capital One's workers' compensation carrier will not be considered a violation of this Agreement.

<u>Notification of ADEA Rights and Claims/Opportunity for Review</u>

As outlined above in the General Release of Claims provision, you understand that this Agreement specifically releases and waives all claims you may have for age discrimination under the ADEA, except for those that may arise after the date this Agreement is executed by you. Likewise, you understand that this Agreement does not prohibit you from challenging the *validity of your release* of claims under the ADEA. Understanding the above, you agree and acknowledge that your execution of this Agreement is completely voluntary and that you have been advised to consult with an attorney prior to executing this Agreement to ensure that you fully and thoroughly understand its legal significance. You acknowledge that you have at least **twenty-one (21) days** from receipt of this Agreement to consider the provisions of this Agreement during which time you can consult with counsel concerning its terms. You acknowledge that if you execute this Agreement prior to the expiration of the **twenty-one (21)** days, your execution is completely voluntary and done with the knowledge that you are waiving your entitlement to this review period. You acknowledge that any changes negotiated by the parties shall not re-start the consideration period.

You further acknowledge and understand that you may revoke this Agreement within **seven (7)** days after its execution by you by sending a written letter of revocation post-marked no later than **seven (7)** days after your execution of this Agreement to the Dana Hale at the address below. You further acknowledge and understand that this Agreement is not effective or enforceable until the revocation period has expired.

Warranties and Representations

You hereby warrant and represent that under the federal Fair Labor Standards Act and/or any state or local counterpart you do not claim that Capital One violated or denied any wage and hour rights under the Fair Labor Standards Act or any state or local counterpart, as of the time of the execution of this Agreement by you. You further warrant and represent that as of the time of the execution of this Agreement by you, you are unaware of any facts or conduct (including, but not limited to any violation of law) that would give rise to a claim by you against Capital One of any type or sort, including those types of claims or other violations set forth generally and specifically above, including but not limited to any claims under the Fair Labor Standards Act.

Non-solicitation of Employees

For a period of two (2) years following your Separation Date, you shall not, directly or indirectly, on your own behalf or on behalf of any other person, corporation, partnership, firm, financial institution or other business entity: (a) solicit or induce any employee of Capital One to become employed by any person, corporation, partnership, firm, financial institution or other business entity engaged in competition with Capital One; or (b) solicit or induce any employee to leave or cease their employment relationship with Capital One based on Confidential Data you learned about such employee while you were employed by Capital One, including but not limited to the employee’s work experience, specialized training or knowledge of Capital One Confidential Data. Notwithstanding anything to the contrary herein, the following shall not be a violation of this Agreement or the Severance Plan (or any other agreement): (i) responding to an unsolicited request from any employee for advice on employment or business matters that is wholly unrelated to seeking employment with you or any organization with which you are affiliated; (ii) responding to an unsolicited request for a reference regarding any employee, by providing a reference setting forth your personal views about such person or entity provided such reference is wholly unrelated to seeking employment with you or any organization with which you are affiliated; (iii) any organization with which you are affiliated (including, but not limited to, your employer) engaging or soliciting an employee, provided you are not involved (directly or indirectly) in such activity; or (iv) soliciting any such employee through an ad that is not targeted specifically at Capital One employees. In addition, in the event you are subject to any Capital One covenant against the solicitation of customers, you shall not be treated as violating any such covenant as a result of any organization with which you are affiliated (including, but not limited to, your employer) engaging or soliciting a customer, provided you are not involved (directly or indirectly) in such activity.

Effect of Violation

Except to the extent such agreement is prohibited by applicable law or regulation, you understand and agree that any action by you in violation of this Agreement that is more than minor, such as filing a lawsuit for claims released by this Agreement, shall void Capital One's obligations to you for all payments and benefits provided for under this Agreement, shall require that you immediately forfeit and repay all amounts paid to you by Capital One under this Agreement, and shall further require you to pay all reasonable costs and attorneys' fees incurred by Capital One in defending any action brought by you in violation of this Agreement or brought by Capital One to enforce this Agreement, in addition to any other damages or relief to which Capital One may be entitled. In the event you violate this Agreement in a way that is more than minor and payments made hereunder are subsequently forfeited, you agree that there remains sufficient consideration to be bound by this Agreement. You further acknowledge that any violation of the Confidentiality provision of this Agreement or any continuing obligation contained in any applicable confidentiality agreement or restrictive covenant with Capital One will result in immediate, substantial and irreparable harm to Capital One which cannot be fully and adequately redressed by the award of monetary damages. In the event of your violation or threatened violation of the Confidentiality provision of this Agreement or any continuing obligation contained in any applicable confidentiality, intellectual property, non-solicitation, or other covenant or agreement with Capital One, you agree that Capital One, without limiting any other legal or equitable remedies available to it, shall be entitled to equitable relief, including without limitation, temporary, preliminary and permanent injunctive relief and specific performance from any court of competent jurisdiction and will not contest the entry of same if sought by Capital One.

Notwithstanding the above or any other provision to the contrary, the above will not apply to any action brought by you to challenge the validity of your waiver of any ADEA claims under this Agreement.

Modification

This Agreement may be modified only in writing, signed by both parties. E-mail communication does not modify this agreement.

No Admission

This Agreement does not constitute an admission of liability or wrongdoing of any kind by Capital One or its affiliates.

Severability

It is the intent of the parties that the provisions of this Agreement be enforced to the fullest extent permissible under applicable law. If any provision of this Agreement shall be adjudged by any court of competent jurisdiction to be invalid or unenforceable, such judgment shall not invalidate any other provision of this Agreement. The parties agree that if a court of competent jurisdiction adjudges any provision of this Agreement to be valid or unenforceable; such court shall modify such provision so that it is enforceable to the extent permitted by applicable law consistent with the parties' intent. Likewise, to the extent providing any payment or benefit under this Agreement would violate any law or regulation not in effect at the time the Agreement is executed by you, but would violate any such law or regulation in effect at the time such payment or benefit is to be provided, the Parties agree that no such payment or benefit will be provided, except to the extent permitted by law ; provided, that the parties shall use all reasonable efforts to provide for an alternative equivalent payment to the extent legally permitted.

Successor

This Agreement is personal to you and shall not be assignable by you other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by your heirs and legal representatives. The rights and obligations of Capital One under this Agreement shall be binding on and inure to the benefit of Capital One, its successors and assigns. Capital One shall not assign this Agreement other than to a successor entity in the event of a corporate transaction.

No Further Payments, Benefits, Attorney's Fees or Costs

You understand and agree that you will not receive any payments or benefits from Capital One or its affiliates after the Separation Date, except as expressly provided for under the Agreements or under applicable benefit plans and arrangements. The payments and benefits received by you from Capital One after the Separation Date pursuant to the Agreements shall not be taken into account as compensation and no service credit shall be given after the Separation Date for purposes of determining the benefits payable under any other plan, program, agreement or arrangement of Capital One or its affiliates. You acknowledge that, except for the payments made by Capital One as expressly provided for under the Agreements, you are not entitled to any payment in the nature of severance or termination pay from Capital One or its affiliates.

Tax Withholding

Capital One may withhold from any amounts payable to you hereunder all federal, state, local or other taxes that it may reasonably determine are required to be withheld pursuant to any applicable law or regulation in connection with any payments or benefits provided to you pursuant to the Agreements.

Confidentiality

You agree that the fact, terms and conditions of this Agreement are strictly confidential, and with the exception of your spouse, counsel and tax advisors or a lender requiring financial disclosure, or except to the extent required by an order of a court or arbitrator having apparent jurisdiction or under subpoena from an appropriate government agency (in which event, you will notify Capital One in writing of the receipt of such subpoena or order prior to responding to any such order or subpoena) or as necessary to enforce the terms of this Agreement or to demonstrate to a potential employer or business partner the scope of your restrictive covenants, shall not be disclosed to any other person, entities or organizations, whether or not employed by Capital One, unless and until Capital One publicly discloses such Agreement. You further agree that in the event you share the fact, terms or conditions of this Agreement with such person(s), you will instruct such person(s) to keep the information confidential pursuant to your obligation to maintain the confidentiality of such information. In addition, you agree not to use or disclose to any other person, including without limitation, future employers, any confidential or proprietary information or materials acquired in connection with your employment with Capital One, without the express written consent of Capital One, including without limitation, information and materials which identify or concern past, present or future customers, businesses or plans, or constitute, embody or relate to research, development, financial accounting, programming and systems, inventions, databases, product designs, product implementations, modeling techniques, models, testing, test results, customer lists, marketing strategies, business plans, existing or potential new lines of business, credit policies and practices, accounts of customers or associates of Capital One or any other information or materials made or furnished by Capital One or its affiliates (collectively "Confidential Data"). Confidential Data may be written, oral, recorded on tape or in any other media, and includes without limitation, information embodied in documents, drawings, graphs, charts, presentations, recordings, microfiche, tapes, computer programs and other data compilations. Additionally, unless Capital One advises you to the contrary in writing, Confidential Data shall include all software, hardware and other information supplied to Capital One by third parties which is used by Capital One in its business. This confidentiality obligation shall be in addition to any other confidentiality agreements contained in any applicable agreement or other document signed by you, as well as continuing confidentiality obligations under the Capital One Code of Business Conduct and Ethics**.** Notwithstanding the foregoing, it shall not be a violation of this paragraph or the Severance Plan (or any other agreement) for you to use or disclose Confidential Data (i) when disclosure is required by law or by any court, arbitrator, or government agency with apparent jurisdiction; (ii) as reasonably deemed necessary in the course of performing the duties of your employment with Capital One; or (iii) if the Confidential Data has become generally known to the public other than due to your violation of this paragraph or a violation of any of your agents or representatives.

Indemnification

All rights to indemnification and exculpation from liability for acts or omissions occurring on or prior to the Separation Date existing in your favor under Capital One's Certificate of Incorporation and Bylaws and Delaware law and otherwise shall continue in full force and effect subsequent to the Separation Date. Capital One will ensure that you remain covered under its directors and officers insurance policy at least to the extent then provided for other directors and officers of Capital One with respect to all acts, omissions and/or events relating to or arising out of your being an employee, officer, director, representative or trustee/administrator or other fiduciary with Capital One or any of its affiliates, subsidiaries or employee benefit plans or any third party with respect to which you were acting as a representative of Capital One or any of its affiliates or subsidiaries.

Section 409A

All payments and benefits to be paid or provided to you pursuant to the Agreements are intended to comply with or be exempt from section 409A of the Internal Revenue Code of 1986 as amended, the regulations promulgated thereunder, and the rulings, notices and other guidance issued by the Internal Revenue Service interpreting the same ("Section 409A"), and the provisions of this Agreement shall be administered, interpreted and construed in accordance with and to implement such intent. In implementation of the foregoing, it is agreed as follows:

(a) Your termination of employment with Capital One on the Separation Date for any reason other than death or termination of employment by Capital One for Cause shall be treated as a "separation from service" within the meaning of Treas. Reg. §1.409A-1(n)(1).

(b) All payments and benefits to be paid or provided to you under the Agreements and under the Severance Plan (to wit, the severance payment, the subsidized COBRA coverage payment, the outplacement services, and the premiums for coverage under the Capital One Executive Life Insurance Program) shall be treated as exempt from the requirements of Section 409A (including without limitation the requirement under Section 409A(a)(2)(B) for a 6 month delay in payment in the case of any "specified employee") pursuant to the short term deferral exemption under Treas. Reg. §1.409A-1(b)(4), the separation pay plan exemptions under Treas. Reg. §1.409A-1(b)(9)(iii) and (v), and/or the welfare benefits exemption under Treas. Reg. §1.409A-1(a)(5).

(c) To the extent that the reimbursement of any expenses or the provision of any in-kind benefits under any provision of the Agreements is subject to Section 409A (after taking into account all applicable exclusions and exemptions), (i) the amount of such expenses eligible for reimbursement or in-kind benefits to be provided during any one calendar year shall not affect the amount of such expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year, (ii) reimbursement of any such expenses shall be made by no later than December 31 of the year next following the calendar year in which such expense is incurred, and (iii) your right to receive such reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

Arbitration/Venue

Any dispute or claim arising out of or relating to this Agreement shall be resolved by binding arbitration under the rules of the American Arbitration Association in McLean, Virginia; provided, however, that any claims relating to a breach of any confidentiality, non-solicitation, or intellectual property covenant shall not be subject to arbitration. For claims not subject to arbitration, Capital One and you hereby submit to the jurisdiction and venue of any state or federal court located within the Commonwealth of Virginia for resolution of any such claims, causes of action or disputes. You further agree that any such claims, causes of action, or disputes shall only have jurisdiction and venue in the state or federal courts of the Commonwealth of Virginia. For matters subject to arbitration, judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

No Set-off/Mitigation

Other than with respect to claims under the Agreements, Capital One's obligation to make payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that Capital One may have against you or others. For the avoidance of doubt, in no event shall you be obligated to seek other employment or take any other action by way of mitigation of the accounts payable to you under any of the provisions of this Agreement, and such amounts shall not be reduced by future compensation whether or not you obtain other employment.

Choice of Law

To ensure uniformity of the enforcement of this Agreement, and irrespective of the fact that either of the parties now is or may become, a resident of a different state, this Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia without regard to any principles of conflicts of law.

No Waiver

Any waiver by Capital One of any provision of this Agreement in any instance shall not be deemed a waiver of such provision in the future.

Headings

The headings in this Agreement are included for convenience only and shall not constitute a part of the Agreement nor shall they affect its meaning, construction or effect.

Integration

This Agreement, together with the Supplemental General Release (collectively, the "Agreements"), constitute the final and complete agreement between the parties relating to the subject matter hereof, and you agree and stipulate that no other representations have been made by Capital One to you except those expressly set forth herein, and the Agreements resolve all outstanding issues arising from or relating to your employment with Capital One, and that you will not receive anything further from Capital One except as provided herein; provided, however, that notwithstanding any provision of the Agreements to the contrary, any agreements containing confidentiality, intellectual property, non-solicitation provisions or similar agreements to which you are a party, as well as the Change of Control Employment Agreement (until your Separation Date), your award agreements regarding outstanding equity awards, and applicable benefit plans and agreements, shall expressly remain in full force and effect according to their terms (provided that such provisions and agreements shall be subject to any exceptions or exclusions set forth in the Agreements), unless expressly waived by the Agreements.

<u>Opportunity for Review</u>

You agree and acknowledge that your execution of this Agreement is completely voluntary and that you have been advised to consult with an attorney prior to executing this Agreement to ensure that you fully and thoroughly understand its legal significance.

If the terms of this Agreement are acceptable to you, please indicate your agreement by signing below and returning two originals to:

Dana Hale
15000 Capital One Drive
Attn: 12077-0270
Richmond, Virginia 23238

Please be advised that the terms offered in this Agreement shall be automatically withdrawn if the Agreement is not executed and returned to Capital One by the close of business on December 31, 2011.

[remainder of page intentionally left blank]

If you have any questions about this Agreement, please contact me at (804)284-1066.

Sincerely,

/s/ Jory A. Berson
Jory A. Berson

You are advised to discuss the benefits and obligations outlined in this Agreement, including the provision relating to your general release of claims, with an attorney or advisor of your choice.

Agreed to and accepted by:

/s/ Lynn A. Carter	December 30, 2011
LYNN A. CARTER	DATE

APPENDIX A
SUPPLEMENTAL GENERAL RELEASE

This Supplemental General Release ("Supplemental Release") is made by and between Lynn A. Carter ("You" or "Your") and Capital One Financial Corporation, including any of its subsidiaries (referred to collectively as "Capital One").

Reason for Agreement

The purpose of this Supplemental Release is to supplement, but not supersede that certain Separation Agreement and Release that you executed on [DATE] (the "Separation Agreement"), by and between you and Capital One, which is incorporated herein by reference. In the event that any inconsistencies occur between this Supplemental Release and the Separation Agreement, you agree that the terms of this Supplemental Release shall govern and be given full and binding effect. You further agree that to the extent not specifically set forth in this Supplemental Release the provisions set forth in the Separation Agreement, including, but not limited to Non-solicitation of Employees, Return of Company Assets, Confidentiality, and all other terms of the Separation Agreement shall be enforceable in their entirety and are fully incorporated herein by reference.

Consideration

Separation Payment

You have concluded your Transition Period with Capital One (as that term is defined in the Separation Agreement) and agree that as of your Separation Date (as defined in the Separation Agreement) [INSERT DATE UPON TERMINATION], you are no longer employed by Capital One. As consideration for this Supplemental Release, and specifically, but without limitation, as consideration for your agreement to the provisions under "General Release of Claims," Capital One shall pay you separation pay pursuant to the Capital One Financial Corporation Executive Severance Plan (the "Severance Plan") in the amount of [INSERT AMOUNT], which amount reflects the severance payment provided for under the Severance Plan at the time you executed the Separation

Agreement or such greater severance pursuant to the terms of the Severance Plan as of your Separation Date. Such amount shall be payable in one lump sum no later than 60 days after Capital One receives your fully executed Supplemental Release (such Supplemental Release shall be provided to you by Capital One within 7 business days following your Separation Date and shall be executed by you and Capital One within 28 days following your Separation Date). For the avoidance of doubt, the provision in the Severance Plan for delay in the payment of a portion of an associate's severance payment until the end of the non-competition period under the NCA shall not apply to the separation payment to be made to you hereunder, and Capital One acknowledges that as of the Separation Date you are not subject to any non-competition or conflict-of-interest covenants. All applicable federal, state and local taxes will be withheld by Capital One from the lump sum separation pay payment, to the extent such taxes are required by law or regulation to be withheld. In the event you elect to exercise COBRA rights, you will also receive COBRA continuation benefits as described below (see "Benefit Continuation" section below). Capital One shall also make available to you, at its sole expense, up to 12 month(s) worth of outplacement services to be provided by a nationally recognized outplacement services firm selected by Capital One. You must begin using these outplacement services within 90 days following your Separation Date.

If you do not agree to the terms set forth in this Agreement, you will not receive any benefits set forth in this section titled "Consideration for Signing."

Benefit Continuation

You shall receive all benefits for which you are currently eligible and properly enrolled until and including the Separation Date. If you are currently eligible and properly enrolled as of the Separation Date, your medical and dental coverage will continue through the end of the month of your separation. You may be entitled to elect to exercise COBRA rights in accordance with federal law. You will receive separate notice of any such COBRA rights. In the event you elect COBRA coverage, Capital One will assume the cost of the employer's portion of the monthly premium and the 2% COBRA administrative fee for a period of 6 months following the end of the month of your Separation Date. For an additional 12 months thereafter, if you have elected to continue

COBRA coverage, Capital One will pay the cost of the employer's portion of the monthly premium (i.e., the excess of the total premium over the standard contribution amount paid by active employees for the same coverage) and the 2% COBRA administrative fee for such 12-month period, but you will be imputed taxable income in an amount equal to such payment. In both cases, you will pay the remaining balance of the COBRA premium directly to the COBRA administrator. Should you become eligible, while you are receiving subsidized COBRA covame or less cost to you than such subsidized COBRA coverage, such subsidized COBRA payments by Capital One shall immediately be terminated. You agree to notify Capital One immediately of the date that you become eligible to such receive health insurance coverage from any other party, including Medicare. If you wish to continue any optional supplemental life insurance in effect as of your Separation Date, please contact Aetna US Healthcare at (800) 523-5065. All other benefits, including but not limited to, those provided under the Long Term Managed Income Protection plan, Short Term Managed Income Protection plan, AD&D policy, the Associate Stock Purchase Plan, Deferred Compensation Plan, and the Associate Savings Plan will be discontinued, if applicable, as of the Separation Date other than as expressly provided for under this Agreement.

Non-solicitation of Employees

For a period of two (2) years following your Separation Date, you shall not, directly or indirectly, on your own behalf or on behalf of any other person, corporation, partnership, firm, financial institution or other business entity: (a) solicit or induce any employee of Capital One to become employed by any person, corporation, partnership, firm, financial institution or other business entity engaged in competition with Capital One; or (b) solicit or induce any employee to leave or cease their employment relationship with Capital One based on Confidential Data you learned about such employee while you were employed by Capital One, including but not limited to the employee's work experience, specialized training or knowledge of Capital One Confidential Data.

Notwithstanding anything to the contrary herein, the following shall not be a violation of this Agreement or the Severance Plan (or any other agreement): (i) responding to an unsolicited request from any employee for advice on employment or business matters that is wholly unrelated to seeking employment with you or any organization with which you are affiliated; (ii) responding to an unsolicited request for a reference regarding any employee, by providing a reference setting forth your personal views about such person or entity provided such reference is wholly unrelated to seeking employment with you or any organization with which you are affiliated; (iii) any organization with which you are affiliated (including, but not limited to, your employer) engaging or soliciting an employee, provided you are not involved (directly or indirectly) in such activity; or (iv) soliciting any such employee through an ad that is not targeted specifically at Capital One employees. In addition, in the event you are subject to any Capital One covenant against the solicitation of customers, you shall not be treated as violating any such covenant as a result of any organization with which you are affiliated (including, but not limited to, your employer) engaging or soliciting a customer, provided you are not involved (directly or indirectly) in such activity.

Return of Company Assets

All assets of Capital One and its affiliates (including, but not limited to confidential information, telephones, fax machines, personal computers, Blackberries, corporate credit cards and phone cards) must be returned to Capital One in their current condition prior to receiving any payments under this Agreement. By signing and returning this Agreement, you represent that you have left with, or returned to, or agree to leave with or return to Capital One and/or destroyed (where applicable) and no longer possess or control, prior to receiving any payments under this Agreement, any memoranda, notes, documents, business plans, customer lists, computer programs and any other records, or any kind, and any and all copies (either written or electronic) thereof, made or compiled, in whole or in part, by you or made available to you, during the course of your employment with Capital One which are in your possession as of the Separation Date. Nothing herein shall prohibit you from retaining (i) your personal effects (including, but not limited to, personal cell phones, Blackberry devices, photographs, diaries, rolodexes and calendars); (ii) information relating to your compensation as reasonably needed for tax purposes; and

(iii) your copies of plans, programs and agreements relating specifically to the terms and conditions of your employment. Further, the “Eligibility” requirement contained on page 2 of the Severance Plan requiring you to return all Capital One property immediately upon termination of employment will not apply to the materials listed in the preceding sentence or to materials which are no longer in your possession.

Unused Vacation/PTO Days

You will be paid for the number of unused vacation/PTO days accrued as of your Separation Date in accordance with Capital One’s usual payment practices, less applicable federal, state and local taxes. Any unpaid business expenses incurred by you that are outstanding as of the Separation Date shall be reimbursed pursuant to Capital One’s expense reimbursement policies. Payment of the foregoing amounts shall be made to you on, or as soon as administratively practicable after, your Separation Date, but, provided such business expenses are submitted for reimbursement as of the Separation Date, in any event no later than 30 days following your Separation Date.

Associate Savings Plan

As of the Separation Date, you will be considered a terminated participant under the Associate Savings Plan. Please refer to the exit paperwork for details on your options upon termination.

Executive Life Insurance Program

Capital One will continue to pay the entire portion of the premiums associated with group term life insurance coverage offered under the current Capital One Executive Life Insurance Program (the “ELIP”) through the earlier of the date you become eligible to receive coverage under another group life insurance program or 12 months after the Separation Date. You will be responsible for any applicable taxes related to such payments, which premium payments will be reported on Internal Revenue Service Form W-2 to the extent includible in your gross income pursuant to Code section 79. If you wish to convert your group term life insurance policy to an individual whole life policy, please contact Aetna Life Insurance at 1-888-584-2983.

Deferred Compensation Plan

If applicable, the vested value in your account under the Capital One Financial Corporation Deferred Compensation Plan will be distributed directly to you in accordance with the plan's provisions.

General Release of Claims

In consideration of the payments and other benefits provided for in this Agreement, which you agree is good, valuable, adequate and sufficient consideration under this Agreement, you acknowledge and agree that, you and your agents, representatives, and heirs, do hereby fully release (*i.e*., give up) and forever discharge Capital One and its parent, subsidiary and affiliated corporations, organizations and entities, including without limitation CAPITAL ONE FINANCIAL CORPORATION, CAPITAL ONE SERVICES, INC., CAPITAL ONE SERVICES, LLC, CAPITAL ONE, NATIONAL ASSOCIATION, CAPITAL ONE AUTO FINANCE, INC., CAPITAL ONE BANK (USA), NATIONAL ASSOCIATION, CHEVY CHASE BANK, F.S.B. and each of them, and all of their respective past, present and future affiliates, partners, joint ventures, stockholders, predecessors, successors, assigns, insurers, officers, directors, employees, agents, representatives, attorneys and independent contractors of all such released corporations, organizations and entities, as well as their employee benefit plans, and the trustees, administrators, fiduciaries and insurers of such plans (collectively, the "Released Parties"), and each of them, jointly and severally, from any and all claims, causes of action, charges, suits, controversies, and demands of any kind, whether known or unknown, whether for injunctive relief, back pay, fringe benefits, reinstatement, reemployment, or compensatory, punitive or any other kind of damages, which you ever have had in the past or presently have against the Released Parties through the date of this Agreement, arising from or relating to your employment with Capital One or the termination of that employment or any circumstances related thereto.

Types of Claims Waived

Such claims, causes of action, charges or similar actions include but are not limited to claims arising under or relating to employment, employment contracts, employee benefits or purported employment discrimination or violations of civil rights of whatever kind or nature, including without limitation all claims arising under Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Civil Rights Acts of 1866 and/or 1871, 42 U.S.C. Section 1981, the Americans With Disabilities Act of 1990, the Age Discrimination in Employment Act (“ADEA”), the Family Medical Leave Act, Executive Order 11246, the Rehabilitation Act of 1973, the Employee Retirement Income Security Act of 1974, any state human rights act, or any other applicable federal, state or local employment statute, law or ordinance. Except as provided herein, all claims for incentive compensation awards under any Capital One plan or payroll practice, along with any claims under any state wage and hour laws, are specifically subject to this release of claims. You further agree that you will not file or permit to be filed, initiated or prosecuted on your behalf any such claim this Agreement purports to waive.

Claims Not Waived

Notwithstanding the preceding provision or any other provision of the Agreement, your agreement to the provisions under “General Release of Claims” is not intended to prohibit you from bringing an action to challenge the validity of your release of claims under the ADEA.

This Agreement is not intended to interfere with your right to file a charge with an administrative agency in connection with any claim you believe you may have against any of the Released Parties. However, by executing this Agreement, you hereby waive the right to recover, and agree not to seek any damages, remedies or other relief for yourself personally in any proceeding you may bring before such agency or in any proceeding brought by such agency on your behalf. This Agreement is also not intended to apply to claims under ERISA Section 502(a)(1)(B) for accrued benefits (other than claims for severance and severance-related benefits) under any qualified employee benefit plan of Capital One pursuant to the terms of any such plan or to claims under any other compensation or employee benefit plan of Capital One for accrued and vested benefits pursuant to the terms of any such plan.

Further, you understand that you are not releasing your rights under this Agreement, that any claims which cannot be lawfully waived are excluded from this Agreement and that by executing this Agreement you are not waiving any such claims. In addition, you are not releasing any rights you may have: to indemnification under applicable corporate law, under the by-laws or certificate of incorporation of Capital One or any of its affiliates or as an insured under any directors' and officers' liability insurance policy now or previously in force, and any rights you may have under Capital One's equity award plans or rights as a stockholder of Capital One.

Likewise, you are not releasing any rights or claims that may arise after the date on which you sign this Agreement. In addition, while this Agreement requires you to waive any and all claims against Capital One arising under workers' compensation laws (e.g., claims of retaliation for filing a workers' compensation claim), it is not intended to prohibit you from filing in good faith for and from receiving any workers' compensation benefits from Capital One's workers' compensation carrier for compensable injuries incurred during your employment. Accordingly, pursuit of any such workers' compensation benefits with Capital One's workers' compensation carrier will not be considered a violation of this Agreement.

Notification of ADEA Rights and Claims/Opportunity for Review

As outlined above in the General Release of Claims provision, you understand that this Agreement specifically releases and waives all claims you may have for age discrimination under the ADEA, except for those that may arise after the date this Agreement is executed by you. Likewise, you understand that this Agreement does not prohibit you from challenging the *validity of your release* of claims under the ADEA. Understanding the above, you agree and acknowledge that your execution of this Agreement is completely voluntary and that you have been advised to consult with an attorney prior to executing this Agreement to ensure that you fully and thoroughly understand its legal significance. You acknowledge that you have at **twenty-one (21) days** from receipt of this Agreement to consider the provisions of this Agreement during which time you can consult with counsel concerning its terms. You acknowledge that if you execute this Agreement prior to the expiration of the **twenty-one (21)** days, your execution is completely voluntary and done with the knowledge that you are waiving your entitlement to this review period. You acknowledge that any changes negotiated by the parties shall not re-start the consideration period.

You further acknowledge and understand that you may revoke this Agreement within **seven (7)** days after its execution by you by sending a written letter of revocation post-marked no later than **seven (7)** days after your execution of this Agreement to the Dana Hale at the address below. You further acknowledge and understand that this Agreement is not effective or enforceable until the revocation period has expired.

Warranties and Representations

You hereby warrant and represent that under the federal Fair Labor Standards Act and/or any state or local counterpart you (i) have been paid all salary, wages, overtime, commissions, incentives and other income and benefits that are owed and due to you as of the Separation Date; and (ii) do not claim that Capital One violated or denied any wage and hour rights under the Fair Labor Standards Act or any state or local counterpart. For the avoidance of doubt, you are entitled to certain payments and benefits under this Agreement and the Separation Agreement that will be due to you subsequent to the Separation Date. You further warrant and represent that as of the time of the execution of this Agreement by you, you are unaware of any facts or conduct (including, but not limited to any violation of law) that would give rise to a claim by you against Capital One of any type or sort, including those types of claims or other violations set forth generally and specifically above, including but not limited to any claims under the Fair Labor Standards Act.

Effect of Violation

Except to the extent such agreement is prohibited by applicable law or regulation, you understand and agree that any action by you in violation of this Agreement that is more than minor, such as filing a lawsuit for claims released by this Agreement, shall void Capital One’s obligations to you for all payments and benefits provided for under this Agreement, shall require that you immediately forfeit and repay all amounts paid to you by Capital One under this Agreement, and shall further require you to pay all reasonable costs and attorneys' fees incurred by Capital One in defending any action brought by you in violation of this Agreement or brought by Capital One to enforce this Agreement, in addition to any other damages or relief to which Capital One may be entitled. In the event you violate this Agreement in a way that is more than minor and payments made hereunder are subsequently forfeited, you agree that there remains sufficient consideration to be bound by this Agreement. You further acknowledge that any violation of the Confidentiality provision of this Agreement or any continuing obligation contained in any applicable confidentiality agreement or restrictive covenant with Capital One will result in immediate, substantial and irreparable harm to Capital One which cannot be fully and adequately redressed by the award of monetary damages. In the event of your violation or threatened violation of the Confidentiality provision of this Agreement or any continuing obligation contained in any applicable confidentiality, intellectual property, non-solicitation, or other covenant or agreement with Capital One, you agree that Capital One, without limiting any other legal or equitable remedies available to it, shall be entitled to equitable relief, including without limitation, temporary, preliminary and permanent injunctive relief and specific performance from any court of competent jurisdiction and will not contest the entry of same if sought by Capital One.

Notwithstanding the above or any other provision to the contrary, the above will not apply to any action brought by you to challenge the validity of your waiver of any ADEA claims under this Agreement.

Cessation of/Return of Payments

You acknowledge and agree that Capital One will stop payment and has the right to a return of all funds paid to you hereunder in the following circumstances: (i) you violate any confidentiality, intellectual property, non-solicitation, or other covenant or agreement with Capital One (or you challenge the enforceability of any such covenant or agreement in any administrative proceeding, arbitration, or litigation, other than defending a claim brought by Capital One by challenging whether the specific set of facts at issue is a violation); (ii) you fail to repay any significant amounts owed to Capital One including, but not limited to any overpayment of salary, bonus, vacation pay, severance benefits or unpaid personal expenditures on a Capital One corporate credit card, to the extent that you are made aware of such overpayment; or (iii) it is determined that your employment could have been terminated "for cause" ("Cause"), based on your conduct prior to or on your actual Separation Date. For purposes of this Agreement, Cause shall be defined as the willful and continued failure by you to perform substantially your duties with Capital One (other than any such failure resulting from incapacity due to physical or mental illness) or misconduct resulting in material harm to Capital One, as determined by the Plan Administrator (including by way of example, a material violation of any material Capital One policy, or a felony, other than a traffic-related offense). In any such event, Capital One shall be entitled to any appropriate remedy, including, without limitation, the equitable remedy of constructive trust.

Modification

This Agreement may be modified only in writing, signed by both parties. E-mail communication does not modify this agreement.

No Admission

This Agreement does not constitute an admission of liability or wrongdoing of any kind by Capital One or its affiliates.

Severability

It is the intent of the parties that the provisions of this Agreement be enforced to the fullest extent permissible under applicable law. If any provision of this agreement shall be adjudged by any court of competent jurisdiction to be invalid or unenforceable, such judgment shall not invalidate any other provision of this Agreement. The parties agree that if a court of competent jurisdiction adjudges any provision of this Agreement to be valid or unenforceable; such court shall modify such provision so that it is enforceable to the extent permitted by applicable law consistent with the parties' intent. Likewise, to the extent providing any payment or benefit under this Agreement would violate any law or regulation not in effect at the time the Agreement is executed by you, but would violate any such law or regulation in effect at the time such payment or benefit is to be provided, the Parties agree that no such payment or benefit will be provided, except to the extent permitted by law; provided, that the parties shall use all reasonable efforts to provide for an alternative equivalent payment to the extent legally permitted.

Successor

This Agreement is personal to you and shall not be assignable by you other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by your heirs and legal representatives. The rights and obligations of Capital One under this Agreement shall be binding on and inure to the benefit of Capital One, its successors and assigns. Capital One shall not assign this Agreement other than to a successor entity in the event of a corporate transaction.

No Further Payments, Benefits, Attorney's Fees or Costs

You understand and agree that you will not receive any payments or benefits from Capital One or its affiliates after the Separation Date, except as expressly provided for under this Agreement and the Separation Agreement (or under applicable benefit plans and arrangements). The payments and benefits received by you from Capital One pursuant to this Agreement shall not be taken into account as compensation and no service credit shall be given after the Separation Date for purposes of determining the benefits payable under any other plan, program, agreement or arrangement of Capital One or its affiliates. You acknowledge that, except for the payments made by Capital One as expressly provided for under this Agreement and the Separation Agreement, you are not entitled to any payment in the nature of severance or termination pay from Capital One or its affiliates.

Tax Withholding

Capital One may withhold from any amounts payable to you hereunder all federal, state, local or other taxes that it may reasonably determine are required to be withheld pursuant to any applicable law or regulation in connection with any payments or benefits provided to you pursuant to this Agreement.

Confidentiality

You agree that the fact, terms and conditions of this Agreement are strictly confidential, and with the exception of your spouse, counsel and tax advisors, or a lender requiring financial disclosure, or except to the extent required by an order of a court or arbitrator having apparent jurisdiction or under subpoena from an appropriate government agency (in which event, you will notify Capital One in writing of the receipt of such subpoena or order prior to responding to any such order or subpoena), or as necessary to enforce the terms of this Agreement, or to demonstrate to a potential employer or business partner the scope of your restrictive covenants, shall not be disclosed to any other person, entities or organizations, whether or not employed by Capital One, unless and until Capital One publicly discloses such Agreement. You further agree that in the event you share the fact, terms or conditions of this Agreement with such person(s), you will instruct such person(s) to keep the information confidential pursuant to your obligation to maintain the confidentiality of such information. In addition, you agree not to use or disclose to any other person, including without limitation, future employers, any confidential or proprietary information or materials acquired in connection with your employment with Capital One, without the express written consent of Capital One, including without limitation, information and materials which identify or concern past, present or future customers, businesses or plans, or constitute, embody or relate to research, development, financial accounting, programming and systems, inventions, databases, product designs, product implementations, modeling techniques, models, testing, test results, customer lists, marketing strategies, business plans, existing or potential new lines of business, credit policies and practices, accounts of customers or associates of Capital One or any other information or materials made or furnished by Capital One or its affiliates (collectively "Confidential Data"). Confidential Data may be written, oral, recorded on tape or in any other media, and includes without limitation, information embodied in documents, drawings, graphs, charts, presentations, recordings, microfiche, tapes, computer programs and other data compilations. Additionally, unless Capital One advises you to the contrary in writing, Confidential Data shall include all software, hardware and other information supplied to Capital One by third parties which is used by Capital One in its business. This confidentiality obligation shall be in addition to any other confidentiality agreements contained in any applicable agreement or other document signed by you, as well as continuing confidentiality obligations under the Capital One Code of Business Conduct and Ethics. Notwithstanding the foregoing, it shall not be a violation of this paragraph or the Severance Plan (or any other agreement) for you to use or disclose Confidential Data (i) when disclosure is required by law or by any court, arbitrator, or government agency with apparent jurisdiction; (ii) as reasonably deemed necessary in the course of performing the duties of your employment with Capital One; or (iii) if the Confidential Data has become generally known to the public other than due to your violation of this paragraph or a violation of any of your agents or representatives.

Choice of Law

To ensure uniformity of the enforcement of this Agreement, and irrespective of the fact that either of the parties now is or may become, a resident of a different state, this Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia without regard to any principles of conflicts of law.

Full Cooperation

You agree that until your Separation Date, you will cooperate fully with Capital One and take all reasonable actions requested by Capital One to transition your responsibilities and to otherwise assist in the operation of Capital One. At all times until and for five years after your Separation Date, you agree to take all reasonable actions requested by Capital One to assist in any threatened or pending litigation involving Capital One. Notwithstanding the foregoing, in carrying out the provisions of this paragraph, you shall not be required to take any action that could result in any type of criminal liability on your part. Capital One will make reasonable efforts to limit your participation under this paragraph to regular business hours and will also make reasonable efforts to accommodate your personal and business commitments. Capital One shall reimburse you for your reasonable expenses incurred in carrying out the provisions of this paragraph, including demonstrably lost wages and, if reasonably deemed necessary by you, legal fees for separate counsel. You understand that Capital One’s agreement to provide you with the consideration set forth in this Agreement is specifically conditioned on your agreement to provide such cooperation.

Indemnification

All rights to indemnification and exculpation from liability for acts or omissions occurring on or prior to the Separation Date existing in your favor under Capital One's Certificate of Incorporation and Bylaws and Delaware law and otherwise shall continue in full force and effect subsequent to the Separation Date. Capital One will ensure that you remain covered under its directors and officers insurance policy at least to the extent then provided for other directors and officers of Capital One with respect to all acts, omissions and/or events relating to or arising out of your being an employee, officer, director, representative or trustee/administrator or other fiduciary with Capital One or any of its affiliates, subsidiaries or employee benefit plans or any third party with respect to which you were acting as a representative of Capital One or any of its affiliates or subsidiaries.

Section 409A

All payments and benefits to be paid or provided to you pursuant to this Agreement and the Separation Agreement (collectively, the "Agreements") are intended to comply with or be exempt from section 409A of the Internal Revenue Code of 1986 as amended, the regulations promulgated thereunder, and the rulings, notices and other guidance issued by the Internal Revenue Service interpreting the same ("Section 409A"), and the provisions of the Agreements shall be administered, interpreted and construed in accordance with and to implement such intent. In implementation of the foregoing, it is agreed as follows:

(a) Your termination of employment with Capital One on the Separation Date for any reason other than death or termination of employment by Capital One for Cause shall be treated as a "separation from service" within the meaning of Treas. Reg. §1.409A-1(n)(1).

(b) All payments and benefits to be paid or provided to you under the Agreements and under the Severance Plan (to wit, the severance payment, the subsidized COBRA coverage payments, the outplacement services, and the premiums for coverage under the Capital One Executive Life Insurance Program) shall be treated as exempt from the requirements of Section 409A (including without limitation the requirement under

Section 409A(a)(2)(B) for a 6 month delay in payment in the case of any "specified employee") pursuant to the short term deferral exemption under Treas. Reg. §1.409A-1(b)(4), the separation pay plan exemptions under Treas. Reg. §1.409A-1(b)(9)(iii) and (v), and/or the welfare benefits exemption under Treas. Reg. §1.409A-1(a)(5).

(c) To the extent that the reimbursement of any expenses or the provision of any in-kind benefits under any provision of the Agreements is subject to Section 409A (after taking into account all applicable exclusions and exemptions), (i) the amount of such expenses eligible for reimbursement or in-kind benefits to be provided during any one calendar year shall not affect the amount of such expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year, (ii) reimbursement of any such expenses shall be made by no later than December 31 of the year next following the calendar year in which such expense is incurred, and (iii) your right to receive such reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

Arbitration/Venue

Any dispute or claim arising out of or relating to this Agreement shall be resolved by binding arbitration under the rules of the American Arbitration Association in McLean, Virginia; provided, however, that any claims relating to a breach of any confidentiality, non-solicitation, or intellectual property covenant shall not be subject to arbitration. For claims not subject to arbitration, Capital One and you hereby submit to the jurisdiction and venue of any state or federal court located within the Commonwealth of Virginia for resolution of any such claims, causes of action or disputes. You further agree that any such claims, causes of action, or disputes shall only have jurisdiction and venue in the state or federal courts of the Commonwealth of Virginia. For matters subject to arbitration, judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

No Set-off/Mitigation

Other than with respect to claims under the Agreements, Capital One's obligation to make payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action that Capital One may have against you or others. For the avoidance of doubt, in no event shall you be obligated to seek other employment or take any other action by way of mitigation of the accounts payable to you under any of the provisions of this Agreement, and such amounts shall not be reduced by future compensation whether or not you obtain other employment.

No Waiver

Any waiver by Capital One of any provision of this Agreement in any instance shall not be deemed a waiver of such provision in the future.

Headings

The headings in this Agreement are included for convenience only and shall not constitute a part of the Agreement nor shall they affect its meaning, construction or effect.

Integration

This Agreement, including the Separation Agreement incorporated by reference, constitutes the final and complete agreement between the parties relating to the subject matter hereof, and you agree and stipulate that no other representations have been made by Capital One to you except those expressly set forth herein, and that this Agreement resolves all outstanding issues arising from or relating to your employment with Capital One, and that you will not receive anything further from Capital One except as provided herein; provided, however, that notwithstanding any provision of this Agreement to the contrary, any confidentiality, intellectual property, non-solicitation or similar agreements to which you are a party shall expressly remain in full force and effect according to their terms (provided that such provisions and agreements shall be subject to any exceptions or exclusions set forth in the Agreements), unless expressly waived by this Agreement.

Opportunity for Review

You agree and acknowledge that your execution of this Agreement is completely voluntary and that you have been advised to consult with an attorney prior to executing this Agreement to ensure that you fully and thoroughly understand its legal significance.

If the terms of this Agreement are acceptable to you, please indicate your agreement by signing below and returning two originals to:

Dana Hale
15000 Capital One Drive
Attn: 12077-0270
Richmond, Virginia 23238

Please be advised that the terms offered in this Agreement shall be automatically withdrawn if the Agreement is not executed and returned to Capital One by the close of business on [DATE].

[remainder of page intentionally left blank]

If you have any questions about this Agreement, please contact me Jory Berson at (804)284-1066.

Sincerely,

Jory A. Berson

You are advised to discuss the benefits and obligations outlined in this Agreement, including the provision relating to your general release of claims, with an attorney or advisor of your choice.

Agreed to and accepted by:

LYNN A. CARTER	DATE
SS	

Exhibit 12.1

CAPITAL ONE FINANCIAL CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Dollars in millions)	Year Ended December 31, 2011	2010	2009[1]	2008	2007
Ratio (including interest expense on deposits):					
Earnings:					
Income from continuing operations before income taxes	**$4,587**	$4,330	$1,336	$ 582	$3,870
Fixed charges	**2,251**	2,903	2,975	3,985	4,583
Equity in undistributed loss of unconsolidated subsidiaries	**112**	49	60	55	43
Earnings available for fixed charges, as adjusted	**$6,950**	$7,282	$4,371	$4,622	$8,496
Fixed charges:					
Interest expense on deposits and debt	**$2,246**	$2,896	$2,967	$3,963	$4,548
Interest factor in rent expense	**5**	7	8	22	35
Total fixed charges	**$2,251**	$2,903	$2,975	$3,985	$4,583
Ratio of earnings to fixed charges, including interest on deposits	**3.09**	2.51	1.47	1.16	1.85
Ratio (excluding interest expense on deposits):					
Earnings:					
Income from continuing operations before income taxes	**$4,587**	$4,330	$1,336	$ 582	$3,870
Fixed charges	**1,064**	1,438	882	1,473	1,677
Equity in undistributed loss of unconsolidated subsidiaries	**112**	49	60	55	43
Earnings available for fixed charges, as adjusted	**$5,763**	$5,817	$2,278	$2,110	$5,590
Fixed charges:					
Interest expense on debt[2]	**$1,059**	$1,431	$ 874	$1,451	$1,642
Interest factor in rent expense	**5**	7	8	22	35
Total fixed charges	**$1,064**	$1,438	$ 882	$1,473	$1,677
Ratio of earnings to fixed charges, excluding interest on deposits	**5.42**	4.05	2.58	1.43	3.33

(1) On February 27, 2009, we acquired Chevy Chase Bank, fsb. The transaction was accounted for as a purchase, and the related results of operations are included in our consolidated results from the date of the transaction.

(2) Represents total interest expense reported in our consolidated statements of income, excluding interest on deposits, of $1.2 billion, $1.5 billion, $2.1 billion, $2.5 billion and $2.9 billion in 2011, 2010, 2009, 2008 and 2007, respectively.

Exhibit 12.2

CAPITAL ONE FINANCIAL CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Year Ended December 31,				
(Dollars in millions)	2011	2010	2009(1)	2008	2007
Ratio (including interest expense on deposits):					
Earnings:					
Income from continuing operations before income taxes	**$4,587**	$4,330	$1,336	$ 582	$3,870
Fixed charges	**2,251**	2,903	2,975	3,985	4,583
Equity in undistributed loss of unconsolidated subsidiaries	**112**	49	60	55	43
Earnings available for fixed charges, as adjusted	**$6,950**	$7,282	$4,371	$4,622	$8,496
Fixed charges:					
Interest expense on deposits and debt	**$2,246**	$2,896	$2,967	$3,963	$4,548
Interest factor in rent expense	**5**	7	8	22	35
Total fixed charges	**$2,251**	$2,903	$2,975	$3,985	$4,583
Preferred stock dividends, pre-tax	**—**	—	188	16	—
Total fixed charges and preferred stock dividends	**$2,251**	$2,903	$3,163	$4,001	$4,583
Ratio of earnings to fixed charges, including interest on deposits	**3.09**	2.51	1.38	1.16	1.85
Ratio (excluding interest expense on deposits):					
Earnings:					
Income from continuing operations before income taxes	**$4,587**	$4,330	$1,336	$ 582	$3,870
Fixed charges	**1,064**	1,438	882	1,473	1,677
Equity in undistributed loss of unconsolidated subsidiaries	**112**	49	60	55	43
Earnings available for fixed charges, as adjusted	**$5,763**	$5,817	$2,278	$2,110	$5,590
Fixed charges:					
Interest expense on debt(2)	**$1,059**	$1,431	$ 874	$1,451	$1,642
Interest factor in rent expense	**5**	7	8	22	35
Total fixed charges	**$1,064**	$1,438	$ 882	$1,473	$1,677
Preferred stock dividends, pre-tax	**—**	—	188	16	—
Total fixed charges and preferred stock dividends	**$1,064**	$1,438	$1,070	$1,489	$1,677
Ratio of earnings to fixed charges, excluding interest on deposits	**5.42**	4.05	2.13	1.42	3.33

(1) On February 27, 2009, we acquired Chevy Chase Bank, fsb. The transaction was accounted for as a purchase, and the related results of operations are included in our consolidated results from the date of the transaction.

(2) Represents total interest expense reported in our consolidated statements of income, excluding interest on deposits of $1.2 billion, $1.5 billion, $2.1 billion, $2.5 billion and $2.9 billion in 2011, 2010, 2009, 2008 and 2007 respectively.

Exhibit 21

Significant Subsidiaries as of December 31, 2011

Subsidiaries*	Jurisdiction of Incorporation or Organization	Parent Company
Capital One Bank, (USA), National Association (“COBNA”)	United States	Capital One Financial Corporation
Capital One N.A. (“CONA”)	United States	Capital One Financial Corporation

* *Subsidiaries of Capital One Financial Corporation other than COBNA and CONA are not listed above because, in the aggregate, they would not constitute a significant subsidiary.*

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements, as listed below, of Capital One Financial Corporation and in the related Prospectuses, where applicable, of our reports dated February 28, 2012, with respect to the consolidated financial statements of Capital One Financial Corporation, and the effectiveness of internal control over financial reporting of Capital One Financial Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2011.

Registration Statement Number	Form	Description
33-86986	Form S-8	1994 Stock Incentive Plan
33-91790	Form S-8	1995 Non-Employee Directors Stock Incentive Plan
33-97032	Form S-8	Amendment to 1994 Stock Incentive Plan
33-99748	Form S-3	Dividend Reinvestment and Stock Purchase Plan
333-42853	Form S-8	1994 Stock Incentive Plan
333-45453	Form S-8	1998 Associate Savings Plan
333-51637	Form S-8	1994 Stock Incentive Plan
333-57317	Form S-8	1994 Stock Incentive Plan 1998 Special Option Program
333-51639	Form S-8	1994 Stock Incentive Plan – Tier 5 Special Option Program
333-70305	Form S-8	1994 Stock Incentive Plan – Supplemental Special Option Program
333-78067	Form S-8	1994 Stock Incentive Plan
333-78383	Form S-8	1994 Stock Incentive Plan – 1999 Performance-Based Option Program and Supplemental Special Option Program
333-78609	Form S-8	1999 Stock Incentive Plan
333-78635	Form S-8	1999 Non-Employee Directors Stock Incentive Plan
333-84693	Form S-8	1994 Stock Incentive Plan – Supplemental Option Program
333-91327	Form S-8	1994 Stock Incentive Plan
333-92345	Form S-8	1994 Stock Incentive Plan
333-43288	Form S-8	1994 Stock Incentive Plan
333-58628	Form S-8	1994 Stock Incentive Plan
333-72788	Form S-8	2001 Performance-Based Option Program
333-72822	Form S-8	1994 Stock Incentive Plan
333-72820	Form S-8	1999 Non-Employee Stock Incentive Plan
333-76726	Form S-8	1994 Stock Incentive Plan
333-72820	Form S-8	1999 Non-Employee Directors Stock Incentive Plan
333-97127	Form S-8	2002 Associate Savings Plan
333-97125	Form S-3	2002 Dividend Reinvestment Stock Purchase Plan
333-97123	Form S-8	2002 Non-Executive Officer Stock Incentive Plan
333-100488	Form S-8	2002 Associate Stock Purchase Plan
333-117920	Form S-8	2004 Stock Incentive Plan
333-124428	Form S-8	Acquisition of Hibernia Corporation
333-136281	Form S-8	2004 Stock Incentive Plan
333-133665	Form S-8	Acquisition of North Fork Bancorporation
333-151325	Form S-8	Amended and Restated Associate Stock Purchase Plan
333-158664	Form S-8	Second Amended and Restated 2004 Stock Incentive Plan
333-159085	Form S-3	Debt Securities, Preferred Stock, Depositary Shares, Common Stock, Purchase Contracts, Warrants, Units, Trust Preferred Securities, Junior Subordinated Debt Securities, Guarantees

/s/ Ernst & Young LLP

McLean, Virginia
February 28, 2012

CERTIFICATION
PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14(a)

I, Richard D. Fairbank, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2011 of Capital One Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

By: /s/ RICHARD D. FAIRBANK
Richard D. Fairbank
Chairman of the Board, Chief Executive Officer
and President

Exhibit 31.2

CERTIFICATION
PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14(a)

I, Gary L. Perlin, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2011 of Capital One Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2012

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

Exhibit 32.1

CERTIFICATION

In connection with the Annual Report on Form 10-K for the year ended December 31, 2011 of Capital One Financial Corporation (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard D. Fairbank, Chairman, Chief Executive Officer and President of the Company, certify, pursuant to 18 U.S.C. Section 1350 that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ RICHARD D. FAIRBANK

Richard D. Fairbank
Chairman of the Board, Chief Executive Officer
and President

Exhibit 32.2

CERTIFICATION

In connection with the Annual Report on Form 10-K for the year ended December 31, 2011 of Capital One Financial Corporation (the “Company”), as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gary L. Perlin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350 that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2012

/s/ GARY L. PERLIN

Gary L. Perlin
Chief Financial Officer

CAPITAL ONE FINANCIAL CORPORATION (COF)
Reconciliation of Non-GAAP Measures and Regulatory Capital Measures

We refer to our consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") as our "reported" or GAAP financial statements. Effective January 1, 2010, we prospectively adopted two new consolidation accounting standards that resulted in the consolidation of the substantial majority of our securitization trusts that had been previously treated as off-balance sheet. Prior to our adoption of these new consolidation accounting standards, management evaluated the company's performance on a non-GAAP "managed" basis, which assumed that securitized loans were not sold and the earnings from securitized loans were classified in our results of operations in the same manner as the earnings from loans that we owned. We believed that our managed basis information is useful to investors because it portrays the results of both on- and off-balance sheet loans that we manage, which enables investors to understand and evaluate the credit risks associated with the portfolio of loans reported on our consolidated balance sheet and our retained interests in securitized loans. Our non-GAAP managed basis measures may not be comparable to similarly titled measures used by other companies.

As a result of the January 1, 2010 adoption of the new consolidation accounting standards, the accounting for the loans in our securitization trusts in our reported GAAP financial statements is similar to how we accounted for these loans on a managed basis prior to January 1, 2010. Consequently, we believe our managed basis presentations for periods prior to January 1, 2010 are generally comparable to our reported basis presentations for periods beginning after January 1, 2010. In periods prior to January 1, 2010, certain of our non-GAAP managed basis measures differed from our comparable reported measures because we assumed, for our managed basis presentation, that securitized loans that were accounted for as sales in our GAAP financial statements remained on our balance sheet.

The following tables, which are described below, provide a reconciliation of reported GAAP financial measures to the non-GAAP managed basis financial measures included in our filing. We also provide the details of the calculation of certain non-GAAP capital measures that management uses in assessing its capital adequacy.

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Table 1: Financial & Statistical Summary—Reported GAAP Measures [8]

(Dollars in millions) (Unaudited)	2010 Full Year (Reported)	2010 Securitization Adjustments	2010 Full Year (Managed)	2009[1] Full Year (Reported)	2009[1] Securitization Adjustments	2009[1] Full Year (Managed)
Earnings:						
Net interest income	$ 12,457	$ 4	$ 12,461	$ 7,697	$ 4,392	$ 12,089
Non-interest income[2]	3,714	2	3,716	5,286[3]	(539)	4,747
Total revenue [4]	$ 16,171	$ 6	$ 16,177	$ 12,983	$ 3,853	$ 16,836
Provision for loan and lease losses	3,907	6	3,913	4,230	3,853	8,083
Balance sheet statistics (period average)						
Average loans held for investment	$128,526	$ 96	$128,622	$ 99,787	$ 43,727	$143,514
Average earning assets	175,741	74	175,815	145,310	40,683	185,976
Average assets	200,114	71	200,185	171,598	41,060	212,658
Average liabilities	175,173	71	175,244	144,992	41,060	186,052
Return on average assets (“ROA”)	1.52%	0.21%	1.73%	0.58%	(0.12)%	0.46%
Balance sheet statistics (period end)						
Loans held for investment	$125,947	$ 0	$125,947	$ 90,619	$ 46,184	$136,803
Total assets	197,503	0	197,503	169,646	42,743	212,389
Total liabilities	170,962	0	170,962	143,057	42,767	185,824
Tangible assets [A]	183,158	0	183,158	155,516	42,767	198,283
Tangible common equity (“TCE”) ratio [B]	6.9%	0%	6.9%	8.0%[5]	(1.7)%	6.3%
Performance statistics						
Net interest income growth (year over year) [6]	62%	(59)%	3%	8%	2%	6%
Non-interest income growth (year over year) [6]	(30)	8	(22)	(22)%	10%	(12)%
Revenue growth (year over year)	25	(29)	(4)	(7)%	(7)%	— %
Net interest margin	7.09	0	7.09	5.30%	1.20%	6.50%
Revenue margin	9.20	0	9.20	8.94%	0.11%	9.05%
Non-interest expense as a% of average loans held for investment (annualized)	6.17	0	6.17	7.43%	(2.26)%	5.17%
Efficiency ratio [C]	49.06	0	49.06	56.21%	(12.86)%	43.35%
Credit quality statistics						
Net charge-offs	$ 6,651	$ 6	$ 6,657	$ 4,568	$ 3,853	$ 8,421
Net charge-off rate [7]	5.18%	0%	5.18%	4.58%	1.29%	5.87%
30+ day performing delinquencies	$ 4,430	$ 0	$ 4,430	$ 3,746	$ 2,719	$ 6,465
30+ day performing delinquency rate [7]	3.52%	0%	3.52%	4.13%	0.60%	4.73%

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Table 2: Explanatory Notes (Table 1)

Notes

(1) Effective February 27, 2009, the Company acquired Chevy Chase Bank, FSP for $476 million, which included a cash payment of $445 million and the issuance of 2.6 million common shares valued at $31 million. The acquisition of Chevy Chase Bank included $10 billion in loans and $13.6 billion in deposits.

(2) Includes the impact from the change in fair value of retained interests, including interest-only strips, totaling $(5) million and $(146) million for the years 2010 and 2009, respectively.

(3) In Q2 2009, the Company elected to convert and sell 404,508 shares of MasterCard class B common stock, which resulted in the recognition of a gain of $66 million that was recorded in non-interest income.

(4) Billed finance charges and fees not recognized in revenue totaled $949 million and $2.1 billion for the years 2010 and 2009, respectively.

(5) Includes the impact of the issuance of 56,000,000 common shares at $27.75 per share on May 14, 2009.

(6) Prior period amounts have been reclassified to conform to the current period presentation and adjusted to reflect purchase accounting refinements related to the acquisition of Chevy Chase Bank, fsb ("CCB").

(7) The denominator used in calculating the allowance as a % of loans held for investment, the net charge-off rate and the 30+ day performing delinquency rate include loans acquired as part of the CCB acquisition. These metrics, calculated excluding CCB loans, are presented below.

(Dollars in millions) (unaudited)	2010	2009
CCB period end acquired loan portfolio	$5,532	$7,251
CCB average acquired loan portfolio	$6,302	$7,996
Allowance as a % of loans held for investment, excluding CCB loans	4.67%	4.95%
Net charge-off rate (Reported), excluding CCB loans	5.44%	4.98%
Net charge-off rate (Managed), excluding CCB	5.44%	6.21%
30+ day performing delinquency rate (Reported), excluding CCB	3.76%	4.49%
30+ day performing delinquency rate (Managed), excluding CCB	3.76%	4.99%

(8) The managed loan portfolio does not include auto or home loans that have been sold in whole loan sale transactions where the Company has retained servicing rights.

Statistical/Metric Calculations

(A) Tangible assets represent total assets from continuing operations less identifiable intangible assets and goodwill. See "Table 4: Reconciliation of Non-GAAP Capital Measures and Calculation of Regulatory Capital Measures."

(B) Tangible common equity ("TCE") represents common stockholders' equity (total stockholders' equity less preferred stock) less identifiable intangible assets and goodwill. See "Table 4: Reconciliation of Non-GAAP Capital Measures and Calculation of Regulatory Capital Measures."

(C) Calculated based on non-interest expense less restructuring expense divided by total revenue.

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Table 3: Reconciliation of Non-GAAP Average Balances, Net Interest Income and Net Interest Margin

	Year Ended December 31,					
	2010			2009		
(Dollars in millions)(unaudited)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Reported basis						
Interest-earning assets:						
Loans held for investment	$168,015	$15,276	9.09%	$136,697	$10,367	7.58%
Other	7,726	77	1.00	8,613	297	3.45
Total interest-earning assets	$175,741	$15,353	8.74%	$145,310	$10,664	7.34%
Interest-bearing liabilities:						
Securitization liability	$ 34,185	$ 809	2.37%	$ 5,516	$ 282	5.11%
Total interest-bearing liabilities	$154,363	$ 2,896	1.88%	$126,600	$ 2,967	2.34%
Net interest income/spread		$12,457	6.86%		$ 7,697	5.00%
Interest income to average interest-earning assets			8.74%			7.34%
Interest expense to average interest-earning assets			1.65%			2.04%
Net interest margin			7.09%			5.30%
Non-GAAP securitization reconciliation adjustments						
Interest-earning assets:						
Loans held for investment	$ 96	$ 8	0.00%	$ 43,727	$ 5,678	1.31%
Other	(22)	0	(0.01)	(3,061)	(229)	(2.23)
Total interest-earning assets	$ 74	$ 8	0.00%	$ 40,666	$ 5,449	1.32%
Interest-bearing liabilities:						
Securitization liability	$ 79	$ 4	0.00%	$ 41,100	$ 1,057	(2.24)%
Net interest income/spread		$ 4	0.00%		$ 4,392	1.26%
Interest income to average interest-earning assets			0.00%			1.32%
Interest expense to average interest-earning assets			0.00%			0.12%
Net interest margin			0.00%			1.10%

	Year Ended December 31,					
	2010			2009		
(Dollars in millions)(unaudited)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Non-GAAP managed basis						
Interest-earning assets:						
Loans held for investment	$168,111	$15,284	9.09%	$180,424	$16,045	8.89%
Other	7,704	77	0.99	5,552	68	1.22
Total interest-earning assets	$175,815	$15,361	8.74%	$185,976	$16,113	8.66%
Interest-bearing liabilities:						
Securitization liability	$ 34,264	$ 813	2.37%	$ 46,616	$ 1,339	2.87%
Total interest-bearing liabilities	$154,443	$ 2,900	1.88%	$167,700	$ 4,024	2.40%
Net interest income/spread		$12,461	6.86%		$12,089	6.26%
Interest income to average interest-earning assets			8.74%			8.66%
Interest expense to average interest-earning assets			1.65%			2.16%
Net interest margin			7.09%			6.50%

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Table 4: Reconciliation of Non-GAAP Capital Measures and Calculation of Regulatory Capital Measures

In addition to disclosing required regulatory measures, the Company also reports certain non-GAAP capital measures that management uses in assessing its capital adequacy. These non-GAAP measures include average tangible common equity, tangible common equity (TCE), TCE ratio, Tier 1 common equity and Tier 1 common equity ratio. The table below provides the details of the calculation of each of these measures. 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.

(Dollars in millions)(unaudited)	2010	2009
Stockholders equity to non-GAAP tangible common equity		
Total stockholders' equity	$ 26,541	$ 26,589
Less: Intangible assets [1]	(13,983)	(14,106)
Tangible common equity	$ 12,558	$ 12,483
Total assets to tangible assets		
Total assets	$197,503	$169,646
Less: Assets from discontinued operations	(362)	(24)
Total assets from continuing operations	197,141	169,622
Less: Intangible assets [1]	(13,983)	(14,106)
Tangible assets	$183,158	$155,516
Non-GAAP TCE ratio		
Tangible common equity	$ 12,558	$ 12,483
Tangible assets	$183,158	$155,516
TCE ratio[2]	6.9%	8.0%
Non-GAAP managed basis TCE ratio		
Total reported assets	$197,503	$169,646
Plus: Securitization adjustment [3]	—	42,767
Total managed assets	$197,503	$212,413
Less: Assets from discontinued operations	(362)	(24)
Total assets from continuing operations	197,141	212,389
Less: Intangible assets [1]	(13,983)	(14,106)
Managed tangible assets	$183,158	$198,283
Tangible common equity	$ 12,558	$ 12,483
Managed tangible assets	$183,158	$198,283
Managed TCE ratio [2]	6.9%	6.3%
Non-GAAP Tier 1 common equity and regulatory capital ratios		
Total stockholders' equity	$ 26,541	$ 26,590
Less: Net unrealized (gains) losses on AFS securities recorded in AOCI [4]	(368)	(200)
Net losses on cash flow hedges recorded in AOCI[4]	86	92
Disallowed goodwill and other intangible assets [5]	(13,953)	(14,125)
Disallowed deferred tax assets	(1,150)	—
Other	(2)	(10)
Tier 1 common equity	$ 11,154	$ 12,347
Plus: Tier 1 restricted core capital items[6]	3,636	3,642
Tier 1 capital	$ 14,790	$ 15,989
Plus: Long-term debt qualifying as Tier 2 capital	2,827	3,018
Qualifying allowance for loan and lease losses	3,748	1,581
Other Tier 2 components	29	4
Tier 2 capital	$ 6,604	$ 4,603
Total risk-based capital[7]	$ 21,394	$ 20,592
Risk-weighted assets[8]	$127,043	$116,309
Tier 1 common equity ratio [9]	8.8%	10.6%
Tier 1 risk-based capital ratio [10]	11.6%	13.8%
Total risk-based capital ratio [11]	16.8%	17.7%

(1) Includes impact from related deferred taxes.
(2) Calculated based on tangible common equity divided by tangible assets.
(3) Reflects the adjustment to reported total consolidated assets to reflect loans underlying off-balance sheet securitized trusts in the same manner as on-balance sheet loans.
(4) Amounts presented are net of tax.
(5) Disallowed goodwill and other intangible assets are net of related deferred tax liability.
(6) Consists primarily of trust preferred securities.
(7) Total risk-based capital equals the sum of Tier 1 capital and Tier 2 capital.
(8) Calculated based on prescribed regulatory guidelines.
(9) Tier 1 common equity ratio is a non-GAAP measure calculated based on Tier 1 common equity divided by risk-weighted assets.
(10) Tier 1 risk-based capital ratio is a regulatory capital measure calculated based on Tier 1 capital divided by risk-weighed assets.
(11) Total risk-based capital ratio is a regulatory capital measure calculated based on Total risk-based capital divided by risk-weighed assets.