UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of
The Securities Exchange Act of 1934

July 13, 2011
Date of Report (Date of earliest event reported)

Commission File No. 1-13300

CAPITAL ONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(Former name, former address and former fiscal year, if changed since last report)
(Not applicable)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 7.01. Regulation FD Disclosure.

On July 13, 2011, Capital One Financial Corporation (the "Company" or "Capital One") issued a press release announcing an underwritten public offering of its common stock, which will be subject to the forward sale agreements described below. Barclays Capital, Morgan Stanley, BofA Merrill Lynch and J.P. Morgan are acting as book-running managers for the offering. Capital One intends to use the net proceeds of the offering to fund its previously announced acquisition of: (i) the equity interests of ING Bank, fsb ("ING Bank"), WS Realty, LLC and ING Direct Community Development LLC and (ii) certain assets and liabilities of ING Direct Bancorp (collectively, the "ING Direct business"). Capital One also intends to grant the underwriters a 30-day option to purchase additional shares of common stock from Capital One to cover any over-allotments. The press release is attached as Exhibit 99.1 hereto and incorporated by reference in this Item 7.01.

In connection with the offering of its common stock, Capital One expects to enter into forward sale agreements with each of Barclays Capital Inc. and Morgan Stanley & Co. LLC or their respective affiliates, whom we refer to as the forward purchasers. The forward purchasers or their affiliates will borrow and sell to the public through the underwriters shares of Capital One's common stock. The settlement of the forward sale agreements is expected to occur no later than approximately seven months following the date of the common stock offering. Capital One expects to settle the forward sale agreements entirely by the physical delivery of shares of its common stock unless, subject to certain conditions, it elects cash or net share settlement for all or a portion of its obligations under the forward sale agreements. Any shares purchased pursuant to the underwriters' option to purchase additional shares will not be subject to the forward sale agreements.

In this Current Report on Form 8-K, the Company is providing the following information: (i) audited consolidated financial statements of ING Bank as of and for the years ended December 31, 2010 and 2009 and unaudited consolidated financial statements of ING Bank as of and for the three months ended March 31, 2011, attached hereto as Exhibit 99.2 and incorporated by reference in this Item 7.01; (ii) preliminary unaudited pro forma condensed combined financial statements as of and for the three months ended March 31, 2011 and for the year ended December 31, 2010, attached as Exhibit 99.3 hereto and incorporated by reference in this Item 7.01; and (iii) certain risk factors relating to ING Bank's business (the "ING Bank Risk Factors"), attached as Exhibit 99.4 hereto and incorporated by reference in this Item 7.01.

The ING Bank Risk Factors were originally prepared by ING Bank for inclusion in its Full Year Report for the year ended December 31, 2010, and Capital One is reproducing them without revision in this Form 8-K. As a result, references in the ING Bank Risk Factors to the "Bank," "we," "us," or "our" are references to ING Bank and its subsidiaries, except as the context otherwise requires.

As explained in more detail in the accompanying notes to the pro forma financial information, the preliminary pro forma business combination adjustments reflected in the preliminary pro forma financial information are subject to adjustment. The Company expects that after the closing of the acquisition it will file, pursuant to Item 2.01 of Form 8-K, finalized pro forma financial information.

Note: Information in this report (including the exhibits) furnished pursuant to Item 7.01 shall not be deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section. This report will not be deemed an admission as to the materiality of any information in the report that is required to be disclosed solely by Regulation FD. Furthermore, the information provided in Exhibits 99.1, 99.2, 99.3 and 99.4 shall not be deemed to be incorporated by reference into the filings of the Company under the Securities Act of 1933, unless such incorporation by reference is specifically referenced therein.

Item 8.01. Other Events.

In this Current Report on Form 8-K, the Company also is providing certain supplemental risk factors, attached as Exhibit 99.5 hereto and incorporated by reference in this Item 8.01.

Cautionary Statements Regarding Forward-Looking Statements.

The attached press release and information provided pursuant to Items 7.01 and 9.01 contain forward-looking statements, which involve a number of risks and uncertainties. The Company cautions readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information as a result of various factors including, but not limited to, the following:

- general economic and business conditions in the U.S., the U.K., Canada, or the Company's local markets, including conditions affecting employment levels, interest rates and 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);
- financial, legal, regulatory, tax or accounting changes or actions, including the impact of the Dodd-Frank Act and the regulations promulgated thereunder;
- the possibility that regulatory and other approvals and conditions to the ING Direct acquisition are not received or satisfied on a timely basis or at all;
- the possibility that modifications to the terms of the ING Direct acquisition may be required in order to obtain or satisfy such approvals or conditions;
- changes in the anticipated timing for closing the ING Direct acquisition;
- difficulties and delays in integrating the Company's and ING Direct's businesses or fully realizing projected cost savings and other projected benefits of the ING Direct acquisition;
- business disruption during the pendency of or following the ING Direct acquisition;
- the inability to sustain revenue and earnings growth;
- diversion of management time on any acquisition-related issues;
- reputational risks and the reaction of customers and counterparties to the Company's acquisitions;
- changes in asset quality and credit risk as a result of the ING Direct acquisition;
- developments, changes or actions relating to any litigation matter involving us;
- increases or decreases in interest rates;
- the Company's ability to access the capital markets at attractive rates and terms to capitalize and fund its operations and future growth;
- the success of the Company's marketing efforts in attracting and retaining customers;
- increases or decreases in the Company's 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 the Company incurs and attrition of loan balances;
- the level of future repurchase or indemnification requests the Company may receive, the actual future performance of mortgage loans relating to such requests, the success rates of claimants against the Company, any developments in litigation and the actual recoveries the Company may make on any collateral relating to claims against it;
- the amount and rate of deposit growth;
- changes in the reputation of or expectations regarding the financial services industry or the Company with respect to practices, products or financial condition;
- any significant disruption in the Company's operations or technology platform;

- the Company’s ability to maintain a compliance infrastructure suitable for the Company’s size and complexity;
- the Company’s ability to control costs;
- the amount of, and rate of growth in, the Company’s expenses as the Company’s business develops or changes or as it expands into new market areas;
- the Company’s ability to execute on the Company’s strategic and operational plans;
- any significant disruption of, or loss of public confidence in, the United States Mail service affecting the Company’s response rates and consumer payments;
- the Company’s 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;
- the risk that cost savings and any other synergies from any of the Company’s acquisitions may not be fully realized or may take longer to realize than expected;
- fraud or misconduct by the Company’s customers, employees or business partners;
- competition from providers of products and services that compete with the Company’s businesses; and
- other risk factors listed from time to time in the Company’s SEC reports including, but not limited to, the Annual Report on Form 10-K for the year ended December 31, 2010.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits.

Exhibit No.	Description of Exhibit
23.1	Consent of Ernst & Young LLP
99.1	Press release dated July 13, 2011
99.2	Audited Consolidated Financial Statements of ING Bank as of and for the years ended December 31, 2010 and 2009 and Unaudited Consolidated Financial Statements of ING Bank as of and for the three months ended March 31, 2011
99.3	Preliminary Unaudited Pro Forma Condensed Combined Financial Statements as of and for the three months ended March 31, 2011 and for the year ended December 31, 2010
99.4	Risk factors relating to ING Bank’s business
99.5	Supplemental risk factors relating to the acquisition of the ING Direct business

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this Current Report on Form 8-K to be signed on its behalf by the undersigned hereunto duly authorized.

CAPITAL ONE FINANCIAL CORPORATION

Dated: July 13, 2011

By: /s/ John G. Finneran, Jr.
John G. Finneran, Jr.
General Counsel and Corporate Secretary

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the following Registration Statements of Capital One Financial Corporation:

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

Registration Statement Number	Form	Description
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

and in the related Prospectuses, where applicable, of our report dated March 16, 2011, with respect to the consolidated financial statements of ING Bank, fsb included in this Current Report on Form 8-K of Capital One Financial Corporation.

/s/ Ernst & Young LLP

New York, New York
July 13, 2011

Exhibit 99.1

News Release

Contacts:

Investor Relations		**Media Relations**	
Jeff Norris	Danielle Dietz	Julie Rakes	Tatiana Stead
703.720.2455	703.720.2455	804.284.5800	703.720.2352

FOR IMMEDIATE RELEASE: July 13, 2011

Capital One Announces $2.0 Billion Common Stock Offering

McLean, Va. (July 13, 2011) — Capital One Financial Corporation (NYSE: COF) today announced an underwritten public offering of $2.0 billion of its common stock, which will be subject to the forward sale agreements described below. Barclays Capital, Morgan Stanley, BofA Merrill Lynch and J.P. Morgan are acting as book-running managers for the offering. Capital One intends to use the net proceeds of the offering to fund a portion of its previously announced acquisition of ING Direct. Capital One also intends to grant the underwriters a 30-day option to purchase an additional $300.0 million of common stock from Capital One to cover any over-allotments.

In connection with the offering of its common stock, Capital One expects to enter into forward sale agreements with Barclays Capital and Morgan Stanley, whom we refer to as the forward purchasers. The forward purchasers or their affiliates will borrow and sell to the public through the underwriters shares of Capital One's common stock. The settlement of the forward sale agreements is expected to occur no later than approximately seven months following the date of the common stock offering. Capital One expects to settle the forward sale agreements entirely by the physical delivery of shares of its common stock unless, subject to certain conditions, it elects cash or net share settlement for all or a portion of its obligations under the forward sale agreements. Any shares purchased pursuant to the underwriters' option to purchase additional shares will not be subject to the forward sale agreements.

The public offering is being made pursuant to an effective shelf registration statement that has been filed with the Securities and Exchange Commission (the "SEC"). A preliminary prospectus supplement related to the offering will be filed with the SEC and will be available on the SEC's website at http://www.sec.gov. Copies of the prospectus supplement and the base prospectus relating to these securities may be obtained from (i) Barclays Capital Inc. by calling 1-888-603-5847, by mail at Barclays Capital Inc. c/o Broadridge Financial Solutions, 1155 Long Island Avenue, Edgewood, NY 11717 or by e-mail, at Barclaysprospectus@broadridge.com, or (ii) Morgan Stanley & Co. LLC, by calling 1-866-718-1649, by mail at Morgan Stanley Prospectus Department, 180 Varick Street, 2nd Floor, New York, NY 10014, Attention: Prospectus Dept., or by e-mail at prospectus@morganstanley.com, Telephone: (866) 718-1649.

This press release is neither an offer to sell nor a solicitation of an offer to buy any of the common stock or any other security of Capital One, nor shall there be any sale of the common stock in any jurisdiction in which such an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

Forward-looking statements

The company cautions that its current expectations in this release dated July 13, 2011, and the company's plans, objectives, expectations, and intentions, are forward-looking statements which speak only as of the date hereof. The company does not undertake any obligation to update or revise any of the information contained herein whether as a result of new information, future events or otherwise. Actual results could differ materially from current expectations due to a number of factors, including, but not limited to: general economic conditions in the U.S., the U.K., Canada or the company's local markets, including conditions affecting consumer income, confidence, spending, and savings which may affect consumer bankruptcies, defaults, charge-offs, deposit activity, and interest rates; financial, legal, regulatory, tax or accounting changes or actions, including the impact of the Dodd-Frank Act and the regulations promulgated thereunder; developments, changes or actions relating to any litigation matter involving the company; increases or decreases in interest rates; the success of the company's marketing efforts in attracting or retaining customers; changes in the credit environment; increases or decreases in the company's aggregate loan balances or the number of customers and the growth rate and composition thereof; the level of future repurchase or indemnification requests the company may receive, the actual future performance of mortgage loans relating to such requests, the success rates of claimants against the company, any developments in litigation and the actual recoveries the company may make on any collateral relating to claims against it; changes in the reputation of or expectations regarding the financial services industry or the company with respect to practices, products, or financial condition; any significant disruption in the company's operations or technology platform; the company's ability to execute on its strategic and operational plans; changes in the labor and employment market; competition from providers of products and services that compete with the company's businesses; the possibility that regulatory and other approvals and conditions to the ING Direct acquisition are not received or satisfied on a timely basis or at all; the possibility that

modifications to the terms of the ING Direct acquisition may be required in order to obtain or satisfy such approvals or conditions; changes in the anticipated timing for closing the ING Direct acquisition; difficulties and delays in integrating the company's and ING Direct's businesses or fully realizing projected cost savings and other projected benefits of the ING Direct acquisition; business disruption during the pendency of or following the ING Direct acquisition; the inability to sustain revenue and earnings growth; changes in interest rates and capital markets; diversion of management time on issues related to the ING Direct acquisition; and changes in asset quality and credit risk as a result of the ING Direct acquisition. A discussion of these and other factors can be found in the company's annual report and other reports filed with the Securities and Exchange Commission, including, but not limited to, the company's report on Form 10-K for the fiscal year ended December 31, 2010.

About Capital One

Capital One Financial Corporation (www.capitalone.com) is a financial holding company whose subsidiaries, which include Capital One, N.A. and Capital One Bank (USA), N.A., had $126.1 billion in deposits and $199.8 billion in total assets outstanding as of June 30, 2011. Headquartered in McLean, Virginia, Capital One offers a broad spectrum of financial products and services to consumers, small businesses and commercial clients. Capital One, N.A. has approximately 1,000 branch locations primarily in New York, New Jersey, Texas, Louisiana, Maryland, Virginia, and the District of Columbia. A Fortune 500 company, Capital One trades on the New York Stock Exchange under the symbol "COF" and is included in the S&P 100 index.

ING Bank, fsb and Subsidiaries
Consolidated Financial Statements

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Report of Independent Auditors

The Board of Directors and Shareholder
ING Bank, fsb

We have audited the accompanying consolidated statements of financial condition of ING Bank, fsb and Subsidiaries (the "Bank") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in shareholder's equity and comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 ING Bank, fsb and Subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 2 and 4 to the consolidated financial statements, effective January 1, 2009, the Bank early adopted Financial Accounting Standards Board Staff Position FAS 115-2 and FAS 124-2 (codified in ASC 320-10), *Recognition and Presentation of Other-Than-Temporary Impairments*.

We also have examined, in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion that ING Bank, fsb maintained effective internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2011 expressed an unqualified opinion thereon.

March 16, 2011

/s/ Ernst & Young LLP

Ernst & Young LLP

ING Bank, fsb and Subsidiaries

Consolidated Statements of Financial Condition

(Dollars in thousands, except par value)

	December 31	
	2010	**2009**
Assets		
Cash and due from banks	$ **47,818**	$ 39,857
Interest-bearing deposits in other banks	**468,572**	2,566,620
Cash and cash equivalents	**516,390**	2,606,477
Investment securities available-for-sale (amortized cost: 2010 – $27,726,403, 2009 – $25,272,052)	**27,315,780**	23,703,517
Investment securities held-to-maturity (estimated fair value: 2010 – $1,003,377, 2009 – $1,158,941)	**934,574**	1,079,088
Investment securities trading, at fair value	**2,027**	2,140
FHLB stock, at cost	**454,705**	478,637
Notes receivable	**15,516,521**	20,440,284
Loans, net of allowance for loan losses (2010 – $439,010, 2009 – $805,022)	**40,018,497**	37,371,392
Securities purchased under agreements to resell	**–**	500,007
Premises and equipment, net	**84,675**	89,284
Accrued interest receivable	**229,004**	255,144
Prepaid assets	**443,072**	615,191
Bank-owned life insurance	**1,079,065**	1,039,772
Goodwill	**119,739**	119,739
Identifiable intangible assets, net	**73,936**	88,113
Deferred taxes, net	**678,840**	1,189,780
Other assets	**328,640**	706,865
Total assets	$ **87,795,465**	$ 90,285,430
Liabilities and shareholder’s equity		
Liabilities:		
Deposits	$ **77,656,801**	$ 75,075,647
Borrowings	**1,063,000**	7,113,247
Accrued interest payable	**9,521**	54,859
Other liabilities	**180,996**	181,662
Total liabilities	**78,910,318**	82,425,415
Commitments and contingencies *(see Note 21)*		
Shareholder’s equity:		
Common stock, $1 par value; 1,000 shares authorized, issued, and outstanding	**1**	1
Additional paid-in capital	**9,641,536**	9,638,778
Accumulated deficit	**(473,642)**	(737,620)
Accumulated other comprehensive loss, net of tax	**(282,748)**	(1,041,144)
Total shareholder’s equity	**8,885,147**	7,860,015
Total liabilities and shareholder’s equity	$ **87,795,465**	$ 90,285,430

See accompanying notes to consolidated financial statements.

ING Bank, fsb and Subsidiaries

Consolidated Statements of Operations

(Dollars in thousands)

	Year Ended December 31		
	2010	**2009**	**2008**
Interest income:			
Mortgage-backed securities	**$ 635,205**	$ 885,028	$ 2,384,378
Loans	**1,728,825**	1,782,632	1,636,887
Notes receivable	**149,208**	285,047	–
Other investments	**157,915**	63,275	7,579
Securities purchased under agreements to resell	**175**	7,238	10,125
Other interest income	**5,505**	12,787	5,783
Dividend income	**–**	13	12,642
Total interest and dividend income	**2,676,833**	3,036,020	4,057,394
Interest expense:			
Deposits	**958,687**	1,380,568	2,175,664
Borrowings	**173,163**	347,158	404,144
Total interest expense	**1,131,850**	1,727,726	2,579,808
Net interest and dividend income	**1,544,983**	1,308,294	1,477,586
Provision for loan losses	**497,310**	710,306	358,453
Net interest and dividend income after provision for loan losses	**1,047,673**	597,988	1,119,133
Non-interest income (loss):			
Commission and subscription fee income	**70,152**	91,241	68,494
Bank-owned life insurance	**39,293**	37,153	37,646
Gain (loss) on sale of investment securities, net	**31,286**	(28,423)	9,692
(Loss) gain on debt terminations	**(71,752)**	–	7,068
Service charges and other income	**26,829**	16,318	13,500
Loss on loan purchase commitments	**–**	–	(337)
Impairment on debt securities:			
Total other-than-temporary losses	**(166,518)**	(1,568,618)	(2,458,259)
Portion of loss recognized in other comprehensive income	**94,133**	754,077	–
Net impairment loss recognized in earnings	**(72,385)**	(814,541)	(2,458,259)
Total non-interest income (loss)	**23,423**	(698,252)	(2,322,196)
Non-interest expense:			
Salaries and employee benefits	**219,075**	188,090	182,670
FDIC expense	**177,617**	203,711	44,951
Marketing	**80,545**	51,611	141,878
Professional services	**34,502**	60,296	26,412
Other real estate owned expense, net	**33,023**	21,997	12,510
Depreciation	**30,905**	27,454	23,091
Occupancy	**25,472**	27,517	24,377
Data communication and processing	**20,637**	19,127	17,689
Amortization of intangible assets	**14,177**	13,334	14,345
Head office management fee	**10,721**	10,426	6,246
Commission charges	**–**	3,056	4,071
Other	**59,118**	50,180	50,706
Total non-interest expense	**705,792**	676,799	548,946
Income (loss) before income tax expense (benefit)	**365,304**	(777,063)	(1,752,009)
Income tax expense (benefit)	**101,326**	(280,770)	(640,609)
Net income (loss)	**$ 263,978**	$ (496,293)	$ (1,111,400)

See accompanying notes to consolidated financial statements.

ING Bank, fsb and Subsidiaries

Consolidated Statements of Changes in Shareholder's Equity and Comprehensive Income (Loss)

(Dollars in thousands)

	Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings/ Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Shareholder's Equity
Balance, December 31, 2007		$ 1	$ 6,204,125	$ 705,750	$ (869,931)	$ 6,039,945
Capital contribution		–	3,230,000	–	–	3,230,000
Issuance of group stock options		–	2,489	–	–	2,489
Cash dividend paid		–	–	(105,000)	–	(105,000)
Comprehensive loss:						
Net loss	$ (1,111,400)	–	–	(1,111,400)	–	(1,111,400)
Other comprehensive loss:						
Unrealized loss on securities:						
Change in unrealized loss on securities available-for-sale, net of tax $3,049,871	(5,258,873)	–	–	–	(5,258,873)	(5,258,873)
Less reclassification adjustment for gains on sales included in net loss, net of tax $3,543	(6,149)	–	–	–	(6,149)	(6,149)
Other comprehensive loss	(5,265,022)					
Comprehensive loss	$ (6,376,422)					
Balance, December 31, 2008		$ 1	$ 9,436,614	$ (510,650)	$ (6,134,953)	$ 2,791,012
Cumulative adjustment for accounting change on investments, net of tax $151,494 (*see Note 2)*		–	–	269,323	(269,323)	–
Capital contribution		–	200,000	–	–	200,000
Issuance of group stock options		–	2,164	–	–	2,164
Comprehensive (loss) income:						
Net loss	$ (496,293)	–	–	(496,293)	–	(496,293)
Other comprehensive income (loss):						
Unrealized gain on securities:						
Change in unrealized loss on securities available-for-sale, net of tax $(3,086,776)	5,345,703	–	–	–	5,345,703	5,345,703
Less reclassification adjustment for losses on sales included in net loss, net of tax $(10,270)	18,153	–	–	–	18,153	18,153
Employee benefit plan adjustment, net of tax $390	(724)	–	–	–	(724)	(724)
Other comprehensive income	5,363,132					
Comprehensive income	$ 4,866,839					
Balance, December 31, 2009		$ 1	$ 9,638,778	$ (737,620)	$ (1,041,144)	$ 7,860,015

ING Bank, fsb and Subsidiaries

Consolidated Statements of Changes in Shareholder's Equity and Comprehensive Income (Loss) (continued)

(Dollars in thousands)

	Comprehensive (Loss) Income	Common Stock	Additional Paid-in Capital	Retained Earnings/ Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Shareholder's Equity
Balance, December 31, 2009		$ 1	$ 9,638,778	$ (737,620)	$ (1,041,144)	$ 7,860,015
Issuance of group stock options		–	**2,758**	–	–	**2,758**
Comprehensive income:						
Net income	**$ 263,978**	–	–	**263,978**	–	**263,978**
Other comprehensive income:						
Unrealized gain on securities:						
Change in unrealized loss on securities available-for-sale, net of **$ (448,205)**	**780,908**	–	–	–	**780,908**	**780,908**
Less: Reclassification adjustment for gains on sales included in net income, net of tax **$8,678**	**(22,608)**	–	–	–	**(22,608)**	**(22,608)**
Employee benefit plan adjustment, net of tax **$(52)**	**96**	–	–	–	**96**	**96**
Other comprehensive income	**758,396**					
Comprehensive income	**$ 1,022,374**					
Balance, December 31, 2010		**$ 1**	**$ 9,641,536**	**$ (473,642)**	**$ (282,748)**	**$ 8,885,147**

See accompanying notes to consolidated financial statements.

ING Bank, fsb and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Year Ended December 31		
	2010	**2009**	**2008**
Cash flows from operating activities			
Net income (loss)	$ **263,978**	$ (496,293)	$ (1,111,400)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	**30,905**	27,454	23,091
Provision for loan losses	**497,310**	710,306	358,453
Impairment on debt securities	**72,385**	814,541	2,458,259
Amortization of premiums and deferred costs on investment securities, notes receivable, and loan portfolios, net	**267,289**	155,682	52,529
(Gain) loss on sale of investment securities, net	**(31,286)**	180,673	(9,692)
Gain on Illiquid Assets Back-Up Facility transaction	**–**	(152,250)	–
Write-down of premises and equipment	**–**	–	1,208
Loss on other real estate owned	**21,923**	5,017	11,608
Loss (gain) on debt terminations	**71,752**	–	(7,068)
Amortization of identifiable intangible assets	**14,177**	13,334	14,345
Stock compensation expense	**2,758**	2,164	2,489
Employee benefit plan adjustment	**96**	(724)	–
Loans originated for sale	**(3,131)**	–	–
Proceeds from sale of loans	**2,494**	–	–
Decrease (increase) in deferred income tax	**85,111**	280,528	(936,109)
Decrease in accrued interest receivable	**26,140**	56,357	5,997
Decrease (increase) in trading securities	**113**	2,735	(2,830)
Decrease (increase) in prepaid assets	**172,119**	(605,526)	(177)
Increase in value of bank-owned life insurance	**(39,293)**	(37,153)	(37,646)
Increase in identifiable intangible assets	**–**	–	(23)
Decrease (increase) in other assets	**551,217**	(730,462)	(15,532)
Decrease in accrued interest payable	**(45,338)**	(78,307)	(141,867)
Decrease in other liabilities	**(14,622)**	(26,013)	(98,238)
Net cash provided by operating activities	**1,946,097**	122,063	567,397
Cash flows from investing activities			
Purchases of available-for-sale securities	**(6,728,397)**	(12,028,762)	(3,450,816)
Proceeds from paydowns of available-for-sale securities	**4,431,469**	4,858,105	7,626,904
Proceeds from sales of available-for-sale securities	**585,068**	1,239,282	437,290
Purchase of held-to-maturity securities	**–**	–	(491,245)
Proceeds from paydowns of held-to-maturity securities	**182,268**	135,665	172,692
Increase in loan originations, net	**(3,792,513)**	(2,538,771)	(8,981,858)
Purchase of loan portfolios and advances	**(705,936)**	(1,085,759)	(413,893)
Decrease (increase) in reverse repurchase agreements	**500,007**	199,938	(373,275)
Proceeds from the sale of other real estate owned	**253,792**	176,499	40,759
Proceeds from payments on notes receivable	**4,781,267**	4,506,792	–
Decrease (increase) in federal funds sold, net	**–**	100,000	(100,000)
Purchase of bank owned life insurance	**–**	–	(438,953)
Purchase accounting adjustments	**–**	–	28
Additions of premises and equipment, net	**(26,296)**	(28,719)	(40,968)
Purchase of FHLB stock	**–**	–	(321,817)
Proceeds from redemption of FHLB stock	**23,932**	890	457,341
Net cash used in investing activities	**(495,339)**	(4,464,840)	(5,877,811)

See accompanying notes to consolidated financial statements.

ING Bank, fsb and Subsidiaries

Consolidated Statements of Cash Flows (continued)

(Dollars in thousands)

	Year Ended December 31		
	2010	**2009**	**2008**
Cash flows from financing activities			
Increase in deposits, net	**$ 2,581,154**	$ 3,314,008	$ 11,204,191
Decrease in borrowings, net	**(3,050,247)**	(420,495)	(3,839,160)
Early termination of borrowings	**(3,071,752)**	–	(1,492,932)
Dividends paid	**–**	–	(105,000)
Capital contributions from Parent	**–**	200,000	3,230,000
Net cash (used in) provided by financing activities	**(3,540,845)**	3,093,513	8,997,099
Net (decrease) increase in cash and cash equivalents	**(2,090,087)**	(1,249,264)	3,686,685
Cash and cash equivalents, beginning of year	**2,606,477**	3,855,741	169,056
Cash and cash equivalents, end of year	**$ 516,390**	$ 2,606,477	$ 3,855,741
Supplemental disclosures of cash flow information			
Cash payments for interest	**$ 1,177,188**	$ 1,806,033	$ 2,721,675
Taxes (received from) paid to the government	**(552,448)**	(2,909)	299,944
Tax reimbursements to the Corporation	**15,637**	39,067	12,340
Supplemental disclosures of non-cash activities			
Transfer of securities and receipt of notes as part of Illiquid Assets Back-Up Facility transaction *(Note 6)*	**$ –**	$ 25,068,631	$ –
Transfer of securities from available-for-sale to held-to-maturity	**–**	1,054,269	–
Change in deferred tax assets related to change in accounting principle for ASC 320	**–**	151,494	–
Sales of securities available-for-sale recorded on trade date in 2008 and settled in 2009	**–**	–	82,404
Transfer of loans resulting in receipt of securities	**850,715**	410,114	411,534
Transfer of loans to other real estate owned	**448,447**	208,217	99,109
Tax sharing agreement with the Corporation	**13,574**	18,114	55,500

See accompanying notes to consolidated financial statements.

(All dollar amounts presented in tables are in thousands)

1. Business

ING Bank, fsb (individually or together with its consolidated subsidiaries, the “Bank”), headquartered in Wilmington, DE, is a federal stock savings bank organized under the laws of the United States of America (“U.S.”). As a federal stock savings bank, the Bank is subject to the supervision and regulation of the Office of Thrift Supervision (the “OTS”) and is a member of the Federal Deposit Insurance Corporation (the “FDIC”). The Bank is a wholly owned subsidiary of ING DIRECT Bancorp (the “Corporation”), which in turn is an indirect wholly owned subsidiary of ING Groep, N.V. (the “Global Parent Company”).

The Bank’s products and services consist of loan and deposit products, and investment and retirement services, delivered directly to customers throughout the U.S., principally over the telephone and through the Internet and by the U.S. mail and other delivery methods.

The Bank is the parent of ING DIRECT Securities, Inc. (“IDSI”). IDSI is the holding company for ShareBuilder Corporation, which is the parent of ShareBuilder Securities Corporation (the “Securities Company”). The Securities Company is a direct based broker-dealer of securities located in Seattle, Washington, is registered with the Securities and Exchange Commission (the “SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”). The Securities Company provides broker-dealer services to self-directed investors and employer sponsored 401(K) plans.

On July 2, 2008, the Bank formed ING DIRECT Insurance Agency, LLC (“Direct Insurance”), a limited liability company under Delaware law. Direct Insurance’s operations include making referrals to a principal insurance company. Direct Insurance had minimal activity with an immaterial effect on the consolidated financial results during 2010 and 2009.

On October 6, 2004, the Bank formed ING Mortgage, LLC (the “Mortgage Company”) a mortgage banking operation. The Mortgage Company had no activity during the 2009 calendar year and was dissolved as of December 29, 2009.

1. Business (continued)

In order to get approval from the European Commission on the Global Parent Company's restructuring plan, which was required as part of the process to receive approval for the government support measures for the Global Parent Company, the Global Parent Company announced on October 26, 2009 that it was required to divest the Bank by the end of 2013. The Global Parent Company has since lodged an appeal against specific elements of the European Commission's decision. The outcome of the appeal to the European court is anticipated at the end of 2011. The planned divestment of the Bank had no impact on the Bank's consolidated financial condition, results of operations or cash flows for the years ended December 31, 2010 and 2009.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accounting and reporting policies of the Bank conform to generally accepted accounting principles in the United States ("GAAP") and to general practices within the banking industry. Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ (the "Codification" or "ASC") is the sole source of authoritative GAAP recognized by the FASB. In addition, changes to the Codification are communicated through an Accounting Standards Update ("ASU").

Basis of Consolidation

The consolidated financial statements include, after all intercompany balances and transactions have been eliminated, the accounts of the Bank and its wholly owned subsidiaries, including the Securities Company, Direct Insurance and the Mortgage Company.

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the value of the Bank's assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of income and expense. Significant estimates that are particularly susceptible to change in the near term include the allowance for loan losses, the amortization and accretion of premiums and discounts on loans, notes receivable and investments, goodwill, intangible assets, other real estate owned, income taxes and the related deferred tax asset, and the fair value of financial instruments, including the recognition of other-than-temporary impairment ("OTTI") charges. Current market conditions, including unemployment rates and the general performance of the housing sector, increase the risk and complexity in the judgments of these estimates. Actual results may differ from these estimates under different assumptions or conditions.

Reclassifications

Certain amounts in prior years have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income.

Investment Securities

Investment securities are classified as either held-to-maturity securities, available-for-sale securities or trading securities. The purchase and sale of the Bank's investment securities are recorded as of trade date. Management determines the appropriate classification of securities at the time of purchase. The following provides further information on the accounting for investment securities.

Held-to-maturity securities – Investment securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and carried at their amortized cost, which is the remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts.

2. Summary of Significant Accounting Policies (continued)

Available-for-sale securities – Investment securities that are not classified as held-to-maturity nor held for the purpose of trading in the near term are classified as available-for-sale securities. Available-for-sale securities include securities that management intends to use as part of its asset/liability management strategy, including securities that may be sold in response to changes to market interest or prepayment rates, needs for liquidity, and changes in the availability of and the yield of alternative investments. Available-for-sale securities are carried at the estimated fair value. Unrealized gains and losses are excluded from earnings and are reported net of tax as other comprehensive income or loss, within shareholder's equity, until realized, including those recognized through an OTTI charge.

Trading securities – Trading securities are recorded at fair value with gains and losses recognized in earnings. The Bank's trading securities include odd lot and fractional shares of readily marketable common stock, exchange-traded funds and mutual funds retained when shares are purchased by the Securities Company on behalf of customers.

Interest on investments, including amortization and accretion of premiums and discounts on investment securities, is recognized in interest income. Amortization and accretion of premiums and discounts is recognized using the effective interest method. Premiums and discounts on prepayment sensitive investments are amortized over their estimated lives using prepayment assumptions based on actual prepayment experience and expected prepayment levels. Gains and losses on sales of investment securities are computed on the specific-identification basis and included in non-interest income based on trade date.

On a quarterly basis, in accordance with ASC 320, *Investments-Debt and Equity Securities*, the Bank reviews its investment securities that have a fair value less than the amortized cost of the security in order to determine if the decline in fair value is other-than-temporary. The Bank considers many factors and available evidence, including the duration and extent to which the fair value has been less than cost. ASC 320 requires the Bank to assess if an OTTI exists by considering whether (a) the Bank has the intent to sell, (b) it is more likely than not that the Bank will be required to sell the security before recovery of its cost basis, or (c) it does not expect to recover the entire amortized cost basis of the security. Effective January 1, 2009, if the Bank does not intend to sell, and it is more likely than not that the Bank will not be required to sell a debt security before recovery of its cost basis, the guidance requires a company to bifurcate the OTTI into (a) the amount representing credit loss and (b) the amount related to all other factors.

2. Summary of Significant Accounting Policies (continued)

The amount of OTTI related to credit loss is recognized in earnings and the amount related to all other factors is recognized in other comprehensive income or (loss), net of applicable tax. Securities with an unrealized loss that are determined to be other-than-temporary and the Bank intends to sell or it is more likely than not that the Bank will be required to sell before the recovery of a security's cost basis, are written down to fair value, with the entire amount recognized in earnings. For debt securities held at January 1, 2009, the new guidance required the Bank to recognize a cumulative effect adjustment, net of tax, to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income for the amount of the OTTI which would have been recognized in other comprehensive income had the guidance been in effect at the beginning of the period. As a result of the adoption of the new guidance, the Bank recorded an adjustment to retained earnings on January 1, 2009 of $269.3 million, net of deferred taxes of $151.5 million, with a corresponding adjustment to other comprehensive income. Prior to 2009, the guidance did not permit a company to bifurcate the OTTI and as a result, the entire decline in fair value deemed to be a result of an OTTI was recognized in earnings and the new cost basis of the security was based upon the fair value, with any subsequent changes to fair value included in other comprehensive income.

See Note 4 for a summary of the key base assumptions used to estimate other-than-temporary impairment.

Notes Receivable

The Bank's notes receivable are carried at amortized cost. Interest on the notes receivable, including unamortized premium, is recognized in interest income with the premiums amortized over the contractual maturity. See Note 6 for further discussion on the notes receivable.

2. Summary of Significant Accounting Policies (continued)

Loans

Loans include loans held for investment and loans held for sale.

Loan held for investment – Loans held for investment, also referred to as loan portfolio, are stated at the principal amount outstanding, net of premiums and discounts, and deferred loan fees and costs. Premiums and discounts, loan origination fees, and direct loan costs are capitalized and amortized over the estimated term of the respective loan period as a yield adjustment using the effective interest method for term loans and the straight-line method for lines of credit. Premiums and discounts on large groups of similar loans are amortized over the estimated lives of those groups of loans based on actual prepayment experience and expected prepayment levels.

Loans held for sale – Included in loans are $637,000 of loans held for sale at December 31, 2010. As of December 31, 2009, the Bank did not have any loans held for sale. These loans are carried at the lower of cost or estimated fair value, on an aggregate basis. Loans held for sale are loans originated through a financial intermediary that has a contractual obligation to purchase the loans from the Bank.

Interest income is recognized to earnings based upon the principal amount outstanding. Nonaccrual loans are those on which the accrual of interest has ceased. Loans are placed on non-accrual status if, in the opinion of management, collection is doubtful, or when principal or interest is past due 90 days or more. Interest accrued, but not collected at the date a loan is placed on non-accrual status, is reversed and charged against interest income. Subsequent interest receipts are applied either to the outstanding principal or recorded as interest income, depending on management’s assessment of ultimate collectability of principal and interest. In any case, the deferral or non-recognition of interest does not constitute forgiveness of the borrower’s obligation. Nonaccrual loans are returned to an accrual status when principal and interest payments have been brought current. Delinquency is determined based on contractual terms.

2. Summary of Significant Accounting Policies (continued)

Allowance for Loan Losses

The allowance for loan losses is maintained at a level that, in management's judgment, is the Bank's best estimate of known and inherent losses in the loan portfolio as of the reporting date. Management considers various factors when estimating the allowance for loan losses, including historical charge-off experience, adjusted for any known trends in the portfolio, consideration of peer experience if the Bank's experience is limited, current economic conditions, and other relevant factors that might impact the ability of borrowers to repay. While management uses the best information available to make such evaluations, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations.

Management monitors its allowance on at least a quarterly basis and reviews the factors used in determining the allowance on at least a quarterly basis. Adjustments to the allowance are recorded against the provision for loan losses. Due to the nature of the loan portfolio, the Bank's evaluation of the adequacy of the allowance for loan losses is performed primarily on a "pooled" basis. The allowance also includes an evaluation of impaired loans, as defined by ASC 310, *Receivables*. A loan is considered impaired when, based upon current information and events it is probable that the Bank will be unable to collect all amounts due according to contractual terms of the loan. Impaired loans are individually assessed to determine whether the loan's carrying value is in excess of its fair value, which is determined by comparing it to either the fair value of the underlying collateral or the present value of the loan's expected cash flows.

It is the Bank's policy on mortgage loans to charge-off the principal that exceeds the fair value of the underlying collateral, less cost to sell, when it becomes 180 days past due. Consumer loans are charged off when deemed uncollectible or after reaching 120 days past due. All other loans are charged off when they are deemed uncollectible. Subsequent recoveries, if any, are credited to the allowance for loan losses. The Bank establishes the allowance for loan losses after considering the results of its review as described above. This process and methodology are applied in a consistent manner and the methods and assumptions used are reassessed and modified in response to changing conditions. Prior to second quarter 2010, the Bank charged-off mortgage loans at foreclosure. See Note 7 for further discussion on the change in the estimated timing of charge-off of delinquent loans.

2. Summary of Significant Accounting Policies (continued)

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

The Bank enters into purchases of securities under agreements to resell and sales of securities under agreements to repurchase. In accordance with ASC 860, *Transfers and Servicing*, these agreements are accounted for as collateralized financing transactions and recorded at the amounts at which the securities were acquired or sold plus accrued interest. The fair value of collateral either received from or provided to a third party is continually monitored and additional collateral is obtained or returned as appropriate. The Bank maintains control of the securities pledged as collateral under securities sold under agreements to repurchase and they are carried in the securities portfolio.

Premises and Equipment

Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Asset Type	Estimated Useful Life
Building	15 to 40 years
Computer equipment and software	3 to 5 years
Furniture, fixtures, and equipment	5 years
Leasehold improvements	Lesser of the useful life or the remaining lease term, including renewals, if applicable

Expenditures for maintenance and repairs are charged to earnings as incurred. Gains or losses upon disposition are reflected in earnings as realized.

2. Summary of Significant Accounting Policies (continued)

Goodwill and Intangibles

Goodwill is the excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired in a business combination. Goodwill is not amortized but is tested for potential impairment on an annual basis, or when events or circumstances indicate a potential impairment, at the reporting unit level. Per ASC 350, *Intangibles – Goodwill and Other*, a goodwill impairment analysis is a two-step test. Step one, which is used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered impaired and step two is not necessary. If the carrying amount of the reporting unit exceeds its fair value, step two is performed to measure the amount of impairment loss, if any. A loss is recorded to non-interest expense to the extent that the carrying amount of goodwill exceeds its implied fair value and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses are not permitted under GAAP.

The Bank's identified intangibles are amortized on a straight-line basis over the period the assets are expected to contribute to the cash flows of the Bank, which reflect the expected pattern of benefit, up to 17 years. The following provides the Bank's amortization period for each intangible asset:

Identifiable Intangible Asset	Amortization Period
Customer relationship intangible	14 years
Partner relationship channel intangible	17 years
Developed technology	5 years
Core deposit intangible related to NetBank, fsb[1]	3 years
Trade name and trademark	10 years
License	11 years

(1) Amortization is based upon the estimated useful life of the acquired deposits

2. Summary of Significant Accounting Policies (continued)

In accordance with ASC 350, an intangible asset subject to amortization shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable, such as a significant or adverse change in the business climate that could affect the value of the intangible asset. For intangible assets subject to amortization, impairment exists when the carrying amount of the intangible asset exceeds the sum of the undiscounted cash flows expected to result from the use of the asset. An impairment loss is recorded to the extent the carrying amount of the intangible asset exceeds its estimated fair value based upon the discounted future cash flows.

Other Real Estate Owned

Other real estate owned is comprised of properties the Bank has acquired through foreclosure, or deed in lieu of foreclosure, as a result of borrowers who have defaulted on their residential mortgage obligations. Other real estate owned is recorded at the lower of cost or fair value less estimated cost to dispose. Costs to maintain other real estate owned and any subsequent gains or losses are included in the Company's Consolidated Statements of Operations.

Derivative Financial Instruments

The Bank accounts for forward loan purchase and sales commitments, as well as free-standing derivatives, as derivative financial instruments in accordance with ASC 815, *Derivatives and Hedging*. ASC 815-10 requires that all derivative financial instruments be recognized as assets or liabilities in the consolidated statements of financial condition at fair market value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as hedges, the gain or loss is recognized in current earnings. As of December 31, 2010, the Bank had two outstanding derivatives designated as hedging instruments. The Bank did not have any derivatives outstanding as of December 31, 2009.

Income Taxes

The Bank accounts for income taxes in accordance with ASC 740, *Income Taxes*. The Corporation, which includes the Bank and its subsidiaries, files a consolidated federal income tax return. The amount of income tax expense or benefit is computed and allocated on a separate-return basis. ASC 740 requires the recording of deferred income taxes that reflect the net tax

2. Summary of Significant Accounting Policies (continued)

effect of temporary differences between the carrying amounts of its assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, including operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in earnings in the period that includes the enactment date. A valuation allowance is established against net deferred tax assets when, in the judgment of management, it is more likely than not that such net deferred tax assets will not become realizable. If actual results differ from the assumptions and other considerations used in estimating the amount and timing of tax recognized, there can be no assurance that additional expenses will not be required in future periods. The Bank recognizes, when applicable, interest and penalties related to unrecognized tax benefits in income tax expense in the Consolidated Statements of Operations.

Advertising Expense

The Bank recognizes the cost of indirect response advertising as expense the first time the advertising takes place.

Recent Accounting Pronouncements

In January 2011, the FASB issued ASU 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructuring in Update No. 2010-20*. Under ASU 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which was issued in July 2010, public entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. This guidance temporarily defers the effective date for the troubled debt restructuring disclosures in ASU 2010-20 to be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restructuring from the FASB's proposed ASU, *Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors*. The proposed clarification is anticipated to be effective for interim and annual periods ending after June 15, 2011 and would be applied retrospectively to restructurings occurring on or after the beginning of the year in which the proposal is adopted.

2. Summary of Significant Accounting Policies (continued)

In July 2010, the FASB issued ASU 2010-20 which amends ASC 310 by requiring disclosure which provides a greater level of disaggregated information about the credit quality of financing receivables and related allowance for credit losses as well as certain other information on amounts past due, modifications, redefaults, and additional other information. The disclosures required by this guidance are effective for annual periods ending after December 15, 2011 for non-public entities. For public entities, the disclosures as of the end of the reporting period are effective for interim and annual periods ending on or after December 15, 2010 and the disclosures about activity that occurs during a reporting period are effective for interim and annual periods beginning on or after December 15, 2010. The Bank did not elect to early adopt ASU 2010-20. As the guidance amends only the disclosure requirements, it is not expected to impact the Bank's financial condition or results of operations.

In February 2010, the FASB issued ASU 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*. This guidance removes the requirement for a SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of GAAP. ASU 2010-09 is intended to remove potential conflicts with the SEC's literature and all of the amendments were effective upon issuance, except for the use of the issued date for conduit debt obligors. The guidance was effective for interim or annual periods ending after June 15, 2010 and did not have an impact on the Bank's financial condition or results of operations.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurement*, which amends ASC 820, *Fair Value Measurements and Disclosures*, by among other items, (1) requiring additional disclosures related to transfers in and out of Level 1 and Level 2 fair value measurements, including the reasons for the transfers and (2) a gross presentation of purchases, sales, issuances and settlements activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3). Additionally, this guidance clarifies the disclosure requirements related to the level of disaggregation and valuation techniques and inputs of recurring and non-recurring fair value measurements. The guidance was effective for the first interim or annual period beginning after December 15, 2009, except for the gross presentation of purchases, sales, issuances and settlements in the Level 3 rollforward, which is required for interim and annual

2. Summary of Significant Accounting Policies (continued)

periods beginning after December 15, 2010. The Bank did not elect to early adopt the gross presentation of the Level 3 rollforward. The remaining disclosure requirements were adopted and did not have an impact on the Bank's financial condition or results of operations. See Note 26 for the expanded disclosures due to this new guidance.

In June 2009, the FASB issued new guidance that impacted ASC 810, *Consolidation*, subsequently codified as ASU 2009-17, Consolidations (Topic 810): *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. The new guidance significantly changed the criteria by which an enterprise determines whether it must consolidate a variable interest entity ("VIE"). A VIE is an entity, typically a special purpose entity, which has insufficient equity at risk or which is not controlled through voting rights held by equity investors. Previously, a VIE was consolidated by the enterprise that would absorb a majority of the expected losses or expected residual returns created by the assets of the VIE. The amendments require that a VIE be consolidated by the enterprise that has both 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 potentially be significant to the VIE. The amendments also require that an enterprise continually reassess, based on current facts and circumstances, whether it should consolidate the VIE with which it is involved. The guidance was effective January 1, 2010 and did not have an impact on the Bank's financial condition, results of operations or cash flows.

In June 2009, the FASB issued new guidance that impacted ASC 860, *Transfers and Servicing*, subsequently codified as ASU 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*. The new guidance eliminates the concept of a qualifying special purpose entity ("QSPE"). As a result, existing QSPEs generally will be subject to consolidation in accordance with the guidance provided in Topic 810. The new guidance also modifies criteria for applying sale accounting to transfers of financial assets or portions of financial assets, differentiates between the initial measurement of an interest held in connection with the transfer of an entire financial asset recognized as a sale and participating interests recognized as a sale, and removes the provision allowing classification of interests received in a guaranteed mortgage securitization transaction that does not qualify as a sale as available-for-sale or trading securities. The guidance was effective January 1, 2010 and did not have an impact on the Bank's financial condition, results of operations or cash flows.

3. Cash and Cash Equivalents

Cash and cash equivalents include deposits at the Federal Reserve Bank and money market funds, which are reported in interest-bearing deposits in other banks. These accounts represent excess liquid funds for the Bank. At December 31, 2010 and 2009, the Bank had $420.4 million and $2.5 billion, respectively, of deposit at the Federal Reserve Bank.

The Bank is required to maintain an average reserve balance, as established by the Federal Reserve Bank. The amounts of those reserve balances for the reserve computational periods at December 31, 2010 and 2009 were $4.5 million and $2.9 million, respectively. Further, the Bank maintained a clearing reserve balance with the Federal Reserve Bank in the amount of $10.0 million at December 31, 2010 and 2009.

4. Investment Securities

The following table provides the amortized cost and estimated fair value of available-for-sale and held-to-maturity investment securities at December 31, 2010 and 2009:

	December 31, 2010			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-sale securities				
Government obligations:				
Government guaranteed securities	$ 6,917,223	$ 104,638	$ 622	$ 7,021,239
U.S. Treasuries	1,931,845	81,179	–	2,013,024
Mortgage-backed securities:				
Agency pass-through securities	13,791,815	246,689	20,693	14,017,811
Prime	974,389	1,272	56,719	918,942
Alt-A	3,658,629	34,139	707,255	2,985,513
Commercial	288,948	5,138	31,485	262,601
Subprime	147,208	802	67,972	80,038
Mutual funds	16,346	375	109	16,612
Total available-for-sale securities	27,726,403	474,232	884,855	27,315,780
Held-to-maturity securities				
Mortgage-backed securities:				
Agency pass-through securities	12,752	645	–	13,397
Commercial	921,822	68,195	37	989,980
Total held-to-maturity securities	934,574	68,840	37	1,003,377
Total investment securities	$ 28,660,977	$ 543,072	$ 884,892	$ 28,319,157

4. Investment Securities (continued)

	December 31, 2009			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
Available-for-sale securities				
Government obligations:				
Government guaranteed securities	$ 6,909,238	$ 54,895	$ 4,846	$ 6,959,287
U.S. Treasuries	791,642	–	4,712	786,930
Mortgage-backed securities:				
Agency pass-through securities	10,958,367	162,235	37,328	11,083,274
Prime	1,400,904	–	172,810	1,228,094
Alt-A	4,734,263	6,416	1,378,507	3,362,172
Commercial	313,530	226	102,096	211,660
Subprime	153,361	–	92,437	60,924
Mutual funds	10,747	429	–	11,176
Total available-for-sale securities	25,272,052	224,201	1,792,736	23,703,517
Held-to-maturity securities				
Mortgage-backed securities:				
Agency pass-through securities	30,775	532	–	31,307
Commercial	1,048,313	79,524	203	1,127,634
Total held-to-maturity securities	1,079,088	80,056	203	1,158,941
Total investment securities	$ 26,351,140	$ 304,257	$ 1,792,939	$ 24,862,458

Included in the Bank's accrued interest receivable on the Consolidated Statements of Financial Condition was $79.6 million of accrued interest receivable on investment securities at December 31, 2010 and 2009. As of December 31, 2010 and 2009, the Bank held available-for-sale debt securities issued by foreign governments and institutions, including the International Bank for Reconstruction and Development, an affiliate of the World Bank, and the European Investment Bank, with a fair value of $1.1 billion which are classified in the table above as government guaranteed securities.

4. Investment Securities (continued)

During the second quarter of 2009 the Bank transferred commercial mortgage-backed securities from available-for-sale securities to held-to-maturity securities at fair value on the date of transfer of $1.1 billion. On the date of transfer, the securities had an amortized cost of $1.2 billion. The difference between the fair value and the amortized cost was $111.4 million and will be accreted into interest income over the expected life of the securities. This amount will be equally offset by the amortization of the unrealized loss at the date of transfer which is included in accumulated other comprehensive loss.

Contractual Maturities

The amortized cost and fair value of the investment securities, by contractual maturity, at December 31, 2010 are shown in the following table. Actual maturities may differ from contractual maturities as borrowers may have the right to prepay obligations with or without prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
December 31, 2010				
Due in one year or less	$ 413,083	$ 415,410	$ –	$ –
Due after one year through five years	7,498,042	7,637,869	–	–
Due after five years through ten years	937,943	980,984	–	–
Due after ten years	–	–	–	–
Total investment securities, excluding mortgage-backed securities and mutual funds	8,849,068	9,034,263	–	–
Mortgage-backed securities	18,860,989	18,264,905	934,574	1,003,377
Mutual funds	16,346	16,612	–	–
Total investment securities	$ 27,726,403	$ 27,315,780	$ 934,574	$ 1,003,377

4. Investment Securities (continued)

Securities Gains and Losses

Net realized gains and losses from sales of available-for-sale securities for the years ended December 31, 2010, 2009 and 2008, as well as realized gains from sales of held-to-maturity securities as a result of the Facility, as discussed in Note 6, for the year ended December 31, 2009 are as follows:

	Year Ended December 31		
	2010	**2009**	**2008**
Realized gains	**$ 31,286**	$ 157,109	$ 9,692
Realized losses	**–**	(185,532)	–
Net realized gains (losses)	**$ 31,286**	$ (28,423)	$ 9,692

During the year ended December 31, 2010, the Bank sold $553.8 million of agency pass-through securities to unrelated third parties for a $31.3 million gain.

Included in the 2009 realized gains are gains of $152.3 million due to the sale of the Bank's Alt-A residential mortgage-backed securities portfolio to the Dutch State. See Note 6 for further information.

Included in the 2009 realized losses are losses of $185.5 million due to the sale of prime residential mortgage-backed securities to an unrelated third party to mitigate the risks of credit ratings migration and potential future impairments.

The net realized gains (losses) included in the table above were reclassified from other comprehensive income, net of deferred tax assets. At December 31, 2010, 2009 and 2008, the reclassification adjustment for realized (gains) losses, net of deferred tax asset was ($22.6) million, $18.2 million and ($6.1) million, respectively.

4. Investment Securities (continued)

Securities Impairment

The following table provides the fair value and unrealized losses for the Bank's investment securities, aggregated by category and length of time the individual security has been in continuous loss position, as of December 31, 2010 and 2009:

	December 31, 2010					
	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Government obligations:						
Government guaranteed securities	**$ 85,726**	**$ 622**	**$ –**	**$ –**	**$ 85,726**	**$ 622**
Mortgage-backed securities:						
Agency pass-through securities	**2,270,697**	**19,913**	**107,338**	**780**	**2,378,035**	**20,693**
Prime	**114,725**	**2,678**	**697,401**	**54,041**	**812,126**	**56,719**
Alt-A	**144,853**	**7,210**	**2,238,092**	**700,045**	**2,382,945**	**707,255**
Commercial	**12,228**	**58**	**114,792**	**31,427**	**127,020**	**31,485**
Subprime	**–**	**–**	**78,762**	**67,972**	**78,762**	**67,972**
Mutual funds	**4,917**	**109**	**–**	**–**	**4,917**	**109**
Total available-for-sale securities	**$ 2,633,146**	**$ 30,590**	**$ 3,236,385**	**$ 854,265**	**$ 5,869,531**	**$ 884,855**
Held-to-maturity securities						
Mortgage-backed securities:						
Commercial	**$ 58,847**	**$ 37**	**$ –**	**$ –**	**$ 58,847**	**$ 37**
Total held-to-maturity securities	**$ 58,847**	**$ 37**	**$ –**	**$ –**	**$ 58,847**	**$ 37**

4. Investment Securities (continued)

	December 31, 2009					
	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Government obligations:						
Government guaranteed securities	$ 1,091,846	$ 4,846	$ –	$ –	$ 1,091,846	$ 4,846
U.S. Treasuries	786,930	4,712	–	–	786,930	4,712
Mortgage-backed securities:						
Agency pass-through securities	2,131,360	19,428	1,986,606	17,900	4,117,966	37,328
Prime	–	–	1,228,094	172,810	1,228,094	172,810
Alt-A	246,629	119,908	3,033,890	1,258,599	3,280,519	1,378,507
Commercial	24,032	527	153,366	101,569	177,398	102,096
Subprime	17,384	25,091	43,540	67,346	60,924	92,437
Total available-for-sale securities	$ 4,298,181	$ 174,512	$ 6,445,496	$ 1,618,224	$ 10,743,677	$ 1,792,736
Held-to-maturity securities						
Mortgage-backed securities:						
Commercial	$ 4,024	$ 192	$ 4,989	$ 11	$ 9,013	$ 203
Total held-to-maturity securities	$ 4,024	$ 192	$ 4,989	$ 11	$ 9,013	$ 203

Included in the prior table are the unrealized losses for 929 and 1,294 securities as of December 31, 2010 and 2009, respectively. The unrealized losses on investment securities can be attributed to credit risk and other factors including the difference between the stated coupons on the securities and the current market interest rates available for comparable securities, and current market conditions.

4. Investment Securities (continued)

Other-than-Temporary Impairment

The Bank recognizes OTTI for debt securities in accordance with ASC 320 which requires the Bank to assess whether (a) the Bank has the intent to sell, (b) it is more likely than not that the Bank will be required to sell the security before the recovery of its cost basis less any credit losses or (c) it does not expect to recover the entire amortized cost basis of the security. If the Bank does not intend to sell, and it is more likely than not that the Bank will not be required to sell a debt security before recovery of its cost basis, the guidance requires a company to bifurcate the OTTI into (a) the amount representing credit loss and (b) the amount related to all other factors. The amount of OTTI related to credit loss is recognized in earnings and the amount related to all other factors is recognized in other comprehensive income or (loss), net of applicable tax. Securities with an unrealized loss that are determined to be other-than-temporary and the Bank intends to sell or it is more likely than not that the Bank will be required to sell before the recovery of a security's cost basis are written down to fair value with the entire amount recognized in earnings.

For mortgage-backed securities credit impairment is assessed using a model that estimates the cash flows of each security's underlying mortgage collateral. These estimated cash flows are distributed to the various tranches of securities, considering the transaction structure, any subordination and credit enhancements that exist in that structure. The cash flow model incorporates actual cash flows on the mortgage-backed securities through the current period and then projects the remaining cash flows using a number of assumptions, including default rates, loss severity rates, prepayment rates and recovery rates.

Management develops specific assumptions using market data, internal estimates as well as estimates published by rating agencies and other third-party sources. Default rates for the seriously delinquent loans, which are those loans that are greater than 60 days delinquent, are projected by considering current underlying mortgage loan performance. Cumulative loss results are determined by vintage and sector using internal research along with third-party information and these results are used to determine terminal constant default rates ("CDR").

4. Investment Securities (continued)

The key base assumptions for private label residential mortgage-backed securities as of December 31, 2010 and 2009 are summarized in the following table:

	December 31	
	2010	**2009**
Loss Severity		
Prime	**35 to 42.5%**	35 to 42.5%
Alt-A	**40 to 57.5%**	40 to 57.5%
Subprime	**65 to 70%**	65 to 70%
Prepayment Rate		
Prime	**12 for life**	18 for 5 months then 10 for life to 25 for 5 months then 10 for life
Alt-A	**2 for 36 months then 6 for life to 10 for life**	2 for 28 months then 6 for life to 10 for life
Subprime	**4 for 36 months then 6 for life**	4 for 28 months then 6 for life
Terminal CDR		
Prime	**0.32 to 5.61**	0.32 to 5.61
Alt-A	**0.87 to 15.91**	0.87 to 15.91
Subprime	**3.18 to 21.80**	3.18 to 21.80

The key cash flow assumptions used for determining the impairment of commercial mortgage-backed securities as of December 31, 2010 and 2009 are summarized in the table below:

	December 31	
	2010	**2009**
Seriously Delinquent Loans	**60+ day past due**	60+ day past due
Default Rate	**100%**	100%
Loss Severity	**40%**	40%
Liquidation period	**18 months**	18 months
Not Seriously Delinquent Loans	**Less than 60 days past due**	Less than 60 days past due
Default Rate	**100% of loans with debt service coverage ratio < 1.0x in 12 months**	100% of loans with debt service coverage ratio < 1.0x in 12 months
Loss Severity	**40%**	40%
Liquidation period	**18 months**	18 months

4. Investment Securities (continued)

These assumptions are subject to change based on management's assessment of facts and circumstances which support a change in the key assumptions for a specific security. Multiple scenarios are run using a range of default estimates. Sensitivity tests are also conducted using observed data for specific securities. Other factors used to assess securities include: rating agency loss projections, ratings, integrity of the capital structure in terms of subordinate bonds and current market prices. Management assesses these results (including the likelihood of the stress scenario actually occurring based on the underlying pool's characteristics and performance) to determine whether the Bank expects to recover the amortized cost basis of the security. If cash flow projections indicate that the Bank does not expect to recover its amortized cost basis, the Bank recognizes the estimated credit loss in earnings.

4. Investment Securities (continued)

Changes in the Credit Loss Component of the Credit-Impaired Debt Securities

The following table provides activity for the years ended December 31, 2010 and 2009 related to the credit component of OTTI on debt securities held by the Bank for which a portion of the OTTI was recognized in accumulated other comprehensive income:

	Alt-A	Prime	CMBS	Subprime	Total
Credit component of OTTI reclassified at January 1, 2009 in conjunction with accounting change in investments, per ASC 320-10-65	$ 91,870	$ –	$ –	$ 10,179	$ 102,049
Additions to credit component of OTTI for the credit losses on debt securities:					
Additions for credit losses on debt securities for which OTTI was not previously recognized	559,327	3,922	–	26,031	589,280
Additions for credit losses on debt securities for which OTTI was previously recognized	218,917	–	–	6,344	225,261
Total additions to credit component of OTTI for the credit losses on debt securities	778,244	3,922	–	32,375	814,541
Cumulative credit component of OTTI at December 31, 2009	870,114	3,922	–	42,554	916,590
Additions to credit component of OTTI for the credit losses on debt securities:					
Additions for credit component on debt securities for which OTTI was not previously recognized	**10,583**	**1,491**	**11,381**	**–**	**23,455**
Additions for credit losses on debt securities for which OTTI was previously recognized	**48,930**	**–**	**–**	**–**	**48,930**
Total additions to credit component of OTTI for the credit losses on debt securities	**59,513**	**1,491**	**11,381**	**–**	**72,385**
Reductions for securities no longer in the portfolio at period end[(1)]	**(4,314)**	**(3,922)**	**–**	**–**	**(8,236)**
Cumulative credit component of OTTI at December 31, 2010	**$ 925,313**	**$ 1,491**	**$ 11,381**	**$ 42,554**	**$ 980,739**

(1) Includes securities sold or matured during the year.

4. Investment Securities (continued)

The table below reconciles the impairment recognized in earnings for the year ended December 31, 2008 and the impact of the adoption of ASC 320-10-65 in the first quarter of 2009.

	Alt-A	Subprime	Total
Total impairment recognized in earnings at December 31, 2008	$ 2,416,204	$ 42,055	$ 2,458,259
Less total impairment related to the securities sold to the Dutch State	1,935,393	–	1,935,393
Impairment related to securities retained	$ 480,811	$ 42,055	$ 522,866
Impairment breakdown as defined by ASC 320-10-65:			
Credit component	$ 91,870	$ 10,179	$ 102,049
Other factors (1)	388,941	31,876	420,817
Impairment related to securities retained	$ 480,811	$ 42,055	$ 522,866

(1) Impairment related to other factors was reclassified from retained earnings to accumulated other comprehensive income upon adoption of ASC 320-10-65.

For the years ended December 31, 2010 and 2009, actual bond cash losses amounted to $9.6 million and $3.9 million, respectively. There were no losses for the year ended December 31, 2008.

The credit loss component represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. OTTI recognized in earnings for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairments). During the years ended December 31, 2010 and 2009, credit losses of $72.4 million and $814.5 million were recognized through earnings. During the year ended December 31, 2008, OTTI of $2.5 billion was recognized through earnings, of which $102.0 million remained in retained earnings after a portion of the OTTI was reclassified from retained earnings to accumulated other comprehensive income as part of the adoption of ASC 320-10-65. See Note 2 for further discussion on the adoption of ASC 320-10-65 and Note 6 for further discussion on the impairment related to securities sold to the Dutch State.

5. FHLB Stock

FHLB stock is equity securities owned in the Pittsburgh member bank of the Federal Home Loan Bank ("FHLB") system. Unlike other types of stock, it is acquired primarily for the right to receive advances rather than for the purpose of maximizing dividends or investment growth. FHLB stock is an activity-based stock that is directionally proportional to the volume of advances. The FHLB stock is restricted in that it can only be redeemed by the issuer at par value. These non-readily marketable equity securities are carried at cost, which is deemed to approximate fair value, and evaluated for impairment in accordance with ASC 942-325, *Financial Services – Depository and Lending – Investments-Other*. The Bank does not believe that the FHLB stock was impaired as of December 31, 2010 and 2009. In October 2010 and February 2011, the FHLB redeemed $23.9 million and $22.7 million, respectively, in stock at par value. The Bank held $454.7 million and $478.6 million of FHLB Pittsburgh common stock at December 31, 2010 and 2009, respectively.

6. Notes Receivable

On January 26, 2009, the Global Parent Company and the Dutch government ("Dutch State") announced that they reached an agreement on an Illiquid Assets Back-Up Facility ("Facility") term sheet. The transaction was approved by various regulatory agencies and closed on March 31, 2009. The Facility covers the Alt-A portfolio of the Global Parent Company, including the Bank's Alt-A portfolio. Under the terms of the Facility, the Global Parent Company transferred 80% of the economic ownership of the Global Parent Company's Alt-A portfolio to the Dutch State at a price equal to 90% of par value in exchange for a receivable from the Dutch State.

Simultaneous with the closing of the Facility, the Bank sold an 80% undivided participation ("Participation") interest in approximately $33.7 billion par value of Alt-A residential mortgage-backed securities owned by the Bank to ING Support Holdings B.V. ("Dutch Co"), a wholly owned subsidiary of the Global Parent Company. The transaction was accounted for as a sale in accordance with ASC 860. The notional amount of the receivable from the Dutch State was $24.3 billion, or 90% of the par value with respect to the 80% Participation interest. As consideration, the Bank was assigned the right to receive the guaranteed payment stream from the Dutch State under the Facility.

6. Notes Receivable (continued)

Included in this transaction were $387.1 million in amortized cost of Alt-A securities that were previously classified as held-to-maturity and $24.5 billion classified as available-for-sale. As a result of the transaction, 80% of the Alt-A portfolio was derecognized from the Bank's consolidated statement of financial condition in 2009 and two notes receivable from the Dutch State were recognized.

As part of the notes receivable, the Bank also recorded a net premium of $798.1 million for the excess of fair value over par value on the note. The premium is amortized to income as an adjustment to yield over the contractual maturity of the notes receivable. During the years ended December 31, 2010 and 2009, the Bank recorded net premium amortization of $142.5 million and $121.6 million, respectively, which was included in interest income on the notes receivable.

As of December 31, 2010 and 2009, the details of the notes receivable, including the notional balance and unamortized premium, are as follows:

	December 31	
	2010	**2009**
Notional amount:		
Fixed rate note receivable[1]	**$ 6,768,618**	$ 10,563,328
Variable rate note receivable[2]	**8,213,856**	9,200,414
Total notional amount	**14,982,474**	19,763,742
Unamortized premium	**534,047**	676,542
Total notes receivable	**$ 15,516,521**	$ 20,440,284
Accrued interest receivable[3]	**$ 29,221**	$ 42,715

(1) The fixed rate note receivable earns interest of 3.50%

(2) The variable rate note receivable earns interest based upon the one-month London Interbank Offered Rate ("LIBOR") plus 50 basis points. The rate resets two business days prior to the last day of each month and was equal to 0.76% and 0.73% at December 31, 2010 and 2009, respectively.

(3) Amount is included in accrued interest receivable on the Consolidated Statements of Financial Condition

6. Notes Receivable (continued)

The Bank recognized interest income on the notes receivable of $149.2 million and $285.0 million, net of premium amortization and other adjustments, during the years ended December 31, 2010 and 2009, respectively. This resulted in a weighted-average yield of 0.83% and 1.31% during the respective periods.

The transaction did not trigger any other-than-temporary-impairment. The Bank recorded a gain of $152.3 million during the year ended December 31, 2009 as a result of the transaction, which is included in non-interest income on the Consolidated Statement of Operations. The transaction also resulted in a reduction of the negative revaluation reserve included within other comprehensive income and therefore an increase to the Bank's shareholder's equity during the year ended December 31, 2009.

The methodology used to determine fair value for these assets is disclosed in Note 26.

7. Loans

The table below summarizes the gross and net loan balances as of December 31, 2010 and 2009:

	December 31	
	2010	**2009**
Loans[1] :		
Residential mortgages[2]	**$ 39,299,507**	$ 36,777,883
Home equity	**496,232**	568,284
Guaranteed loans	**428,838**	479,442
Margin lending	**74,503**	54,364
Construction	**63,671**	92,991
Consumer	**47,297**	10,660
Other loans and advances	**47,459**	192,790
Gross loans	**40,457,507**	38,176,414
Allowance for loan losses	**(439,010)**	(805,022)
Net loans	**$ 40,018,497**	$ 37,371,392

(1) Amount includes $100.7 million and $116.1 million of unamortized net premium and net deferred costs at December 31, 2010 and 2009, respectively, which are netted within the respective loan category.

(2) Included in the residential mortgages at December 31, 2010 and 2009 are products consisting of adjustable rate and interest-only residential mortgage loans. In addition, residential loans at December 31, 2010 also include loans held for sale of $637.

7. Loans (continued)

Included in the table are lending products whose terms may give rise to additional credit risks. These include interest-only mortgages and other non-traditional mortgages. These products are closely managed via credit controls that mitigate their additional inherent risk. Included in accrued interest receivable on the Consolidated Statements of Financial Condition at December 31, 2010 and 2009 was $120.2 million and $132.7 million, respectively, of accrued interest income on loans.

The Bank accounts for impaired loans in accordance with ASC 310-10. Impaired loans include non-accrual loans and loans that have been modified in a troubled debt restructuring ("TDR"). Loans are placed on non-accrual status if, in the opinion of management, collection is doubtful or when principal or interest is past due 90 days or more. A TDR is a type of loan modification where a concession, such as a rate reduction, a payment deferral or other actions which are intended to maximize collection from the borrower, is granted to a borrower experiencing financial difficulties. ASC 310-10 requires a creditor to measure impaired loans based on the present value of expected future cash flows, the market price of the loan, or the fair value of the underlying collateral if the loan is collateral-dependent. The Bank recognizes income on impaired loans when there is reasonable assurance of repayment and performance. In addition, TDR loans are returned to accrual status when the borrower shows sustained repayment performance for a reasonable time. The Bank believes the timeframe necessary to demonstrate sustained repayment is once six consecutive on-time payments have been made by the borrower and the account has been brought current. If these factors do not exist, the Bank will recognize income on such loans on a cash basis.

7. Loans (continued)

The following table provides a summary of the Bank's impaired loans and non-performing assets, which include non-performing loans [defined as non-accrual loans and non-performing TDRs which include TDRs which have not been returned to accrual status] and other real estate owned as of December 31, 2010 and 2009:

	December 31	
	2010	**2009**
Non-performing assets:		
Non-performing loans:		
Non-accrual loans	**$ 980,429**	$ 1,680,939
Troubled debt restructuring	**601,550**	590,806
Total non-performing loans	**1,581,979**	2,271,745
Other real estate owned	**270,263**	96,572
Total non-performing assets	**$ 1,852,242**	$ 2,368,317
Performing – troubled debt restructuring	**$ 1,605,623**	$ 967,591
Non-performing loans as a % of loans outstanding	**3.91%**	5.95%
Impaired loans:		
Impaired loans with related allowances for loan losses	**$ 2,422,572**	$ 3,113,139
Impaired loans with no related allowance for loan losses[(1)]	**765,030**	126,197
Total impaired loans	**$ 3,187,602**	$ 3,239,336
Allowance for loan losses related to impaired loans	**$ 209,298**	$ 594,101

(1) These consist primarily of collateral dependent loans and are carried at the lower of cost or fair value of the underlying collateral less cost to sell. Therefore the loans do not have a related allowance for loan loss.

During 2010, the Bank revised its estimated timing on the charge-off of delinquent loans. As a result of the change, the Bank accelerated delinquent loan charge-off, which was previously recorded at the time of foreclosure, to 180 days past due, which the Bank believes is a better estimate of the point in time when a loan becomes uncollectible. Although the timing of the charge-off of $434.7 million was accelerated during 2010, it did not have a material impact on

7. Loans (continued)

the Bank’s consolidated statement of operations for the year ended December 31, 2010 as these charge-offs had been previously provided for in the Bank’s allowance for loan losses through the provision for loan losses, in accordance with ASC 310 guidance on accounting for impaired loans. In addition, there was no material impact to the Bank’s reported net loans on the consolidated statement of financial condition at December 31, 2010 as the Bank’s loans decreased with an offsetting decrease to the allowance for loan losses. If the Bank had not changed its estimated timing of the charge-off of delinquent loans, non-performing loans, and impaired loans, the allowance for loan losses would have been $2.0 billion, $3.6 billion and $873.7 million, respectively, at December 31, 2010. In addition, had the Bank not changed its estimated timing of charge-off of delinquent loans, the ratio of non-performing loans to total loans would have been 4.98% at December 31, 2010. See Note 8 for further details on the Bank’s charge-off policy.

As part of the Bank’s loss mitigation process, loans may be renegotiated in a TDR when the Bank determines that greater economic value will ultimately be recovered under the new terms than through foreclosure, liquidation, or bankruptcy. The Bank considers the borrower’s payment status, payment history, credit score, and other relevant factors in determining whether a borrower is experiencing financial difficulty. As of December 31, 2010 and 2009, the Bank restructured 4,545 and 3,043 loans with an outstanding principal balance of $2.2 billion and $1.6 billion, respectively and forgone interest of $86.3 million and $57.1 million, respectively. Included in the provision for loan losses is $40.0 million and $62.0 million for the years ended December 31, 2010 and 2009, respectively, related to the Bank’s TDR loans.

7. Loans (continued)

The following provides further information on the Bank's TDR loans at December 31, 2010 and 2009:

	At and for the Year Ended December 31	
	2010	**2009**
At year-end:		
TDR loans outstanding	**$ 2,207,173**	$ 1,558,397
Number of restructured loans	**4,545**	3,043
Present value of forgone interest classified in allowance for loan losses	**$ 59,873**	$ 49,576
For the year:		
Average TDR loans outstanding	**$ 1,995,737**	$ 1,010,895
Interest recognized on TDRs	**68,760**	32,499

Guaranteed Loans

During 2009, the Bank purchased $490.2 million of guaranteed loans from ING Capital, LLC, which is an indirect wholly owned subsidiary of the Global Parent Company. The guaranteed loans have maturities ranging from six to nine years, and carry interest rates equal to LIBOR plus a spread ranging from 0 to 15 basis points. The guaranteed loans are 100% guaranteed by the Export-Import Bank of the United States ("Ex-Im Bank"). Ex-Im Bank coordinates fixed-rate loans covering up to 85% of the U.S. contract value directly to foreign buyers of U.S. goods and services. In the event of a payment default by the borrower, Ex-Im Bank will pay the holder of the guaranteed loans the outstanding principal and interest on the loan. The Bank did not purchase any additional guaranteed loans during the year ended December 31, 2010.

Margin Lending

Margin lending consists of the Securities Company's margin lending product. The balance represents loans to eligible customers which are collateralized by their respective security and cash holdings. Margin lending is subject to the margin rules of the Board of Governors of the Federal Reserve System ("Federal Reserve"), the margin requirements of FINRA, and the Securities Company's internal policies.

7. Loans (continued)

Other Loans and Advances

During the years ended December 31, 2010 and 2009, the Bank advanced $686.2 million and $602.9 million, respectively, to a third party in order to securitize Community Reinvestment Act ("CRA") qualified mortgage loans into investment securities. Once securitized, the Bank receives mortgage-backed securities with an equivalent notional amount in exchange. The mortgage-backed securities are backed by government or quasi-government agencies. The Bank had $27.7 million and $192.8 million of advances outstanding at December 31, 2010 and 2009, respectively, for which it had not yet received the equivalent of investment securities or cash.

The recorded investment in these securities at the time of the securitization is based on the amounts advanced to the third party. Subsequent to the date of the securitization, the securities are carried at their estimated fair value. The assets are classified as available-for-sale securities and are included in the disclosures in Note 4.

During 2010, the Bank received $658.2 million of investment securities and $250,000 in cash to satisfy advances made during 2010. The fair value of these investment securities totaled $629.8 million as of December 31, 2010.

During 2010, the Bank received $192.5 million of investment securities and $301,000 in cash to satisfy the advances outstanding as of December 31, 2009. The fair value of these investment securities totaled $175.2 million as of December 31, 2010.

8. Allowance for Loan Losses

The allowance for loan losses is maintained at a level that, in management's judgment, is the Bank's best estimate of known and inherent losses in the loan portfolio. Management considers various factors when estimating the allowance for loan losses, including historical charge-off experience, adjusted for any known trends in the portfolio, consideration of peer experience if the Bank's experience is limited, current economic conditions, and other relevant factors that might impact the ability of borrowers to repay. The loan loss reserve methodology, specific to residential mortgages, considers at a more granular level, origination channel, estimated current loan-to-value and potential outcomes, which include natural cures, loan modifications, short sales, or foreclosures.

8. Allowance for Loan Losses (continued)

The following table summarizes the activity in the allowance for loan losses for the years ended December 31, 2010, 2009, and 2008:

	Year Ended December 31		
	2010	**2009**	**2008**
Beginning balance	**$ 805,022**	$ 357,160	$ 57,287
Provision for loan losses	**497,310**	710,306	358,453
Charge-offs	**(842,297)**	(245,263)	(65,284)
Recoveries	**8,700**	1,728	222
Net charge-offs	**(833,597)**	(243,535)	(65,062)
TDR interest accretion and other	**(29,725)**	(18,909)	6,482
Ending balance[1]	**$ 439,010**	$ 805,022	$ 357,160

(1) Included in the allowance for loan losses at December 31, 2010 and 2009 is $59.9 million and $49.6 million, respectively, related to TDR loans, which represents the present value of the forgone interest due to the loan modifications. There was no portion of the allowance for loan losses during 2008 which was related to TDRs.

Charge-offs for the year ended December 31, 2010, which were $842.3 million, include $434.7 million as a result of the Bank’s change in its estimated timing of charge-off of delinquent loans from the time of foreclosure to 180 days delinquent. See Note 7 for further details on the change in the estimated timing of charge-off of delinquent loans.

As of December 31, 2010 and 2009 respectively, the Bank has submitted $4.5 million and $3.0 million of pending mortgage insurance claims to the insurance carrier for approval. From these claims, the Bank has received $2.2 million, after the deductibles were met, as of December 31, 2010. The Bank received no claims for the year ended December 31, 2009. Upon actual receipt of the funds related to the insurance claims, they are recognized in earnings as recoveries, in accordance with treatment of accounting for a gain contingency, per ASC 450-30, *Contingencies – Gain Contingencies*.

9. Securities Purchased Under Agreements to Resell

The table below summarizes the Bank's securities purchased under agreements to resell as of December 31, 2010 and 2009 respectively:

	At or for the Year Ended December 31	
	2010	**2009**
Securities purchased under agreements to resell		
Balance outstanding at year-end	$ –	$ 500,007
Weighted-average rate at year-end	– %	0.23 %
Maximum month end amount outstanding during the year	**$ 500,007**	$ 999,951
Average amount outstanding during the year	**78,412**	948,992
Weighted-average rate during the year	**0.22 %**	0.75 %

Interest income on securities purchased under agreements to resell for the years ended December 31, 2010, 2009 and 2008 was $175,000, $7.2 million and $10.1 million, respectively.

9. Securities Purchased Under Agreements to Resell (continued)

The Bank had no reverse repurchase agreements as of December 31, 2010 and two reverse repurchase agreements with an aggregate receivable balance of $500.0 million as of December 31, 2009. These transactions were collateralized by marketable securities that the Bank was permitted to sell or repledge. The Bank did not repledge any of this collateral as of December 31, 2009. The market value of the collateral was $602.2 million as of December 31, 2009. The par value of such collateral was $998.4 million as of December 31, 2009. Collateral exposure was measured at the counterparty level and offset by collateral sent for repurchase agreements.

Of the two outstanding reverse repurchase agreements at December 31, 2009, one was with ING Direct N.V. S.E. and one was with Credit Suisse First Boston, LLC. The outstanding reverse repurchase agreement with ING Direct N.V. S.E. had a total receivable balance of $300.0 million, was originated on February 27, 2009 and matured on February 26, 2010. The Credit Suisse First Boston, LLC reverse repurchase agreement had a total receivable balance of $200.0 million, was originated on February 27, 2007 and matured on March 1, 2010.

10. Premises and Equipment

The table below summarizes the premises and equipment as of December 31, 2010 and 2009:

	December 31	
	2010	**2009**
Leasehold and building improvements	**$ 65,665**	$ 67,689
Computer software	**95,582**	77,391
Computer equipment	**51,223**	46,109
Furniture, fixtures, and equipment	**16,489**	16,397
Total premises and equipment	**228,959**	207,586
Less accumulated depreciation and amortization	**(144,284)**	(118,302)
Total premises and equipment, net	**$ 84,675**	$ 89,284

Depreciation and amortization expense on premises and equipment amounted to $30.9 million, $27.5 million, and $23.1 million for the years ended December 31, 2010, 2009, and 2008, respectively.

10. Premises and Equipment (continued)

Lease Commitments

Future minimum rental payments required under operating leases with non-cancelable lease terms that expire after December 31, 2010 were as follows:

	Amount
Year Ended December 31,	
2011	$ 17,109
2012	17,595
2013	16,976
2014	16,815
2015	17,094
2016 and thereafter	42,478
Total minimum lease payments	$ 128,067

Certain of the leases contain escalation clauses and renewal options. Rental expenses under operating leases were $15.2 million, $16.9 million, and $13.6 million for the years ended December 31, 2010, 2009 and 2008, respectively, and were recognized on a straight-line basis and included in occupancy costs over the term of the lease.

11. Bank-Owned Life Insurance

The Bank owns two tranches of life insurance on certain management level employees of the Bank. The Bank is the beneficiary of these life insurance policies for which the entire premium is maintained in a separate account by the insurance carrier. In conjunction with the bank-owned life insurance, the Bank will pay a $50,000 benefit if an insured employee dies while actively employed or retired from the Bank.

For the years ended December 31, 2010, 2009 and 2008, the Bank recorded income related to the increase in net cash surrender value of bank-owned life insurance of $39.3 million, $37.2 million and $37.6 million, respectively.

As of December 31, 2010 and 2009 respectively, the Bank owned $1.1 billion and $1.0 billion, respectively, in cash surrender value associated with the bank-owned life insurance.

11. Bank-Owned Life Insurance (continued)

As of December 31, 2010 and 2009, the Bank recorded a liability of $1.3 million for death benefits to covered employees that extend into postretirement periods which is included within other liabilities.

12. Other Assets

The other assets balance as of December 31, 2010 and 2009 includes the following:

	December 31	
	2010	**2009**
Other real estate owned	**$ 270,263**	$ 96,572
Cash surrender value on key life insurance plans	**19,802**	17,190
Mortgage-backed security principal receivable	**16,327**	16,319
Federal income tax receivable	**–**	552,458
Other assets	**22,248**	24,326
Total other assets	**$ 328,640**	$ 706,865

The Bank had $270.3 million, or 978 properties, and $96.6 million, or 355 properties, in other real estate owned at December 31, 2010 and 2009, respectively. During the year ended December 31, 2010, $448.4 million, or 1,656 properties, were acquired through foreclosure and $246.8 million, or 1,033 properties were sold, compared with $208.2 million, or 831 properties acquired and $165.8 million, or 734 sold during 2009. In addition, the Bank had $27.9 million and $15.3 million of write-downs on properties held during the years ended December 31, 2010 and 2009, respectively. The Bank recorded $33.0 million, $22.0 million, and $12.5 million in other real estate owned expense, net, which includes any gain or loss on disposition, write-downs of properties, as well as operating expenses, during the year ended December 31, 2010, 2009, and 2008, respectively.

The Bank owned $19.8 million and $17.2 million in variable universal life insurance policies as of December 31, 2010 and 2009, respectively. These policies insure key members of management, and the Bank is the owner and beneficiary of these insurance contracts. The assets are recorded at cash surrender value, less the current contingent deferred cash surrender charge with changes reflected in current period earnings.

12. Other Assets (continued)

The mortgage-backed security principal receivable at December 31, 2010 and 2009 relates to principal paydowns on mortgage-backed securities, which are collected within 45 days of period-end. The Bank had $16.3 million of mortgage-backed security principal receivable at December 31, 2010 and 2009.

The Bank recorded a federal income tax receivable of $552.5 million at December 31, 2009 which the Bank received on February 23, 2010. The receivable at December 31, 2009 was a result of the Bank's ability to recover a portion of taxes paid for tax years 2004 through 2008 because it incurred a net operating loss in 2009. The Internal Revenue Service (the "IRS") is currently auditing the Bank's 2009 federal income tax return, with the primary focus on the loss as a result of the sale of certain securities in conjunction with the Facility transaction, as discussed in Note 6. See Note 18 for further discussion on the Bank's taxes.

13. Goodwill and Intangibles

Goodwill

The Bank recorded goodwill as a result of the purchase of the Securities Company in 2007. Goodwill at December 31, 2010 and 2009 was $119.7 million. The Bank believes that goodwill was not impaired at December 31, 2010 and 2009.

13. Goodwill and Intangibles (continued)

Identifiable Intangible Assets

The gross carrying values and accumulated amortization related to identifiable intangible assets at December 31, 2010 and 2009 are presented below:

	December 31					
	2010			2009		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Identifiable intangible assets:						
Customer and partner relationships	**$ 76,500**	**$ (16,784)**	**$ 59,716**	$ 76,500	$ (11,412)	$ 65,088
Developed technology	**15,700**	**(9,813)**	**5,887**	15,700	(6,673)	9,027
Core deposit related to NetBank, fsb	**13,849**	**(13,849)**	**–**	13,849	(9,389)	4,460
Trade name and trademark	**10,600**	**(3,312)**	**7,288**	10,600	(2,252)	8,348
License	**1,500**	**(455)**	**1,045**	1,500	(310)	1,190
Covenants	**100**	**(100)**	**–**	100	(100)	–
Total identifiable intangible assets	**$ 118,249**	**$ (44,313)**	**$ 73,936**	$ 118,249	$ (30,136)	$ 88,113

The weighted-average life for total amortizing identifiable intangible assets is 10.0 years as of December 31, 2010. The Bank believes that intangible assets were not impaired at December 31, 2010 and 2009.

13. Goodwill and Intangibles (continued)

The following provides information on the Bank's amortization expense for intangible assets for the years ended December 31, 2010, 2009 and 2008 as well as the projected expense:

	Amount
Actual for the Year Ended December 31:	
2008	$ 14,345
2009	13,334
2010	**14,177**
Expected for the Year Ended December 31:	
2011	$ 9,707
2012	9,315
2013	6,567
2014	6,567
2015	6,567
2016 and thereafter	35,213
Total future amortization expense	$ 73,936

14. Deposits

The Bank's savings deposits include money market demand accounts and individual retirement accounts. The table below provides details on the Bank's interest-bearing deposit liabilities, by product, as of December 31, 2010 and 2009.

	December 31			
	2010		2009	
	Amount	Percent of Total	Amount	Percent of Total
Checking	**$ 13,996,550**	**18.0%**	$ 11,989,350	16.0%
Savings	**56,047,928**	**72.1**	51,136,803	68.1
Time – $250 and greater	**294,371**	**0.4**	465,675	0.6
Time – $100 to $249	**1,443,738**	**1.9**	2,368,615	3.2
Time – less than $100	**5,874,214**	**7.6**	9,115,204	12.1
Total deposits	**$ 77,656,801**	**100.0%**	$ 75,075,647	100.0%

14. Deposits (continued)

A summary of the interest expense on deposits for the years ended December 31, 2010, 2009, and 2008 are provided as follows:

	Year Ended December 31		
	2010	**2009**	**2008**
Checking	**$ 153,236**	$ 192,824	$ 358,651
Savings	**607,253**	769,927	1,326,020
Time deposits	**198,198**	417,817	490,993
Total interest expense	**$ 958,687**	$ 1,380,568	$ 2,175,664

The Emergency Economic Stabilization Act of 2008 ("EESA") temporarily raised the limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor, which was permanently raised to $250,000 per depositor as a result of the Reform Act signed into law on July 21, 2010. As of December 31, 2010 and 2009, the Bank had 17,159 and 13,482 of partially uninsured customers, respectively, with an aggregate balance of $2.2 billion and $1.8 billion, respectively, in excess of $250,000 per customer.

The table below summarizes the Bank's average deposit liability and weighted-average rate by product for the years ended December 31, 2010, 2009, and 2008.

	Year Ended December 31					
	2010		**2009**		**2008**	
	Average Amount Outstanding	**Weighted-Average Interest Rate**	**Average Amount Outstanding**	**Weighted-Average Interest Rate**	**Average Amount Outstanding**	**Weighted-Average Interest Rate**
Checking	**$ 12,847,026**	**1.19%**	$ 11,588,940	1.66%	$ 10,795,321	3.32%
Time deposits	**10,377,290**	**1.91**	12,789,581	3.27	11,843,395	4.15
Savings	**54,079,833**	**1.12**	50,292,891	1.53	44,279,037	2.99
Total deposits	**$ 77,304,149**	**1.24%**	$ 74,671,412	1.85%	$ 66,917,753	3.25%

14. Deposits (continued)

Directors and executive officers of the Bank have deposits held by the Bank which were made on the same terms, including interest rates, as those prevailing at the time for other non-related party transactions. The outstanding amounts are included in deposits in the Bank's Consolidated Statements of Financial Condition and were not material to the Bank's financial results.

Time deposits as of December 31, 2010, by date of maturity, are as follows:

	Amount
Year Ended December 31:	
2011	$ 6,959,667
2012	362,412
2013	214,813
2014	48,135
2015	27,101
2016 and thereafter	195
Total future maturities	$ 7,612,323

15. Borrowings

The table below summarizes the Bank's borrowings for the years ended December 31, 2010, 2009, and 2008.

	At or for the Year Ended December 31		
	2010	**2009**	**2008**
Federal funds purchased			
Balance outstanding at year-end	**$ –**	$ –	$ –
Weighted-average rate at year-end	**–%**	–%	–%
Maximum month-end amount outstanding during the year	**$ –**	$ 5,000	$ 15,000
Average amount outstanding during the year	**–**	386	12,545
Weighted-average rate during the year	**–%**	0.24%	2.17%
Repurchase agreements			
Balance outstanding at year-end	**$1,000,000**	$4,550,247	$4,950,742
Weighted-average rate at year-end	**4.71%**	4.76%	4.82%
Maximum month-end amount outstanding during the year	**$4,550,247**	$4,900,742	$4,950,866
Average amount outstanding during the year	**2,523,927**	4,821,513	4,819,594
Weighted-average rate during the year	**4.70%**	4.82%	4.74%
FHLB advances			
Balance outstanding at year-end	**$ 63,000**	$2,563,000	$2,583,000
Weighted-average rate at year-end	**3.20%**	4.24%	4.25%
Maximum month-end amount outstanding during the year	**$2,563,000**	$2,568,000	$7,306,000
Average amount outstanding during the year	**1,182,178**	2,582,507	4,158,132
Weighted-average rate during the year	**4.41%**	4.25%	4.09%
Borrowings from Corporation			
Balance outstanding at year-end	**$ –**	$ –	$ –
Weighted-average rate at year-end	**–%**	–%	–%
Maximum month-end amount outstanding during the year	**$ –**	$ –	$ 17,500
Average amount outstanding during the year	**–**	–	7,589
Weighted-average rate during the year	**–%**	–%	1.98%

15. Borrowings (continued)

Interest expense on the Bank's borrowings for the years ended December 31, 2010, 2009, and 2008 is as follows:

	Year Ended December 31		
	2010	**2009**	**2008**
Federal funds purchased	**$ –**	$ 1	$ 275
Repurchase agreements	**120,319**	235,612	231,229
FHLB advances	**52,844**	111,355	172,462
Other	**–**	190	178
Total interest expense on borrowings	**$ 173,163**	$ 347,158	$ 404,144

Federal Home Loan Bank Advances

During 2010, the Bank had borrowings from FHLB Pittsburgh. All borrowings from FHLB Pittsburgh are secured by a blanket lien against FHLB defined qualified collateral, which includes the majority of the Bank's mortgage loans and securities portfolio. The outstanding advances from the FHLB Pittsburgh as of December 31, 2010 are due as follows:

	Amount	**Interest Rate**
For the Year Ended December 31:		
2011	$ 63,000	3.20%
Total	$ 63,000	

During 2009 and 2008, the Bank had borrowings from FHLB Des Moines and FHLB Pittsburgh.

FHLB Pittsburgh would require the Bank to deliver securities if it were to exceed 50% of its maximum borrowing capacity. The Bank maintained stock in the Pittsburgh member bank of the FHLB system of $454.7 million and $478.6 million at December 31, 2010 and 2009.

At December 31, 2010, the Bank had a maximum borrowing capacity with FHLB Pittsburgh of $13.6 billion. Additionally, the Bank has an open ended monthly repurchase agreement with the FHLB Pittsburgh for $150.0 million which it did not utilize during the years ended December 31, 2010 or 2009.

15. Borrowings (continued)

Repurchase Agreements

Repurchase agreements have fixed rates ranging from 4.71% to 4.72% at December 31, 2010 and are due as follows:

	Amount	Range of Interest Rates
For the Year Ended December 31:		
2012	$1,000,000	4.71 to 4.72%
Total	$1,000,000	

As of December 31, 2010, borrowings from repurchase agreements were collateralized by marketable securities with a current par value of $1.1 billion and a fair market value of $1.2 billion. Collateral exposure is measured at the counterparty level.

As of December 31, 2009, borrowings from repurchase agreements were collateralized by marketable securities with a current par value of $4.9 billion and a fair market value of $5.0 billion. Collateral exposure was measured at the counterparty level and offset by collateral received for reverse repurchase agreements.

Under the contract terms of FHLB advances and repurchase agreements, the Bank has the option to terminate FHLB advances or repurchase agreements with various counterparties if the Bank and the counterparty come to mutually agreeable terms. For the year ended December 31, 2010, the Bank terminated five repurchase agreements and three FHLB advances at fair value. Payment for the early termination of the repurchase agreements was $1.5 billion, resulting in a loss of $47.4 million. Payment for the early termination of the FHLB advances were $1.5 billion, resulting in a loss of $24.4 million. For the year ended December 31, 2009, there were no early terminations.

16. Other Liabilities

The other liabilities balance as of December 31, 2010 and 2009 includes the following:

	December 31	
	2010	**2009**
Accrued compensation	**$ 40,564**	$ 22,897
Intercompany payable	**31,262**	41,231
Compensation plan liability	**24,413**	20,706
Servicer principal and interest advances	**9,961**	38,480
Other liabilities	**74,796**	58,348
Total other liabilities	**$ 180,996**	$ 181,662

The intercompany payable is primarily due to an intercompany tax sharing agreement with the Corporation, as discussed further in Note 19.

Accrued compensation consists primarily of the Bank's incentive compensation program. The compensation plan liability includes amounts owed related to the Bank's deferred compensation plan and long-term incentive compensation plan. The Bank's compensation plan liability is unfunded as this is not a requirement for the Bank's specific deferred and long-term incentive compensation plans. While not funded, the Bank's cash surrender value on key life insurance plans with values of $19.8 million and $17.2 million at December 31, 2010 and 2009, respectively, as disclosed in Note 12 is maintained to offset the majority of the compensation plan liability.

Servicer principal and interest advances are associated with loans purchased and serviced by a third party, in accordance with a servicing contract. These advances represent payments remitted to the Bank, which have not yet been collected by the third party from the borrower. Other liabilities include deferred rent, accruals and other miscellaneous payables.

17. Income Taxes

The table below summarizes income tax expense (benefit) for the years ended December 31, 2010, 2009 and 2008:

	Year Ended December 31		
	2010	**2009**	**2008**
Federal:			
Current	**$ 450**	$ (561,767)	$ 279,228
Deferred	**120,216**	273,519	(892,649)
Total federal	**120,666**	(288,248)	(613,421)
State:			
Current	**15,765**	469	16,272
Deferred	**(35,105)**	7,009	(43,460)
Total state	**(19,340)**	7,478	(27,188)
Total income tax expense (benefit)	**$ 101,326**	$ (280,770)	$ (640,609)

The table below reconciles the expected tax expense (benefit) at the statutory rate of 35% and actual tax expense (benefit) for the years ended December 31, 2010, 2009 and 2008:

	Year Ended December 31					
	2010		**2009**		**2008**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Income (loss) before income taxes	$ 365,304		$ (777,063)		$ (1,752,009)	
Tax expense (benefit) computed at statutory rate	127,857	35.0%	(271,972)	35.0%	(613,203)	35.0%
(Decrease) increase in expense/benefit resulting from:						
State taxes, net of federal benefit	(12,571)	(3.4)	4,861	(0.6)	(17,672)	1.0
Income from bank-owned life insurance	(13,753)	(3.8)	(13,004)	1.7	(13,176)	0.8
Other	(207)	(0.1)	(655)	0.0	3,442	(0.2)
Total income tax expense (benefit)	$ 101,326	27.7%	$ (280,770)	36.1%	$ (640,609)	36.6%

State income taxes include both current and deferred expense. In 2010, the Bank's overall effective state tax rate increased which resulted in the recognition of an additional state deferred tax asset and corresponding deferred state tax benefit.

17. Income Taxes (continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant deferred tax assets and liabilities of the Bank at December 31, 2010 and 2009 are as follows:

	December 31	
	2010	**2009**
Deferred tax assets:		
Accrued liabilities and other	**$ 38,130**	$ 26,510
Net operating loss and tax credit carryforwards	**323,128**	379,499
Book bad debt reserves – loans	**161,117**	289,808
Impairment on available-for-sale investment securities	**355,972**	327,240
Unrealized loss on available-for-sale investment securities	**172,207**	611,609
Total gross deferred tax assets	**1,050,554**	1,634,666
Deferred tax liabilities:		
Depreciation	**8,368**	4,432
Identifiable intangible assets	**25,512**	28,862
Premium on note receivable	**318,180**	389,477
Deferred loan costs	**5,894**	5,292
Total gross deferred tax liabilities	**357,954**	428,063
Less valuation allowance	**13,760**	16,823
Net deferred tax assets	**$ 678,840**	$ 1,189,780

Included in the table above is the effect of certain temporary differences for which no deferred tax expense or benefit was recognized through the income statement, instead, the associated tax effect was recognized through equity. Such items consisted primarily of unrealized gains and losses on certain investments in debt securities accounted for under ASC 320 and ASC 310-40, as well as net deferred tax liabilities on intangible assets of $18.7 million that were recorded in 2007 related to the acquisition of the Securities Company.

17. Income Taxes (continued)

The realizability of deferred tax assets is dependent upon various factors, including the generation of future taxable income, the existence of taxes paid that are expected to be refunded, the reversal of deferred tax liabilities and tax planning strategies including those with the Global Parent Company. Based on the Bank's history of prior earnings and its expectations of the future, it is anticipated that operating income and the reversal pattern of its temporary differences will, more likely than not, be sufficient to realize a net deferred tax asset of $678.8 million at December 31, 2010.

At December 31, 2010, $9.6 million in gross deferred tax assets of the Bank were related to net operating losses and tax credits attributable to the Securities Company. The Bank has assessed a valuation allowance of $3.7 million on a portion of these deferred tax assets due to limitations imposed by the Internal Revenue Code (the "Code"). This valuation allowance was recorded during the purchase accounting adjustments related to the acquisition of the Securities Company.

The Bank had federal net operating loss carryforwards ("NOLs") of $779.2 million at December 31, 2010. State NOLs are approximately $1.6 billion higher than the Federal NOLs and expire over the next 19 years. December 31, 2010 and 2009 includes $10.1 million valuation allowance due to the uncertainty as to the ultimate realization of state tax benefits associated with these state NOLs. The expiration dates and amounts of such Federal NOL carryforwards as of December 31, 2010 are listed below:

	Amount
Expiration During the Year Ended December 31:	
2019	$ 22,780
2020	2,159
2021	176
2023	1
2024	12
2025	15
2026	5
2029	754,015
Total Federal NOL	$ 779,163

17. Income Taxes (continued)

The Bank’s ability to use its federal NOLs to offset future income is subject to restrictions enacted in Section 382 of the Code. These restrictions limit a company’s future use of NOLs if there is a significant ownership change in a company’s stock (an “Ownership Change”).

On November 6, 2009, new federal tax legislation was enacted that, among other things, permitted the Bank to carry back its 2009 net operating loss for five years instead of two years established under prior law. The Bank recorded a current federal tax receivable of $552.5 million at December 31, 2009, which was received on February 23, 2010, related to the refund resulting from this legislation. See Note 18 for further discussion on the recognition of income taxes.

18. Income Taxes – Recognition

ASC 740-10-25 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information.

A tax position that meets the more likely than not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more likely than not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more likely than not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. ASC 740-10-45 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties.

ASC 740-10-25 became effective for the Bank on January 1, 2007 and resulted in no impact to the Bank. As of December 31, 2010, there is $10.0 million of unrecognized tax benefits, all of which would affect the Bank’s effective tax rate if recognized. The total amount of accrued interest and penalties included in such unrecognized tax benefits were $2.0 million and $1.2 million, respectively. The unrecognized tax benefits are not expected to materially increase or decrease in 2011.

18. Income Taxes – Recognition (continued)

The following table reconciles the total amount of unrecognized tax benefits during the year ended December 31, 2010:

	Amount
Balance at December 31, 2009	$ 3,424
Additions as a result of tax positions taken during prior years	7,041
Additions as a result of tax positions taken during current years	–
Reductions relating to settlements with taxing authorities	(492)
Balance at December 31, 2010	$ 9,973

The Bank's policy is to record interest and penalties on potential income tax deficiencies as an addition to its provision for income tax expense. As of December 31, 2010, tax years ending December 31, 2007 through 2010 tax returns are subject to examination by the Internal Revenue Service (the "IRS") and, other than those mentioned further, tax years ending December 31, 2007 through 2010 are subject to examination by state examination. New York recently completed its state audit of the Bank's 2005 and 2006 tax returns without adjustment. In July 2010, California notified the Bank that its 2007 and 2008 tax returns will be examined.

The IRS is currently auditing the Bank's 2009 federal income tax return. The primary focus of the audit is the loss on the sale of certain securities to the Dutch Co. As discussed in Note 17, the Bank received a federal tax refund of $552.5 million as a result of carrying back this tax loss five years. While the Bank strongly believes in the merits of its technical arguments and believes the tax return positions taken should ultimately be sustained, subsequent to year-end the Bank proposed a non-binding settlement offer to the IRS whereby the tax loss will be respected but a portion of the loss realized on the sale of the securities to Dutch Co. will be carried forward rather than carried back. The IRS examination team has not indicated whether it will accept the proposal. Further, any settlement also would be subject to approvals by the IRS Appeals Division and the Joint Committee on Taxation. If the IRS accepts the proposed settlement, a current tax payable of approximately $200 million would accrue along with an offsetting deferred tax asset (DTA) of approximately the same amount. The Bank further believes the proposed settlement should result in no income statement impact other than an interest charge of approximately $10.0 million. Should the IRS decide not to settle and subsequently pursue denial of the net

18. Income Taxes – Recognition (continued)

operating loss carryback claim, the Bank would continue to defend the positions taken. In light of the current uncertainty of the outcome of the IRS audit, the transaction continues to be reported in the financial statements in accordance with its original filing position, and no reserve pursuant to ASC-740-10-25 is deemed necessary.

19. Related-Party Transactions

Management believes that all transactions entered into with related parties are consummated at substantially the same terms, including interest rates and collateral, if applicable, as those prevailing at the time for other non-related parties. All payables and receivables related to the below-mentioned activity were settled under terms customary to those normally extended to non-related parties.

The Bank incurred management fee expenses from the Global Parent Company of $10.7 million, $10.4 million and $6.2 million for the years ended December 31, 2010, 2009, and 2008, respectively. Included in the management fee expense were costs associated with the Global Parent Company's sponsorship of Renault's Formula 1 team of $670,000 and $882,000 for the years ended December 31, 2009 and 2008, respectively. The Bank did not incur any expenses related to the sponsorship of Renault's Formula 1 team during 2010.

During 2010, 2009, and 2008, the Bank made payments to several affiliates for various services rendered. The Bank expensed $3.1 million, and $4.1 million in commissions to agents in the ING Financial Advisors Network for the years ended December 31, 2009 and 2008, respectively, for Bank products originated through their marketing efforts. The Bank discontinued using ING Financial Advisors Network during 2010 and did not pay these commissions for the year ended December 31, 2010. The Bank also incurred miscellaneous expenses for professional and other services of $219,000, $1.2 million and $1.1 million to other affiliates owned by the Global Parent Company for the years ended December 31, 2010, 2009, and 2008, respectively. During 2009 and 2008, the Bank contributed $1.0 million to an affiliate of the Global Parent Company as a sponsorship donation for the ING New York City Marathon. The Bank did not sponsor the New York City Marathon during 2010. The Bank made cash contributions to ING DIRECT Kids Foundation totaling $750,000 and $313,000 during the years ended December 31, 2010 and 2008, respectively; the Bank did not contribute during the year ended December 31, 2009.

19. Related-Party Transactions (continued)

The Bank had a reverse repurchase agreement outstanding with ING Direct N.V. S.E., an affiliate, of $300.0 million at December 31, 2009. The reverse repurchase agreement, which had a variable rate based upon the three-month LIBOR, had a rate of 0.38% at December 31, 2009. The agreement matured and was paid off on February 26, 2010. The Bank did not have any reverse repurchase agreements outstanding with affiliates at December 31, 2010.

During 2009, the Bank purchased $490.2 million of guaranteed loans from ING Capital, LLC, which is an indirect subsidiary of the Global Parent Company. The guaranteed loans have maturities ranging from six to nine years, and carry interest rates equal to LIBOR plus a spread ranging from 0 to 15 basis points. See Note 7 for more details.

The Bank leases two properties from a related party, WS Realty, LLC, a wholly owned subsidiary of the Corporation. The Bank incurred rental expense paid to WS Realty, LLC of $3.8 million during each of the years ended December 31, 2010, 2009, and 2008.

During the year ended December 31, 2009 and 2008, the Bank had capital infusions from the Corporation in the amounts of $200.0 million and $3.2 billion, respectively. The Corporation did not make capital contributions to the Bank during 2010.

The Corporation, which includes the Bank and its subsidiaries, files a consolidated federal income tax return. The amount of income tax expense or benefit is computed and allocated on a separate return basis. The Bank had an intercompany payable to the Corporation of $30.2 million and $40.3 million at December 31, 2010 and 2009, respectively which is included in other liabilities in Note 16. See Note 17 for more details.

20. Employee Benefit Plans

The Bank maintains a defined contribution savings plan covering substantially all employees. The plan allows eligible employees to make contributions by salary deduction pursuant to the provisions of Section 401(k) of the Internal Revenue Code. Discretionary matching contributions by the Bank expensed in the consolidated financial statements were $7.5 million, $7.2 million, and $7.3 million for the years ended December 31, 2010, 2009, and 2008, respectively.

20. Employee Benefit Plans (continued)

During the third quarter of 2010, the Bank implemented a Pension Plan for the benefit of all employees. The new plan, which is a Money Purchase Plan, supplements the Bank's current 401(k) Plan, as the contributions are 100% employer made. This qualified plan will provide a uniform 5% contribution on applicable compensation, and investment of the funds will be directed by the Bank. The plan has a six year graded vesting schedule with credit towards vesting provided for past service. Contributions expensed in the consolidated financial statements were $3.6 million for the year ended December 31, 2010.

In addition to the above plans, the Bank offers a non-qualified deferred compensation plan and a non-qualified long-term incentive compensation plan. Like the 401(k) plan, both of these plans provide participants with self-direction among the deemed investment options for their account balances.

The deferred compensation plan is offered to members of senior management. Qualified employees can elect to defer a portion of their compensation into the plan and receive a Bank match up to 6% of compensation. Changes in the notional value of the deferred compensation plan liability and matching credits are reflected in current period earnings. The outstanding liabilities to participating employees were $13.7 million and $12.0 million as of December 31, 2010 and 2009, respectively and included within other liabilities in Note 16.

The long-term incentive compensation plan is offered to members of executive management. Upon successfully achieving Bank operation performance goals, annual incentive awards may be contributed by the Bank to accounts of eligible employees. Changes in the notional value of the long-term incentive compensation plan liability and the annual awards granted to participants are reflected in current period earnings. The outstanding liabilities to participating employees were $10.7 million and $8.7 million as of December 31, 2010 and 2009, respectively and included within other liabilities in Note 16. All awards granted are fully vested as of December 31, 2010.

21. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business. These financial instruments include commitments to extend credit to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments and, therefore, its exposure to credit loss in the event of non-performance by the other party to the financial instrument.

Financial instruments whose contract amounts represent credit risk at December 31, 2010 and 2009 are as follows:

	December 31	
	2010	**2009**
Residential mortgage	**$ 2,758,825**	$ 2,678,182
Home equity	**598,736**	665,478
Other loans	**476,857**	256,761
Total commitments to extend credit	**$ 3,834,418**	$ 3,600,421

Commitments to extend credit are agreements to lend to a customer as long as there is no significant violation of any conditions established in the contract. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral, if any, received on loan commitments is dependent upon the individual transaction and the creditworthiness of the customer. Many commitments to extend credit expire without ever having been drawn upon, so the total commitment amounts may not necessarily represent future cash requirements. The commitments at December 31, 2010 and 2009 were principally related to variable rate loans.

Included in other are commercial letters of credit and overdraft lines of credit. Letters of credit are conditional commitments issued by the Bank generally to guarantee the performance of a customer to a third party in borrowing arrangements. The Bank considers commitments outstanding as of the day the commitment letter is issued.

21. Commitments and Contingencies (continued)

At December 31, 2010 and 2009, outstanding letters of credit issued by the Bank totaled $133,000 and $163,000, respectively.

Mortgage Commitments

In addition to the commitments to extend credit, the Bank also originates certain loans through a financial intermediary, which, once funded, are included in loans held for sale. As a result of the forward purchase commitment to fund the loan through the financial intermediary, the Bank records a mark-to-market adjustment during the rate-lock period. Simultaneous with the funding of the loan, the Bank also has forward sales commitment with the financial intermediary to acquire these loans from the Bank, which the Bank also records a mark-to-market adjustment. These mark-to-market adjustments are recorded to the Consolidated Statement of Financial Condition and included in other assets or other liabilities, as deemed appropriate, while the amount recorded to the Consolidated Statement of Financial Results will offset and have no impact. At December 31, 2010, the Bank had $207,000 included in other assets and other liabilities for these commitments.

Legal Proceedings

From time to time, the Bank may be a party to lawsuits or legal proceedings arising in the ordinary course of business. While any litigation causes an element of uncertainty, management is of the opinion that the liability, if any, arising from such litigation and claims will not be material to the accompanying consolidated financial statements.

22. Concentration of Credit Risk

At December 31, 2010 and 2009, the Bank had no concentration of loans in any state in excess of 10% of the total loan portfolio, except California, which was 26% and 32%, respectively, and Illinois, which was 10% and 11%, respectively.

22. Concentration of Credit Risk (continued)

In compliance with disclosure requirements of ASC 275-10, *Risks and Uncertainties*, the Bank has non-traditional loans in the form of interest-only mortgages. The amounts of such loans were $13.0 billion and $15.1 billion at December 31, 2010 and 2009, respectively. The economic characteristics of these non-traditional loans are considered when management records a provision for loan losses on its mortgage portfolio. The remainder of the Bank's loan portfolio principally includes variable rate loans, for which interest rates generally reset for the first time within three to seven years after the loans' closing date and annually thereafter.

The following table summarizes the combined fair value of the Bank's available-for-sale and held-to-maturity investment securities by credit rating as of December 31, 2010 and 2009:

	December 31			
	2010		2009	
	Amount Outstanding	Percent of Amount Outstanding	Amount Outstanding	Percent of Amount Outstanding
Credit Rating[1]				
AAA	**$ 24,535,148**	**86.7%**	$ 20,691,578	83.2%
AA	**204,586**	**0.7**	368,515	1.5
A	**256,453**	**0.9**	423,302	1.7
BBB	**309,865**	**1.1**	688,459	2.8
Non-Investment Grade[2]	**3,013,105**	**10.6**	2,690,604	10.8
Total	**$ 28,319,157**	**100.0%**	$ 24,862,458	100.0%

(1) The credit rating provided represents the lowest available published rating from Standards and Poor's, Moody's and Fitch.

(2) Non-investment grade securities are those rated below BBB-.

23. Derivative Contracts

The Bank manages market risk within limits governed by its risk management policies as established by the Asset and Liability Management Committee (“ALCO”) and approved by the Board of Directors. During the first quarter of 2010, the Bank began to utilize derivatives on a limited basis to manage risk related to changes in interest rates.

The Bank is exposed to credit risk on its derivative positions, which it manages by establishing and monitoring limits as to the degree of risk that may be undertaken. The amount of credit risk is equal to the extent of the fair value gain in a derivative, as the Bank may be unable to realize that if the counterparty fails to perform. The Bank maintains a policy of requiring that all derivative contracts be governed by the International Swaps and Derivatives Association (“ISDA”) Master Agreement and may also require bilateral collateral agreements.

The Bank reviews its collateral positions on a daily basis and exchanges collateral with the counterparties in accordance with ISDA and other related agreements. The Bank generally holds collateral in the form of cash and highly rated securities issued by the U.S. Treasury, government-sponsored enterprises or Ginnie Mae. Collateral requirements are also based on minimum transfer amounts, which are specific to each Credit Support Annex (a component of the ISDA Master Agreement) and signed with the counterparties.

The table below summarizes the notional amount and fair values of the Bank’s derivative instruments as of December 31, 2010:

	Balance Sheet Location	Notional Amount	Fair Value
Derivatives accounted for as hedges:			
Cash flow interest rate contracts	Other assets	$ 5,000	$ 53
Fair value interest rate contracts	Other liabilities	5,000	(174)

Fair Value Hedges

The Bank uses fair value hedges to hedge the exposure to changes in the fair value of certain financial assets or liabilities, which appreciate or depreciate in value primarily as a result of interest rate fluctuations. When an item is designated as the hedged item in a fair value hedge, the related interest rate appreciation or depreciation is recognized in current earnings. The income or loss generated will generally be offset by the change in fair value of the derivative instrument, which is also recognized in current earnings.

23. Derivative Contracts (continued)

During the first quarter of 2010, the Bank entered into one interest rate swap agreement, designated as a fair value hedge, to modify the Bank's exposure to interest rate risk by effectively converting a portion of a U.S. Treasury investment from fixed to variable rate maturing in 2014. The agreement involves the receipt of a floating rate amount in exchange for fixed rate interest payment over the life of the agreement.

The table below summarizes the effect of the Bank's derivative instruments on the consolidated statement of operations for the year ended December 31, 2010:

Derivative in Fair Value Hedging Relationship

	Year Ended December 31, 2010					
	Location of Loss on Derivative	**Loss on Derivative**	**Hedged Items in Fair Value Hedge Relationship**	**Location of Gain Recognized in Income on Related Hedged Item**	**Gain Recognized in Income on Related Hedged Item**	**Net Gain**
Interest rate contracts	Service charges and other income	$ (174)	UST Note 2.625% 12/31/2014	Service charges and other income	$ 179	$ 5

Cash Flow Hedges

The Bank uses cash flow hedges to hedge the exposure to variability in the cash flows of a floating rate note. Changes in fair value of derivatives designated as cash flow hedges are recognized in other comprehensive income, a component of shareholder's equity.

During the first quarter of 2010, the Bank entered into one interest rate swap agreement, designated as a cash flow hedge, to modify the Bank's exposure to interest rate risk by effectively converting a portion of a government guaranteed floating rate note to a fixed rate note maturing in 2012. The agreement involves the receipt of fixed rate amounts in exchange for floating rate interest payments over the life of the agreement.

23. Derivative Contracts (continued)

The table below summarizes the effect of the Bank's derivative instruments on the consolidated statement of operations for the year ended December 31, 2010:

Cash Flow Hedging Relationship

	Year Ended December 31, 2010				
	Gain Recognized in OCI (Effective Portion)	Location of Gain (Loss) Reclassified from OCI into Income	Gain (Loss) Reclassified from OCI into Income	Location of Gain (Loss) Recognized in Income (Ineffectiveness)	Gain (Loss) Recognized Due to Ineffectiveness
Interest rate contracts	$ 53	N/A	$ –	N/A	$ –

See Note 25 for further discussion on the Bank's fair value of derivatives.

24. Stock Option Plans

Select Bank employees may be awarded share-based compensation in the Global Parent Company's stock as a form of variable, performance-based compensation. The Bank accounts for stock-based compensation issued to employees in accordance with the fair value provisions of ASC 718-10, *Compensation – Stock Options*. The stock-based compensation plans are managed entirely by the Global Parent Company. In accordance with the fair value provisions of ASC 718, stock-based compensation cost is measured at the grant date, with the expense recognized over the appropriate vesting period using a straight-line method. The fair value of the share-based compensation on the date of grant is calculated by the Global Parent Company using a Monte Carlo simulation-based valuation model which uses the following inputs, as determined by the Global Parent Company: risk free interest rate, expected life, the current stock price, expected volatility and expected dividend yield. The Bank recorded $2.8 million, $2.2 million, and $2.5 million of total stock-based compensation expense during the years ended December 31, 2010, 2009, and 2008, respectively, which is included in salaries and employee benefits expense within the Consolidated Statements of Operations, as well as in paid-in capital from the Global Parent Company.

24. Stock Option Plans (continued)

There are three share-based payment plans managed by the Global Parent Company. The first plan provides stock options which vest over three years, expire after five or ten years, and require a certain continuous period of service. For the years ended December 31, 2010, 2009, and 2008, the Bank recorded $1.3 million, $1.2 million, and $1.3 million, respectively, in expense related to options granted.

The second plan provides for the issuance of performance shares. The fair value of performance share award granted is amortized over the vesting period of the share award and requires a certain continuous period of service. For the years ended December 31, 2010, 2009, and 2008, the Bank recorded $1.2 million, $1.0 million, and $1.0 million, respectively, of expense related to the issuance of performance shares.

The third plan provides for the issuance of deferred share units which are issued unconditionally upon the participant remaining an employee for an uninterrupted period of three years from the date of grant. The fair value of deferred share units granted is amortized over the three-year vesting period from the date of grant. On the date of vesting, eligible employees will be entitled to receive the cash equivalent fair value of the deferred share units. For the year ended December 31, 2010, the Bank recorded $270,000 expense related to the issuance of the deferred share units. The Bank did not incur any expense related to this plan for the years ended December 31, 2009 and 2008.

25. Fair Value of Financial Instruments

The carrying amounts of financial instruments (i.e., monetary assets and liabilities) are determined under different accounting methods. The following disclosure discusses these instruments on a uniform fair value basis. For a portion of the Bank’s financial instruments, no quoted market exists; therefore, estimates of fair value are based on a number of assumptions regarding the amount and timing of estimated future cash flows, which are discounted to reflect varying degrees of risk. Given the uncertainties surrounding these assumptions, the reported fair values may not represent actual values of financial instruments that could have been realized as of December 31, 2010 or that will be realized in the future. Use of different assumptions or methodologies is likely to result in significantly different fair value estimates.

25. Fair Value of Financial Instruments (continued)

The Bank accounts for fair value measurement in accordance with ASC 820. In accordance with ASC 825-10-50-10, *Fair Value of Financial* Instruments, the Bank is required to disclose the fair value of financial instruments. A summary of the practices used for determining the Bank's fair value of its financial instruments is as follows:

Cash and Cash Equivalents, Federal Funds Sold, FHLB Stock, Securities Purchased Under Agreements to Resell, Securities Sold Under Agreements to Repurchase, and Securities Sold Not Yet Purchased – Current carrying amounts approximate fair value.

Investment Securities – Fair value measurement is based upon prices provided by third-party vendors or quoted prices when available. Third-party vendors may utilize matrix pricing or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, vintage, and other credit loss assumptions when actual market trades are not available.

Notes Receivable – Fair value is based on market assumptions which incorporate expected payments, coupon rates and forward interest rate curves. Once determined, the assumptions are used to calculate the present value of the estimated cash flows of the notes.

Loans – Fair value is based on market based assumptions obtained in the secondary market. The assumptions are used to calculate the present value of the estimated cash flows, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Deposits – The fair value of deposits with no stated maturity, which include checking and savings, are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Deposits with a stated maturity, which includes time deposits, have been valued using the present value of cash flows discounted at rates approximating the current market for similar deposits.

Borrowings – Borrowings have been valued using the present value of cash flows discounted at rates approximating the current market for similar liabilities.

Derivative Financial Instruments – Derivative financial instruments have been valued using the present value of future cash flows discounted at rates approximating the current market for similar contracts.

25. Fair Value of Financial Instruments (continued)

The fair value and carrying amounts of financial instruments at December 31, 2010 and 2009 are summarized as follows:

	December 31			
	2010		2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	**$ 516,390**	**$ 516,390**	$ 2,606,477	$ 2,606,477
Investment securities available-for-sale	**27,315,780**	**27,315,780**	23,703,517	23,703,517
Investment securities held-to-maturity	**934,574**	**1,003,377**	1,079,088	1,158,941
Investment securities trading	**2,027**	**2,027**	2,140	2,140
FHLB stock	**454,705**	**454,705**	478,637	478,637
Notes receivable	**15,516,521**	**15,120,340**	20,440,284	20,027,220
Loans	**40,018,497**	**39,526,288**	37,371,392	36,622,650
Securities purchased under agreements to resell	**–**	**–**	500,007	500,007
Derivative financial assets	**260**	**260**	–	–
Total financial assets	**$84,758,754**	**$83,939,167**	$86,181,542	$85,099,589
Financial liabilities:				
Checking	**$13,996,550**	**$13,996,550**	$11,989,350	$11,989,350
Savings	**56,047,928**	**56,047,928**	51,136,803	51,136,803
Time deposits	**7,612,323**	**7,662,821**	11,949,494	12,088,794
Borrowings	**1,063,000**	**1,136,002**	7,113,247	7,385,717
Securities sold, not yet purchased	**5,267**	**5,267**	2,774	2,774
Derivative financial liabilities	**381**	**381**	–	–
Total financial liabilities	**$78,725,449**	**$78,848,949**	$82,191,668	$82,603,438

26. Fair Value Measurement

The Bank accounts for fair value measurements in accordance with ASC 820. ASC 820-10 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. It establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and expands the disclosures about instruments measured at fair value. ASC 820-10 requires consideration of a company's own creditworthiness when valuing liabilities.

26. Fair Value Measurement (continued)

Determination of Fair Value

The following is a description of the Bank's valuation methodology for investment securities. Fair value is based upon quoted market prices when available. When market quotes are not available, the Bank utilizes an internal process to determine fair value based on a range of external vendor prices. The selection of the vendor price most representative of fair value for the Bank's private label residential mortgage backed securities is driven by an internal process which utilizes regression analysis to determine a hierarchy of the Bank's external vendors based on correlation with recently observed market activity for similar or the same securities. For security classes other than the private label residential mortgage backed securities, the Bank utilizes a vendor hierarchy to value the respective security. The Bank performs internal validation procedures to assess the reasonableness of fair value by asset class. The price selected from the preferred vendor is subject to an outlier test. The outliers are further researched and may result in a different vendor price selection if it is more representative of fair value.

The methods described above may produce a current fair value calculation that may not be indicative of net realizable value. The Bank believes that the procedures utilized to determine fair value are appropriate and consistent with other market participants. However, the use of different methodologies or different assumptions to value certain financial instruments could result in a varying range of fair value.

26. Fair Value Measurement (continued)

Fair Value Hierarchy

ASC 820-10 specifies a three-level grouping or hierarchy, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank’s internal market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations in which all significant assumptions are observable in the market.

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

ASC 820 requires the Bank to disclose the fair value for financial assets on both a recurring and non-recurring basis. The following is a description of the valuation methodologies utilized by the Bank, as well as the general classification of such instruments pursuant to the fair value hierarchy.

Assets

Investment Securities Trading – Investment securities trading include odd lot and fractional shares of readily marketable common stock and exchange-traded funds retained when shares are purchased by the Securities Company on behalf of customers. Currently, all investment securities trading on the Bank’s books are classified as Level 1 securities as they are all traded on an active exchange, such as the New York Stock Exchange.

26. Fair Value Measurement (continued)

Securities Available-for-sale – Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices when available. When market quotes are not available, the Bank utilizes an internally developed process to guide the selection of a third-party vendor price. Level 1 securities, which includes U.S. Treasuries, are those securities traded in an active market. Level 2 securities include U.S. government, foreign government, foreign agency, U.S. agency mortgage-backed securities, agency bonds, certain private label mortgage-backed and commercial mortgage-backed securities. Level 3 securities include certain private label residential mortgage-backed securities. Level 3 indicates that significant valuation assumptions are not consistently observable in the market due to market illiquidity for certain asset classes. These inputs reflect management's judgment about the assumptions that a market participant would use in valuing the asset and are based on the best available information, some of which is internally developed.

Impaired Loans – Impaired loans are recorded at fair value on a non-recurring basis. The fair value of impaired loans, which is calculated as the carrying value of the loan less any applicable specific reserve, is calculated based upon the present value of expected future cash flows, the market price of the loan, or the fair value of the underlying collateral less cost to sell, if the loan is collateral dependent. As such, these type of loans are classified as Level 2.

Derivative Financial Instruments – Derivative financial instruments, which are comprised of interest rate swaps, are recorded at fair value on a recurring basis. Fair value measurement is based upon a present value of future cash flows using interest rate assumptions obtained in the secondary market. These instruments are classified as Level 2.

Other Real Estate Owned Properties – These properties are carried at the lower of carrying value or fair value less costs to sell on a non-recurring basis. Fair value is generally based upon independent market prices or appraised values of the property, which are observable inputs. Accordingly, the Bank classifies other real estate owned properties as Level 2.

Liabilities

Securities Sold, Not Yet Purchased – Securities sold, not yet purchased represent securities that the Bank has sold to other parties but does not own and are fair valued on a recurring basis. The Bank is obligated to purchase these securities at a future date. Fair value measurement for securities sold, not yet purchased is based upon quoted market prices in active markets and, therefore, are classified as Level 1 liabilities. The Bank includes these balances as part of other liabilities.

26. Fair Value Measurement (continued)

Financial Instruments Recorded at Fair Value on a Recurring Basis

The table below summarizes the Bank's assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009:

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
December 31, 2010				
Assets:				
Money market funds	$ 48,142	$ –	$ –	$ 48,142
Trading securities	2,027	–	–	2,027
Government obligations:				
Government guaranteed securities	–	7,021,239	–	7,021,239
US Treasuries	2,013,024	–	–	2,013,024
Mortgage-backed securities:				
Agency pass-through securities	–	14,017,811	–	14,017,811
Prime	–	918,942	–	918,942
Alt-A	–	2,185,953	799,560	2,985,513
Commercial	–	262,601	–	262,601
Subprime	–	–	80,038	80,038
Mutual funds	16,612	–	–	16,612
Derivative financial assets	–	260	–	260
Total assets	$2,079,805	$24,406,806	$879,598	$27,366,209
Liabilities:				
Securities sold, not yet purchased	$ 5,267	$ –	$ –	$ 5,267
Derivative financial liabilities	–	381	–	381
Total liabilities	$ 5,267	$ 381	$ –	$ 5,648
December 31, 2009				
Assets:				
Money market funds	$ 37,438	$ –	$ –	$ 37,438
Trading securities	2,140	–	–	2,140
Government obligations:				
Government guaranteed securities	–	6,959,287	–	6,959,287
US Treasuries	786,930	–	–	786,930
Mortgage-backed securities:				
Agency pass-through securities	–	11,083,274	–	11,083,274
Prime	–	1,228,094	–	1,228,094
Alt-A	–	2,605,591	756,581	3,362,172
Commercial	–	211,660	–	211,660
Subprime	–	–	60,924	60,924
Mutual funds	11,176	–	–	11,176
Total assets	$ 837,684	$22,087,906	$817,505	$23,743,095
Liabilities:				
Securities sold, not yet purchased	$ 2,774	$ –	$ –	$ 2,774
Total liabilities	$ 2,774	$ –	$ –	$ 2,774

26. Fair Value Measurement (continued)

The table below includes a rollforward of the balance sheet amounts for the years ended December 31, 2010 and 2009 (including changes in fair value) for all financial instruments classified by the Bank within Level 3 of the fair value hierarchy. When a determination is made to classify a financial instrument within Level 3, the decision is based on the significance of the unobservable parameters to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (components that can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to unobservable, as well as observable, factors that are part of the valuation methodology.

	Available-for-sale Mortgage-backed Securities			
	Prime	**Alt-A**	**Subprime**	**Total**
Balance, December 31, 2009	$ –	$ 756,581	$ 60,924	$ 817,505
Transfers into Level 3[1]	–	–	–	–
Transfers out of Level 3[1]	–	–	–	–
Total gains or losses (realized/unrealized)				
Included in earnings (or changes in net assets)	–	**(37,413)**	**2**	**(37,411)**
Included in other comprehensive income	–	**293,541**	**25,268**	**318,809**
Settlements	–	**(213,149)**	**(6,156)**	**(219,305)**
Balance, December 31, 2010	**$ –**	**$ 799,560**	**$ 80,038**	**$ 879,598**
The amount of total gains or losses for the year included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses on assets held at December 31, 2010	$ –	$ (37,413)	$ 2	$ (37,411)
Balance, December 31, 2008	$ 3,034,079	$ 22,285,648	$ 88,374	$ 25,408,101
Transfers into Level 3[1]	–	–	–	–
Transfers out of Level 3[1]	(1,228,094)	(2,551,865)	–	(3,779,959)
Total gains or losses (realized/unrealized):				
Included in earnings (or changes in net assets)	(189,454)	(625,993)	(32,376)	(847,823)
Included in other comprehensive income	407,339	9,617,904	15,804	10,041,047
Sales/settlements[2]	(2,023,870)	(27,969,113)	(10,878)	(30,003,861)
Balance, December 31, 2009	$ –	$ 756,581	$ 60,924	$ 817,505
The amount of total gains or losses for the year included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses on assets held at December 31, 2009	$ –	$ (512,789)	$ (32,376)	$ (545,165)

(1) The Bank's policy is to recognize transfers in and transfers out as of period end.

(2) Level 3 assets decreased due to the sale of 80% of the Bank's Alt-A residential mortgage-backed securities portfolio to Dutch Co. For more information on the transaction, refer to Note 6.

26. Fair Value Measurement (continued)

During the fourth quarter of 2009, the Bank transferred $3.8 billion of prime and Alt-A mortgage-backed securities from Level 3 to Level 2 due to improved pricing transparency and heightened secondary market trading activity. No transfers between levels occurred during the year ended December 31, 2010.

The table below summarizes gains and losses, due to changes in fair value, which were recorded in earnings for Level 3 assets during the years ended December 31, 2010 and 2009 as well as changes in unrealized gains and losses, also recorded in earnings, during the years ended December 31, 2010 and 2009 for Level 3 assets which were still held as of December 31, 2010 and 2009.

	Net Impairment Loss Recognized in Earnings	**Gain (Loss) on Sale of Investment Securities, Net**
Total gains or losses included in earnings (or changes in net assets) for the year ended December 31:		
2010	**$ (37,411)**	**$ –**
2009	(814,541)	(33,282)
Change in unrealized gains or losses related to assets still held at December 31:		
2010	**$ (37,411)**	**$ –**
2009	(545,165)	–

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

26. Fair Value Measurement (continued)

Assets Recorded at Fair Value on a Nonrecurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis in accordance with GAAP, that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, certain assets are carried at the lower of cost or market). The valuation methodologies used to measure these fair value adjustments are described previously in this note. At December 31, 2010 and 2009, these assets were valued in accordance with GAAP and, except for those indicated in the table below which summarizes the Bank's assets measured at fair value on a non-recurring basis, did not require fair value disclosure under the provisions of ASC 820:

	Fair Value Hierarchy				Total (Losses)
	Level 1	Level 2	Level 3	Total	Gains
December 31, 2010					
Assets:					
Impaired loans	**$ –**	**$ 1,061,303**	**$ –**	**$ 1,061,303**	**$ (499)**
Other real estate owned	**–**	**73,574**	**–**	**73,574**	**(12,430)**
Total assets	**$ –**	**$ 1,134,877**	**$ –**	**$ 1,134,877**	**$ (12,929)**
December 31, 2009					
Assets:					
Impaired loans	$ –	$ 1,093,988	$ –	$ 1,093,988	$ (391,785)
Other real estate owned	–	15,869	–	15,869	(3,078)
Total assets	$ –	$ 1,109,857	$ –	$ 1,109,857	$ (394,863)

27. Regulatory Matters

Under the OTS capital regulations, savings institutions, such as the Bank, must maintain "tangible" capital equal to 1.5% of adjusted total assets, "core" capital equal to 4% of adjusted total assets, "Tier 1" capital equal to 4% of risk-weighted assets, and "total" or "risk-based" capital (a combination of core and supplementary capital) equal to 8% of risk-weighted assets, as defined.

27. Regulatory Matters (continued)

Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. The Bank's capital amounts have been computed in accordance with regulatory practice. At December 31, 2010, management believes the Bank was in compliance with all regulatory capital requirements and is a "well-capitalized" institution. Management anticipates that the Bank will continue to be classified as well-capitalized.

The table below summarizes the Bank's capital position as of December 31, 2010 and 2009:

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2010						
Total risk-based capital (to risk-weighted assets)	**$ 9,271,168**	**28.08%**	**$ 2,640,957**	**8.00%**	**$ 3,301,197**	**10.00%**
Leverage ratio (tier 1 capital to adjusted total assets)	**8,858,263**	**10.09**	**3,511,106**	**4.00**	**4,388,882**	**5.00**
Tangible capital (to tangible assets)	**8,858,263**	**10.09**	**1,316,665**	**1.50**	**N/A**	**N/A**
Tier 1 risk-based capital (to risk-weighted assets)	**8,858,263**	**26.83**	**1,320,479**	**4.00**	**1,980,718**	**6.00**
December 31, 2009						
Total risk-based capital (to risk-weighted assets)	8,703,636	24.43	2,849,859	8.00	3,562,323	10.00
Leverage ratio (tier 1 capital to adjusted total assets)	8,388,724	9.24	3,632,906	4.00	4,541,132	5.00
Tangible capital (to tangible assets)	8,388,724	9.24	1,362,340	1.50	N/A	N/A
Tier 1 risk-based capital (to risk-weighted assets)	8,388,724	23.55	1,424,929	4.00	2,137,394	6.00

The ability of the Bank to pay dividends to the Corporation is controlled by certain regulatory restrictions. Generally, dividends declared in a given year by the Bank are limited to its net profit, as defined by regulatory agencies, for that year, combined with its retained net income for the preceding two years. In addition, the Bank may not declare any dividends if such declaration would leave the bank inadequately capitalized. Therefore, the ability of the Bank to declare dividends will generally depend on its future net income and capital requirements. The Bank did not pay dividends to the Corporation during the years ended December 31, 2010 and 2009, and paid $105.0 million during the year ended December 31, 2008.

27. Regulatory Matters (continued)

The Bank’s deposits are insured to applicable limits by the FDIC. As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), which was signed into law on July 21, 2010, the maximum deposit insurance limit was increased permanently to $250,000. In November, 2009, the FDIC amended the assessment regulations to require all insured depository institutions to prepay their estimated risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012 on December 30, 2009. For purposes of estimating the future assessments, each institution’s base assessment rate in effect on September 30, 2009 was used, assuming a 5% annual growth rate in the assessment base and a three basis point increase in the assessment rate in 2011 and 2012. The prepaid assessment will be applied against actual quarterly assessments until exhausted. Any funds remaining after June 30, 2013 will be returned to the institution. If the prepayment would impair an institution’s liquidity or otherwise create significant hardship, it was able to apply for an exemption. Requiring this prepaid assessment does not preclude the FDIC from changing assessment rates or from further revising the risk-based assessment system. The Bank’s prepaid assessment, which was originally paid in December 2009, was $422.2 million and $591.9 million at December 31, 2010 and 2009, respectively, which is included in prepaid assets in the Consolidated Statements of Financial Condition.

The Securities Company

The Securities Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1) which requires that the Securities Company maintains minimum net capital equivalent to the greater of $250,000 or 6.67% of aggregate indebtedness, and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. At December 31, 2010, the Securities Company had net capital of $94.0 million, as defined, which was $92.8 million in excess of its required minimum net capital of $1.2 million. The Securities Company ratio of aggregate indebtedness to net capital was 0.19 to 1 and 0.39 to 1 at December 31, 2010 and 2009, respectively.

Advances to affiliates, repayment of subordinated borrowings, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule or other regulatory bodies.

27. Regulatory Matters (continued)

Under the clearing arrangement with the clearing broker, the Securities Company is required to maintain certain minimum levels of net capital and to comply with other financial ratio requirements. At December 31, 2010, the Securities Company was in compliance with all such requirements.

28. Subsequent Events

The Bank has evaluated subsequent events through March 16, 2011, which is the date these financial statements are being issued, and there are no matters to report other than those previously disclosed.

ING Bank, fsb and Subsidiaries

Consolidated Statements of Financial Condition (unaudited)

(Dollars in thousands, except par value)

	March 31, 2011	December 31, 2010
Assets		
Cash and due from banks	**$ 3,469**	$ 47,818
Interest-bearing deposits in other banks	**3,822,705**	468,572
Cash and cash equivalents	**3,826,174**	516,390
Investment securities available-for-sale (amortized cost: March 31, 2011 – $29,047,088, December 31, 2010 – $27,726,403)	**28,710,751**	27,315,780
Investment securities held-to-maturity (estimated fair value: March 31, 2011 –$897,289, December 31, 2010 – $1,003,377)	**842,953**	934,574
Investment securities trading, at fair value	**2,129**	2,027
FHLB stock, at cost	**431,970**	454,705
Notes receivable	**14,177,742**	15,516,521
Loans (net of allowance for loan losses: March 31, 2011 – $427,923, December 31, 2010 – $439,010)	**40,994,382**	40,018,497
Premises and equipment, net	**85,108**	84,675
Accrued interest receivable	**246,805**	229,004
Prepaid assets	**474,778**	443,072
Bank-owned life insurance	**1,089,343**	1,079,065
Goodwill	**119,739**	119,739
Identifiable intangible assets, net	**71,507**	73,936
Deferred taxes, net	**832,148**	678,840
Other assets	**306,701**	328,640
Total assets	**$ 92,212,230**	$ 87,795,465
Liabilities and shareholder's equity		
Liabilities:		
Deposits	**$ 81,624,665**	$ 77,656,801
Borrowings	**750,000**	1,063,000
Accrued interest payable	**7,051**	9,521
Other liabilities	**834,034**	180,996
Total liabilities	**83,215,750**	78,910,318
Commitments and contingencies *(see Note 19)*		
Shareholder's equity:		
Common stock, $1 par value; 1,000 shares authorized, issued, and outstanding	**1**	1
Additional paid-in capital	**9,642,420**	9,641,536
Accumulated deficit	**(414,142)**	(473,642)
Accumulated other comprehensive loss, net of tax	**(231,799)**	(282,748)
Total shareholder's equity	**8,996,480**	8,885,147
Total liabilities and shareholder's equity	**$ 92,212,230**	$ 87,795,465

See accompanying notes to unaudited consolidated financial statements.

ING Bank, fsb and Subsidiaries

Consolidated Statements of Operations (unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2011	**2010**
Interest income:		
Mortgage-backed securities	**$141,587**	$164,322
Loans	**423,904**	437,581
Notes receivable	**13,374**	50,264
Other investments	**41,443**	33,682
Securities purchased under agreements to resell	**–**	175
Other interest income	**1,208**	2,602
Total interest income	**621,516**	688,626
Interest expense:		
Deposits	**214,347**	254,577
Borrowings	**11,385**	74,669
Total interest expense	**225,732**	329,246
Net interest income	**395,784**	359,380
Provision for loan losses	**115,545**	128,177
Net interest income after provision for loan losses	**280,239**	231,203
Non-interest income (loss):		
Commission and subscription fee income	**20,188**	18,624
Bank-owned life insurance	**10,278**	9,513
Gain on sale of investment securities, net	**4,739**	31,286
Loss on debt terminations	**(16,220)**	(45,576)
Service charges and other income	**7,280**	5,951
Impairment on debt securities:		
Total other-than-temporary losses	**(20,535)**	(69,050)
Portion of loss recognized in other comprehensive income	**1,815**	41,818
Net impairment loss recognized in earnings	**(18,720)**	(27,232)
Total non-interest income (loss)	**7,545**	(7,434)
Non-interest expense:		
Salaries and employee benefits	**60,070**	54,419
FDIC expense	**45,700**	43,687
Marketing	**26,254**	21,960
Other real estate owned expense, net	**9,532**	1,750
Professional services	**8,259**	7,193
Depreciation	**7,850**	7,829
Occupancy	**6,075**	6,304
Data communication and processing	**4,950**	5,391
Amortization of intangible assets	**2,429**	2,835
Head office management fee	**2,895**	2,232
Other	**12,823**	12,184
Total non-interest expense	**186,837**	165,784
Income before income tax expense	**100,947**	57,985
Income tax expense	**41,447**	16,454
Net income	**$ 59,500**	$ 41,531

See accompanying notes to unaudited consolidated financial statements.

ING Bank, fsb and Subsidiaries

Consolidated Statements of Changes in Shareholder's Equity and Comprehensive Income (unaudited)

(Dollars in thousands)

	Comprehensive Income	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholder's Equity
Balance, December 31, 2009		$ 1	$ 9,638,778	$ (737,620)	$ (1,041,144)	$ 7,860,015
Issuance of group stock options		–	606	–	–	606
Comprehensive income:						
Net income	$ 41,531	–	–	41,531	–	41,531
Other comprehensive income:						
Unrealized loss on securities:						
Change in unrealized loss on securities available-for-sale, net of tax $(129,928)	231,127	–	–	–	231,127	231,127
Less reclassification adjustment for gains on sales included in net income, net of tax $8,878	(22,408)	–	–	–	(22,408)	(22,408)
Employee benefit plan adjustment, net of tax $(13)	24	–	–	–	24	24
Other comprehensive income	208,743					
Comprehensive income	$ 250,274					
Balance, March 31, 2010		$ 1	$ 9,639,384	$ (696,089)	$ (832,401)	$ 8,110,895
Balance, December 31, 2010		$ 1	$ 9,641,536	$ (473,642)	$ (282,748)	$ 8,885,147
Issuance of group stock options		**–**	**884**	**–**	**–**	**884**
Comprehensive income:						
Net income	**$ 59,500**	**–**	**–**	**59,500**	**–**	**59,500**
Other comprehensive income:						
Unrealized loss on securities:						
Change in unrealized loss on securities available-for-sale, net of tax $(32,270)	**53,719**	**–**	**–**	**–**	**53,719**	**53,719**
Less reclassification adjustment for gain on sales included in net income, net of tax of $1,946	**(2,793)**	**–**	**–**	**–**	**(2,793)**	**(2,793)**
Employee benefit plan adjustment, net of tax $(12)	**23**	**–**	**–**	**–**	**23**	**23**
Other comprehensive income	**50,949**					
Comprehensive income	**$ 110,449**					
Balance, March 31, 2011		**$ 1**	**$ 9,642,420**	**$ (414,142)**	**$ (231,799)**	**$ 8,996,480**

See accompanying notes to unaudited consolidated financial statements.

ING Bank, fsb and Subsidiaries

Consolidated Statements of Cash Flows (unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2011	**2010**
Cash flows from operating activities		
Net income	**$ 59,500**	$ 41,531
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**7,850**	7,829
Provision for loan losses	**115,545**	128,177
Impairment on debt securities	**18,720**	27,232
Amortization of premiums and deferred costs on investment securities, notes receivable, and loan portfolios, net	**60,590**	63,609
TDR interest accretion	**(9,718)**	(6,772)
Gain on sale of investment securities, net	**(4,739)**	(31,286)
Loss on other real estate owned	**8,128**	400
Loss on debt terminations	**16,220**	45,576
Amortization of identifiable intangible assets	**2,429**	2,835
Stock compensation expense	**884**	606
Employee benefit plan adjustment	**23**	24
Loans originated for sale	**(6,030)**	–
Proceeds from sale of loans	**5,506**	–
(Increase) decrease in deferred income tax	**(180,208)**	16,020
Increase in accrued interest receivable	**(17,801)**	(27,864)
Increase in trading securities	**(102)**	(170)
Increase in prepaid assets	**(31,706)**	(48,962)
Increase in value of bank-owned life insurance	**(10,278)**	(9,513)
(Increase) decrease in other assets	**(10,273)**	475,187
Decrease in accrued interest payable	**(2,470)**	(13,643)
Increase in other liabilities	**250,486**	5,124
Net cash provided by operating activities	**272,556**	675,940
Cash flows from investing activities		
Purchases of available-for-sale securities	**(2,349,940)**	(2,890,723)
Proceeds from paydowns of available-for-sale securities	**1,135,457**	1,057,289
Proceeds from sales of available-for-sale securities	**359,787**	585,067
Proceeds from paydowns of held-to-maturity securities	**98,255**	19,396
Increase in loan originations, net	**(1,124,939)**	(1,141,620)
Purchase of loan portfolios and advances	**(156,401)**	(132,719)
Decrease in reverse repurchase agreements	**–**	500,007
Proceeds from the sale of other real estate owned	**112,932**	45,146
Proceeds from payments on notes receivable	**1,308,981**	1,403,219
Additions of premises and equipment, net	**(8,283)**	(5,341)
Proceeds from redemption of FHLB stock	**22,735**	–
Net cash used in investing activities	**(601,416)**	(560,279)

See accompanying notes to unaudited consolidated financial statements.

ING Bank, fsb and Subsidiaries

Consolidated Statements of Cash Flows (unaudited, continued)

(Dollars in thousands)

	Three Months Ended March 31,	
	2011	**2010**
Cash flows from financing activities		
Increase in deposits, net	**3,967,864**	3,012,732
Decrease in borrowings	**(63,000)**	(500,123)
Early termination of borrowings	**(266,220)**	(2,295,576)
Net cash provided by financing activities	**3,638,644**	217,033
Net increase in cash and cash equivalents	**3,309,784**	332,694
Cash and cash equivalents, beginning of period	**516,390**	2,606,477
Cash and cash equivalents, end of period	**$ 3,826,174**	$ 2,939,171
Supplemental disclosures of cash flow information		
Cash payments for interest	**$ 228,202**	$ 342,889
Cash payments for taxes	**11,046**	–
Supplemental disclosures of non-cash activities		
Transfer of loans resulting in receipt of securities	**$ 98,529**	$ 192,790
Transfer of loans to other real estate owned	**88,809**	80,253
Tax sharing agreement with the Corporation	**3,414**	2,842
Unsettled trades payable	**399,158**	470,198

See accompanying notes to unaudited consolidated financial statements.

Notes to Consolidated Financial Statements (unaudited)

(All dollar amounts presented in tables are in thousands)

1. Business

ING Bank, fsb (individually or together with its consolidated subsidiaries, the “Bank”), headquartered in Wilmington, DE, is a federal stock savings bank organized under the laws of the United States of America (“U.S.”). As a federal stock savings bank, the Bank is subject to the supervision and regulation of the Office of Thrift Supervision (the “OTS”) and is a member of the Federal Deposit Insurance Corporation (the “FDIC”). The Bank is a wholly owned subsidiary of ING DIRECT Bancorp (the “Corporation”), which in turn is an indirect wholly owned subsidiary of ING Groep, N.V. (the “Global Parent Company”).

The Bank’s strategy is to be a low-cost provider of financial services by offering clients simple and transparent products and excellent service. The Bank’s products and services consist of loan and deposit products, and investment and retirement services, delivered directly to customers throughout the U.S., principally over the telephone and through the Internet and by the U.S. mail and other delivery methods.

The Bank is the parent of ING DIRECT Securities, Inc. (“IDSI”). IDSI is the holding company for ShareBuilder Corporation, which is the parent of ShareBuilder Securities Corporation (the “Securities Company”). The Securities Company is a direct based broker-dealer of securities located in Seattle, Washington, is registered with the Securities and Exchange Commission (the “SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”). The Securities Company provides broker-dealer services to self-directed investors and employer sponsored 401(K) plans.

The Bank is the parent of ING DIRECT Insurance Agency, LLC (“Direct Insurance”), a limited liability company under Delaware law. Direct Insurance’s operations include making referrals to a principal insurance company. Direct Insurance had minimal activity with an immaterial effect on the unaudited consolidated financial results during the three months ended March 31, 2011 and 2010.

In order to get approval from the European Commission on the Global Parent Company’s restructuring plan, which was required as part of the process to receive approval for the government support measures for the Global Parent Company, the Global Parent Company announced on October 26, 2009 that it was required to divest the Bank by the end of 2013. The planned divestment of the Bank had no impact on the Bank’s unaudited Consolidated Financial Condition, Results of Operations or Cash Flows at and for the three months ended March 31, 2011 or the comparable reported prior year periods.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and the accompanying notes thereto, at and for the year ended December 31, 2010. The results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011 or any other future period.

The accounting and reporting policies of the Bank conform to generally accepted accounting principles in the United States ("GAAP") and to general practices within the banking industry. Financial Accounting Standards Board ("FASB") Accounting Standards Codification™ (the "Codification" or "ASC") is the sole source of authoritative GAAP recognized by the FASB. In addition, changes to the Codification are communicated through an Accounting Standards Update ("ASU").

Basis of Consolidation

The unaudited Consolidated Financial Statements include, after all intercompany balances and transactions have been eliminated, the accounts of the Bank and its wholly owned subsidiaries, including the Securities Company and Direct Insurance.

Use of Estimates

The preparation of the unaudited Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the value of the Bank's assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of income and expense. Significant estimates that are particularly susceptible to change in the near term include the allowance for loan losses, the amortization and accretion of premiums and discounts on loans, notes receivable and investments, goodwill, intangible assets, other real estate owned, income taxes and the related deferred tax asset, and the fair value of financial instruments, including the recognition of other-than-temporary impairment ("OTTI") charges. Current market conditions, including unemployment rates and the general performance of the housing sector, increase the risk and complexity in the judgments of these estimates. Actual results may differ from these estimates under different assumptions or conditions.

Reclassifications

Certain amounts in prior years have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income.

Recent Accounting Pronouncements

In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310): Clarifications to Accounting for Troubled Debt Restructurings by Creditors.* The update provides additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring ("TDR"), both for purposes of recording impairment and disclosing TDRs. A restructuring of a credit arrangement constitutes a TDR if the restructuring constitutes a concession, and the debtor is experiencing financial difficulties. The clarifications for classification apply to all restructurings occurring on or after January 1, 2011. For public entities, the measurement of impairment for those newly identified TDRs will be applied prospectively for the first interim or annual period beginning on or after June 15, 2011. The related disclosures will be required for the interim reporting period ending September 30, 2011. For non-public entities, the guidance is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The Bank is still in the process of evaluating the impact of the standard but does not anticipate a significant change in TDR balances upon application of the clarifying guidance. Adoption of this standard is therefore, not expected to have a significant impact on the Bank's financial position and results of operations.

In January 2011, the FASB issued ASU 2011-01, *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructuring in Update No. 2010-20*. Under ASU 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, which was issued in July 2010, public entity creditors would have provided disclosures about troubled debt restructurings for periods beginning on or after December 15, 2010. This guidance temporarily deferred the effective date for the troubled debt restructuring disclosures in ASU 2010-20 to be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restructuring from ASU 2011-02. As the guidance amends only the disclosure requirements, it is not expected to impact the Bank's financial condition or results of operations.

In July 2010, the FASB issued ASU 2010-20 which amends ASC 310, *Receivables* by requiring disclosure which provides a greater level of disaggregated information about the credit quality of financing receivables and related allowance for credit losses as well as certain other information on amounts past due, modifications, redefaults, and additional other information. The disclosures required by this guidance are effective for annual periods ending after December 15, 2011 for

non-public entities. For public entities, the disclosures as of the end of the reporting period are effective for interim and annual periods ending on or after December 15, 2010 and the disclosures about activity that occurs during a reporting period are effective for interim and annual periods beginning on or after December 15, 2010. The Bank did not elect to early adopt ASU 2010-20. As the guidance amends only the disclosure requirements, it is not expected to impact the Bank's financial condition or results of operations.

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurement*, which amends ASC 820, *Fair Value Measurements and Disclosures*, by among other items, (1) requiring additional disclosures related to transfers in and out of Level 1 and Level 2 fair value measurements, including the reasons for the transfers and (2) a gross presentation of purchases, sales, issuances and settlements activity within the reconciliation for fair value measurements using significant unobservable inputs (Level 3). Additionally, this guidance clarifies the disclosure requirements related to the level of disaggregation and valuation techniques and inputs of recurring and non-recurring fair value measurements. The guidance was effective for the first interim or annual period beginning after December 15, 2009, except for the gross presentation of purchases, sales, issuances and settlements in the Level 3 roll forward, which was required for interim and annual periods beginning after December 15, 2010. The Bank adopted the initial disclosure requirements on January 1, 2010 and the gross presentation disclosures on January 1, 2011. The guidance did not have an impact on the Bank's financial condition or results of operations.

3. Cash and Cash Equivalents

Cash and cash equivalents include deposits at the Federal Reserve Bank and money market funds, which are reported in interest-bearing deposits in other banks. These accounts represent excess liquid funds for the Bank. At March 31, 2011 and December 31, 2010, the Bank had $3.8 billion and $420.4 million, respectively, of deposits at the Federal Reserve Bank.

The Bank is required to maintain an average reserve balance, as established by the Federal Reserve Bank. The amounts of those reserve balances for the reserve computational periods at March 31, 2011 and December 31, 2010 were $1.2 million and $4.5 million, respectively. Further, the Bank maintained a clearing reserve balance with the Federal Reserve Bank in the amount of $10.0 million at March 31, 2011 and December 31, 2010.

4. Investment Securities

The following table provides the amortized cost and estimated fair value of the Bank's available-for-sale and held-to-maturity investment securities at March 31, 2011 and December 31, 2010:

(All dollar amounts presented in tables are in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2011				
Available-for-sale securities				
Government obligations:				
Government guaranteed securities	$ 6,835,541	$ 92,924	$ (467)	$ 6,927,998
U.S. Treasuries	2,540,115	65,420	–	2,605,535
Mortgage-backed securities:				
Agency pass-through securities	14,834,215	204,053	(36,386)	15,001,882
Prime	879,640	2,315	(46,603)	835,352
Alt-A	3,407,618	45,176	(594,903)	2,857,891
Commercial	287,416	7,689	(14,448)	280,657
Subprime	146,018	814	(62,060)	84,772
Covered Bonds	100,000	–	–	100,000
Mutual funds	16,525	267	(128)	16,664
Total available-for-sale securities	29,047,088	418,658	(754,995)	28,710,751
Held-to-maturity securities				
Mortgage-backed securities:				
Agency pass-through securities	10,179	470	–	10,649
Commercial	832,774	53,893	(27)	886,640
Total held-to-maturity securities	842,953	54,363	(27)	897,289
Total investment securities	$ 29,890,041	$ 473,021	$ (755,022)	$ 29,608,040

(All dollar amounts presented in tables are in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2010				
Available-for-sale securities				
Government obligations:				
Government guaranteed securities	$ 6,917,223	$ 104,638	$ (622)	$ 7,021,239
U.S. Treasuries	1,931,845	81,179	–	2,013,024
Mortgage-backed securities:				
Agency pass-through securities	13,791,815	246,689	(20,693)	14,017,811
Prime	974,389	1,272	(56,719)	918,942
Alt-A	3,658,629	34,139	(707,255)	2,985,513
Commercial	288,948	5,138	(31,485)	262,601
Subprime	147,208	802	(67,972)	80,038
Mutual funds	16,346	375	(109)	16,612
Total available-for-sale securities	27,726,403	474,232	(884,855)	27,315,780
Held-to-maturity securities				
Mortgage-backed securities:				
Agency pass-through securities	12,752	645	–	13,397
Commercial	921,822	68,195	(37)	989,980
Total held-to-maturity securities	934,574	68,840	(37)	1,003,377
Total investment securities	$ 28,660,977	$ 543,072	$ (884,892)	$ 28,319,157

Included in the Bank’s accrued interest receivable in the unaudited Consolidated Statements of Financial Condition were $96.5 million and $79.6 million of accrued interest receivable on investment securities at March 31, 2011 and December 31, 2010, respectively. As of March 31, 2011 and December 31, 2010, the Bank held available-for-sale debt securities issued by foreign governments and institutions, including the International Bank for Reconstruction and Development, an affiliate of the World Bank, and the European Investment Bank, with a fair value of $1.2 billion and $1.1 billion, respectively, which are classified in the table above as government guaranteed securities.

Contractual Maturities

The amortized cost and fair value of the Bank's investment securities, by contractual maturity, at March 31, 2011 are shown in the following table. Actual maturities may differ from contractual maturities as borrowers may have the right to prepay obligations with or without prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
March 31, 2011				
Due in one year or less	$ 2,099,500	$ 2,112,043	$ –	$ –
Due after one year through five years	6,387,468	6,500,783	–	–
Due after five years through ten years	888,688	920,707	–	–
Due after ten years	–	–	–	–
Total investment securities, excluding mortgage-backed securities and mutual funds	9,375,656	9,533,533	–	–
Mortgage-backed securities	19,654,907	19,160,554	842,953	897,289
Mutual funds	16,525	16,664	–	–
Total investment securities	$29,047,088	$28,710,751	$ 842,953	$897,289

Securities Gains and Losses

Net realized gains and losses from sales of available-for-sale securities for the three months ended March 31, 2011 and 2010 are as follows:

	Three Months Ended March 31,	
	2011	2010
Realized gains	**$ 4,739**	$ 31,286
Realized losses	**–**	–
Net realized gains	**$ 4,739**	$ 31,286

During the three months ended March 31, 2011 and 2010, the Bank sold available-for-sale securities with an amortized cost of $355.0 million and $553.8 million, respectively, to unrelated third parties. The realized gain on these sales for the three months ended March 31, 2011 and 2010 was $4.7 million and $31.3 million, respectively.

The net realized gains included in the table above were reclassified from other comprehensive income, net of deferred tax assets. During the three months ended March 31, 2011 and 2010, the reclassification adjustment for realized gains, net of deferred tax asset, was $2.8 million and $22.4 million, respectively.

Securities Impairment

The following table provides the fair value and unrealized losses for the Bank's investment securities, aggregated by category and length of time the individual security has been in continuous loss position, as of March 31, 2011 and December 31, 2010:

	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
March 31, 2011						
Available-for-sale securities						
Government obligations:						
Government guaranteed securities	$ 85,797	$ (467)	$ –	$ –	$ 85,797	$ (467)
Mortgage-backed securities:						
Agency pass-through securities	6,124,571	(35,647)	91,292	(739)	6,215,863	(36,386)
Prime	131,345	(2,932)	548,499	(43,671)	679,844	(46,603)
Alt-A	131,272	(7,333)	1,988,818	(587,570)	2,120,090	(594,903)
Commercial	7,019	(15)	87,601	(14,433)	94,620	(14,448)
Subprime	–	–	83,549	(62,060)	83,549	(62,060)
Mutual funds	4,938	(128)	–	–	4,938	(128)
Total available-for-sale securities	$6,484,942	$ (46,522)	$2,799,759	$ (708,473)	$9,284,701	$(754,995)
Held-to-maturity securities						
Mortgage-backed securities:						
Commercial	$ 36,811	$ (27)	$ –	$ –	$ 36,811	$ (27)
Total held-to-maturity securities	$ 36,811	$ (27)	$ –	$ –	$ 36,811	$ (27)

	Less than 12 Months		12 Months or Longer		Total	
	Estimated Fair Value	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
December 31, 2010						
Available-for-sale securities						
Government obligations:						
Government guaranteed securities	$ 85,726	$ (622)	$ –	$ –	$ 85,726	$ (622)
Mortgage-backed securities:						
Agency pass-through securities	2,270,697	(19,913)	107,338	(780)	2,378,035	(20,693)
Prime	114,725	(2,678)	697,401	(54,041)	812,126	(56,719)
Alt-A	144,853	(7,210)	2,238,092	(700,045)	2,382,945	(707,255)
Commercial	12,228	(58)	114,792	(31,427)	127,020	(31,485)
Subprime	–	–	78,762	(67,972)	78,762	(67,972)
Mutual funds	4,917	(109)	–	–	4,917	(109)
Total available-for-sale securities	$2,633,146	$ (30,590)	$3,236,385	$ (854,265)	$5,869,531	$(884,855)
Held-to-maturity securities						
Mortgage-backed securities:						
Commercial	$ 58,847	$ (37)	$ –	$ –	$ 58,847	$ (37)
Total held-to-maturity securities	$ 58,847	$ (37)	$ –	$ –	$ 58,847	$ (37)

Included in the prior table are unrealized losses on 997 and 929 securities as of March 31, 2011 and December 31, 2010, respectively. The unrealized losses on investment securities can be attributed to credit risk and other factors including the difference between the stated coupons on the securities and the current market interest rates available for comparable securities, and current market conditions.

Other-than-Temporary Impairment

The Bank recognizes OTTI for debt securities in accordance with ASC 320, *Investments-Debt and Equity Securities*, which requires the Bank to assess whether (a) the Bank has the intent to sell the security, (b) it is more likely than not that the Bank will be required to sell the security before the recovery of its cost basis less any credit losses or (c) it does not expect to recover the entire amortized cost basis of the security. If the Bank does not intend to sell, and it is more likely than not that the Bank will not be required to sell a debt security before recovery of its cost basis, the guidance requires a company to bifurcate the OTTI into (a) the amount representing

credit loss and (b) the amount related to all other factors. The amount of OTTI related to credit loss is recognized in earnings and the amount related to all other factors is recognized in other comprehensive income or (loss), net of applicable tax. Securities with an unrealized loss that are determined to be other-than-temporary and the Bank intends to sell or it is more likely than not that the Bank will be required to sell before the recovery of a security's cost basis are written down to fair value with the entire amount recognized in earnings.

For mortgage-backed securities, credit impairment is assessed using a model that estimates the cash flows of each security's underlying mortgage collateral. These estimated cash flows are distributed to the various tranches of securities, considering the transaction structure, any subordination and credit enhancements that exist in that structure. The cash flow model incorporates actual cash flows on the mortgage-backed securities through the current period and then projects the remaining cash flows using a number of assumptions, including default rates, loss severity rates, prepayment rates and recovery rates.

Management develops specific assumptions using market data, internal estimates as well as estimates published by rating agencies and other third-party sources. Default rates for the seriously delinquent loans, which are those loans that are greater than 60 days delinquent, are projected by considering current underlying mortgage loan performance. Cumulative loss results are determined by vintage and sector using internal research along with third-party information and these results are used to determine terminal constant default rates ("CDR").

The key base assumptions for private label residential mortgage-backed securities as of March 31, 2011 and December 31, 2010 are summarized in the following table:

	March 31, 2011	**December 31, 2010**
Loss Severity		
Prime	**35 to 42.5%**	35 to 42.5%
Alt-A	**45 to 57.5%**	40 to 57.5%
Subprime	**65 to 70%**	65 to 70%
Prepayment Rate		
Prime	**12 for life**	12 for life
Alt-A	**2 for 36 months then 6 for life to 10 for life**	2 for 36 months then 6 for life to 10 for life
Subprime	**4 for 36 months then 6 for life**	4 for 36 months then 6 for life
Terminal CDR		
Prime	**0.32 to 5.61**	0.32 to 5.61
Alt-A	**0.87 to 15.91**	0.87 to 15.91
Subprime	**3.18 to 21.80**	3.18 to 21.80

The key cash flow assumptions used for determining the impairment of commercial mortgage-backed securities as of March 31, 2011 and December 31, 2010 are summarized in the table below:

	March 31, 2011	**December 31, 2010**
Seriously Delinquent Loans	**60+ day past due**	60+ day past due
Default Rate	**100%**	100%
Loss Severity	**40%**	40%
Liquidation period	**18 months**	18 months
Not Seriously Delinquent Loans	**Less than 60 days past due**	Less than 60 days past due
Default Rate	**100% of loans with debt service coverage ratio < 1.0x in 12 months**	100% of loans with debt service coverage ratio < 1.0x in 12 months
Loss Severity	**40%**	40%
Liquidation period	**18 months**	18 months

These assumptions are subject to change based on management's assessment of facts and circumstances which support a change in the key assumptions for a specific security. Multiple scenarios are run using a range of default estimates. Sensitivity tests are also conducted using observed data for specific securities. Other factors used to assess securities include: rating agency loss projections, ratings, integrity of the capital structure in terms of subordinate bonds and current market prices. Management assesses these results (including the likelihood of the stress scenario actually occurring based on the underlying pool's characteristics and performance) to determine whether the Bank expects to recover the amortized cost basis of the security. If cash flow projections indicate that the Bank does not expect to recover its amortized cost basis, the Bank recognizes the estimated credit loss in earnings.

Changes in the Credit Loss Component of the Credit-Impaired Debt Securities

The following table provides activity for the three months ended March 31, 2011 and 2010 related to the credit component of OTTI on debt securities held by the Bank for which a portion of the OTTI was recognized in accumulated other comprehensive income:

	Alt-A	Prime	CMBS	Subprime	Total
Cumulative credit component of OTTI at December 31, 2009	$ 870,114	$ 3,922	$ –	$ 42,554	$ 916,590
Additions to credit component of OTTI for the credit losses on debt securities:					
Additions for credit component on debt securities for which OTTI was not previously recognized	4,380	755	–	–	5,135
Additions for credit losses on debt securities for which OTTI was previously recognized	22,097	–	–	–	22,097
Total additions to credit component of OTTI for the credit losses on debt securities	26,477	755	–	–	27,232
Cumulative credit component of OTTI at March 31, 2010	$ 896,591	$ 4,677	$ –	$ 42,554	$ 943,822
Cumulative credit component of OTTI at December 31, 2010	$ 925,313	$ 1,491	$ 11,381	$ 42,554	$ 980,739
Additions to credit component of OTTI for the credit losses on debt securities:					
Additions for credit component on debt securities for which OTTI was not previously recognized	94	–	–	–	94
Additions for credit losses on debt securities for which OTTI was previously recognized	17,283	–	1,343	–	18,626
Total additions to credit component of OTTI for the credit losses on debt securities	17,377	–	1,343	–	18,720
Cumulative credit component of OTTI at March 31, 2011	**$ 942,690**	**$ 1,491**	**$ 12,724**	**$ 42,554**	**$ 999,459**

For the three months ended March 31, 2011 and 2010, actual bond cash losses amounted to $12.2 million and $1.8 million, respectively.

The credit loss component represents the difference between the present value of expected future cash flows and the amortized cost basis of the security prior to considering credit losses. OTTI recognized in earnings for credit-impaired debt securities is presented as additions in two components based upon whether the current period is the first time the debt security was credit impaired (initial credit impairment) or is not the first time the debt security was credit impaired (subsequent credit impairments). During the three months ended March 31, 2011 and 2010, credit losses of $18.7 million and $27.2 million were recognized through earnings.

5. FHLB Stock

FHLB stock is equity securities owned in the Pittsburgh member bank of the Federal Home Loan Bank ("FHLB") system. Unlike other types of stock, it is acquired primarily for the right to receive advances rather than for the purpose of maximizing dividends or investment growth. FHLB stock is an activity-based stock that is directionally proportional to the volume of advances. The FHLB stock is restricted in that it can only be redeemed by the issuer at par value. These non-readily marketable equity securities are carried at cost, which is deemed to approximate fair value, and evaluated for impairment in accordance with ASC 942-325, *Financial Services – Depository and Lending – Investments – Other*. The Bank does not believe that the FHLB stock was impaired as of March 31, 2011 and December 31, 2010. In February 2011, the FHLB redeemed $22.7 million in stock at par value. The Bank held $432.0 million and $454.7 million of FHLB Pittsburgh common stock at March 31, 2011 and December 31, 2010, respectively.

6. Notes Receivable

On January 26, 2009, the Global Parent Company and the Dutch government ("Dutch State") announced that they reached an agreement on an Illiquid Assets Back-Up Facility ("Facility") term sheet. The transaction was approved by various regulatory agencies and closed on March 31, 2009. The Facility covers the Alt-A portfolio of the Global Parent Company, including the Bank's Alt-A portfolio. Under the terms of the Facility, the Global Parent Company transferred 80% of the economic ownership of the Global Parent Company's Alt-A portfolio to the Dutch State at a price equal to 90% of par value in exchange for a receivable from the Dutch State.

Simultaneous with the closing of the Facility, the Bank sold an 80% undivided participation ("Participation") interest in approximately $33.7 billion par value of Alt-A residential mortgage-backed securities owned by the Bank to ING Support Holdings B.V. ("Dutch Co."), a wholly

owned subsidiary of the Global Parent Company. The transaction was accounted for as a sale in accordance with ASC 860. The notional amount of the receivable from the Dutch State was $24.3 billion, or 90% of the par value with respect to the 80% Participation interest. As consideration, the Bank was assigned the right to receive the guaranteed payment stream from the Dutch State under the Facility. The Bank is also entitled to receive a payment from Dutch Co. on a yearly basis, in February, and is required to make a payment to Dutch Co. on a yearly basis, in February, whose value on a discounted basis must be equal to a predefined amount.

Included in this transaction were $387.1 million in amortized cost of Alt-A securities that were previously classified as held-to-maturity and $24.5 billion classified as available-for-sale. As a result of the transaction, 80% of the Alt-A portfolio was derecognized from the Bank's consolidated statement of financial condition in 2009 and two notes receivable from the Dutch State were recognized.

As part of the notes receivable, the Bank also recorded a net premium of $798.1 million for the excess of fair value over par value on the note. The premium is amortized to income as an adjustment to yield over the contractual maturity of the notes receivable. During the three months ended March 31, 2011 and 2010, the Bank recorded net premium amortization of $29.8 million and $33.0 million, respectively, which was included in interest income on the notes receivable.

As of March 31, 2011 and December 31, 2010, the details of the notes receivable, including the notional balance and unamortized premium, are as follows:

	March 31, 2011	**December 31, 2010**
Notional amount:		
Fixed rate note receivable(1)	**$ 6,229,757**	$ 6,768,618
Variable rate note receivable(2)	**7,443,736**	8,213,856
Total notional amount	**13,673,493**	14,982,474
Unamortized premium	**504,249**	534,047
Total notes receivable	**$14,177,742**	$ 15,516,521
Accrued interest receivable(3)	**$ 26,709**	$ 29,221

(1) The fixed rate note receivable earns interest of 3.50%

(2) The variable rate note receivable earns interest based upon the one-month London Interbank Offered Rate ("LIBOR") plus 50 basis points. The rate resets monthly and was equal to 0.75% and 0.76% at March 31, 2011 and December 31, 2010, respectively.

(3) Amount is included in accrued interest receivable in the unaudited Consolidated Statements of Financial Condition.

The Bank recognized interest income on the notes receivable of $13.4 million and $50.3 million, net of premium amortization and other adjustments, during the three months ended March 31,

2011 and 2010, respectively. This resulted in a weighted-average yield of 0.36% and 1.02% during the respective periods.

The methodology used to determine fair value for these assets is disclosed in Note 24.

7. Loans

The table below summarizes the gross and net loan balances as of March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Loans[1] :		
Residential mortgages[2]	**$ 40,219,055**	$ 39,299,507
Home equity	**475,266**	496,232
Guaranteed loans	**423,415**	428,838
Margin lending	**89,691**	74,503
Construction	**64,020**	63,671
Consumer	**48,209**	47,297
Other loans and advances	**102,649**	47,459
Gross loans	**41,422,305**	40,457,507
Allowance for loan losses	**(427,923)**	(439,010)
Net loans	**$ 40,994,382**	$ 40,018,497

(1) Amount includes $102.6 million and $100.7 million of unamortized net premium and net deferred costs at March 31, 2011 and December 31, 2010, respectively, which are netted within the respective loan category.

(2) Included in the residential mortgages at March 31, 2011 and December 31, 2010 are products consisting of adjustable rate and interest-only residential mortgage loans. In addition, residential loans at March 31, 2011 and December 31, 2010 also include loans held for sale of $1.2 million and $637,000, respectively.

Included in the table are lending products whose terms may give rise to additional credit risks. These include interest-only mortgages and other non-traditional mortgages. These products are closely managed via credit controls that mitigate their additional inherent risk. Included in accrued interest receivable in the unaudited Consolidated Statements of Financial Condition at March 31, 2011 and December 31, 2010 was $123.6 million and $120.2 million, respectively, of accrued interest income on loans.

The Bank accounts for impaired loans in accordance with ASC 310-10. Impaired loans include non-accrual loans and loans that have been modified in a troubled debt restructuring ("TDR"). Loans are placed on non-accrual status if, in the opinion of management, collection is doubtful or when principal or interest is past due 90 days or more. A TDR is a type of loan modification where a concession, such as a rate reduction, a payment deferral or other actions which are intended to maximize collection from the borrower, is granted to a borrower experiencing financial difficulties.

ASC 310-10 requires a creditor to measure impaired loans based on the present value of expected future cash flows, the market price of the loan, or the fair value of the underlying collateral if the loan is collateral-dependent. The Bank recognizes income on impaired loans when there is reasonable assurance of repayment and performance. In addition, TDR loans are returned to accrual status when the borrower shows sustained repayment performance for a reasonable time. The Bank believes the timeframe necessary to demonstrate sustained repayment is once six consecutive on-time payments have been made by the borrower and the account has been brought current. If these factors do not exist, the Bank will recognize income on such loans on a cash basis.

The following table provides a summary of the Bank's impaired loans and non-performing assets, which include non-performing loans (defined as non-accrual loans and non-performing TDRs which include TDRs which have not been returned to accrual status) and other real estate owned as of March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Non-performing assets:		
Non-performing loans:		
Non-accrual loans	**$ 896,311**	$ 980,429
Troubled debt restructuring	**580,997**	601,550
Total non-performing loans	**1,477,308**	1,581,979
Other real estate owned	**238,010**	270,263
Total non-performing assets	**$ 1,715,318**	$ 1,852,242
Performing – troubled debt restructuring	**$ 1,688,772**	$ 1,605,623
Non-performing loans as a % of loans outstanding	**3.57%**	3.91%
Impaired loans:		
Impaired loans with related allowances for loan losses	**$ 2,494,504**	$ 2,422,572
Impaired loans with no related allowance for loan losses[(1)]	**671,576**	765,030
Total impaired loans	**$ 3,166,080**	$ 3,187,602
Allowance for loan losses related to impaired loans	**$ 227,830**	$ 209,298

(1) These consist primarily of collateral dependent loans and are carried at the lower of cost or fair value of the underlying collateral less cost to sell. Therefore the loans do not have a related allowance for loan loss.

As part of the Bank's loss mitigation process, loans may be renegotiated in a TDR when the Bank determines that greater economic value will ultimately be recovered under the new terms than through foreclosure, liquidation, or bankruptcy. The Bank considers the borrower's payment status, payment history, credit score, and other relevant factors in determining whether a borrower is experiencing financial difficulty. As of March 31, 2011 and December 31, 2010, the

Bank had 4,740 and 4,545, respectively, of restructured loans with an outstanding principal balance of $2.3 billion and $2.2 billion, respectively. Forgone interest on the Bank's TDR loans was $7.7 million and $10.4 million for the three months ended March 31, 2011 and 2010, respectively. Included in the provision for loan losses for the three months ended March 31, 2011 and 2010 is $5.8 million and $11.3 million, respectively, related to the Bank's TDR loans.

The following provides further information on the Bank's TDR loans at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
TDR loans outstanding	**$ 2,269,769**	$ 2,207,173
Present value of forgone interest classified in allowance for loan losses	**55,933**	59,873
Number of loans restructured	**4,740**	4,545

	Three Months Ended March 31,	
	2011	2010
Average TDR loans outstanding	**$ 2,226,307**	$ 1,781,148

Guaranteed Loans

The Bank has $423.4 million and $428.8 million of guaranteed loans at March 31, 2011 and December 31, 2010, respectively, which were previously acquired in 2009 from ING Capital, LLC, an indirect wholly owned subsidiary of the Global Parent Company. The guaranteed loans have maturities ranging from approximately six to nine years, and carry interest rates equal to LIBOR plus a spread ranging from 0 to 15 basis points. The guaranteed loans are 100% guaranteed by the Export-Import Bank of the United States ("Ex-Im Bank"). Ex-Im Bank coordinates fixed-rate loans covering up to 85% of the U.S. contract value directly to foreign buyers of U.S. goods and services. In the event of a payment default by the borrower, Ex-Im Bank will pay the holder of the guaranteed loans the outstanding principal and interest on the loan.

Margin Lending

Margin lending consists of the Securities Company's margin lending product. The balance represents loans to eligible customers which are collateralized by their respective security and cash holdings. Margin lending is subject to the margin rules of the Board of Governors of the Federal Reserve System ("Federal Reserve"), the margin requirements of FINRA, and the Securities Company's internal policies.

Other Loans and Advances

During the three months ended March 31, 2011 and the year ended December 31, 2010, the Bank advanced $153.9 million and $686.2 million, respectively, to a third party in order to securitize Community Reinvestment Act (“CRA”) qualified mortgage loans into investment securities. Once securitized, the Bank receives mortgage-backed securities with an equivalent notional amount in exchange. The mortgage-backed securities are backed by government or quasi-government agencies. The Bank had $82.9 million and $27.7 million of advances outstanding at March 31, 2011 and December 31, 2010, respectively, for which it had not yet received the equivalent of investment securities or cash.

The recorded investment in these securities at the time of the securitization is based on the amounts advanced to the third party. Subsequent to the date of the securitization, the securities are carried at their estimated fair value. The assets are classified as available-for-sale securities and are included in the disclosures in Note 4.

During the three months ended March 31, 2011, the Bank received $70.8 million of investment securities and $200,000 in cash to satisfy advances made during 2011. The fair value of these investment securities totaled $70.4 million as of March 31, 2011. In addition, the Bank received $27.7 million of investment securities to satisfy the advances outstanding as of December 31, 2010. There was one security, valued at $13.4 million upon receipt, which was subsequently also sold during the first quarter 2011. The fair value of the remaining investment securities received to satisfy 2010 advances was $14.4 million as of March 31, 2011.

8. Allowance for Loan Losses

The allowance for loan losses is maintained at a level that, in management’s judgment, is the Bank’s best estimate of known and inherent losses in the loan portfolio as of the reporting date. Management considers various factors when estimating the allowance for loan losses, including historical charge-off experience, adjusted for any known trends in the portfolio, consideration of peer experience if the Bank’s experience is limited, current economic conditions, and other relevant factors that might impact the ability of borrowers to repay. The loan loss reserve methodology, specific to residential mortgages, considers at a more granular level, origination channel, estimated current loan-to-value and potential outcomes, which include natural cures, loan modifications, short sales, or foreclosures.

The following table summarizes the activity in the allowance for loan losses for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	**2010**
Beginning balance	**$ 439,010**	$ 805,022
Provision for loan losses	**115,545**	128,177
Charge-offs	**(118,594)**	(89,982)
Recoveries	**1,680**	1,153
Net charge-offs	**(116,914)**	(88,829)
TDR interest accretion	**(9,718)**	(6,772)
Ending balance	**$ 427,923**	$ 837,598
Net charge-offs as a % of average loans	**1.14%**	0.92%

Included in the allowance for loan losses at March 31, 2011 and 2010 is $55.9 million and $54.1 million, respectively, related to TDR loans, which represents the present value of the forgone interest due to the loan modifications. The valuation allowance on the forgone interest is determined by discounting expected cash flows at the respective loan's effective interest rate. Accordingly, the valuation allowance for these impaired loans decreases with the passage of time and the reduction is recognized as interest income.

During the second quarter of 2010, the Bank revised its estimated timing of the charge-off of delinquent loans. As a result of the change, the Bank accelerated $434.7 million of delinquent loan charge-offs during the year ended December 31, 2010, which would have been previously recorded at the time of foreclosure, to 180 days past due, which the Bank believes is a better estimate of the point in time when a loan becomes uncollectible. This did not have a material impact on the Bank's consolidated statement of operations for the year ended December 31, 2010 as these charge-offs had been previously provided for in the Bank's allowance for loan losses through the provision for loan losses, in accordance with ASC 310 guidance on accounting for impaired loans. In addition, there was no material impact to the Bank's reported net loans on the consolidated statement of financial condition at December 31, 2010 as the Bank's loans decreased with an offsetting decrease to the allowance for loan losses.

If the Bank had not changed its estimated timing of the charge-off of delinquent loans, net charge-offs for the three months ended March 31, 2011 and the allowance for loan losses at March 31, 2011 would have been $99.5 million and $880.0 million, respectively. Net charge-offs as a percentage of average loans would have been 0.97% for the three months ended March 31, 2011.

As of March 31, 2011, the Bank has $5.7 million of pending mortgage insurance claims which have been submitted to the insurance carrier for approval. During the first quarter 2011, the Bank received $1.0 million, after the deductibles were met, related to mortgage insurance claims.

Upon actual receipt of the funds related to the insurance claims, they are recognized in earnings as recoveries, in accordance with treatment of accounting for a gain contingency, per ASC 450-30, *Contingencies – Gain Contingencies*.

9. Premises and Equipment

The following table summarizes the premises and equipment as of March 31, 2011 and December 31, 2010:

	March 31, 2011	**December 31, 2010**
Leasehold and building improvements	**$ 65,767**	$ 65,665
Computer software	**101,489**	95,582
Computer equipment	**53,972**	51,223
Furniture, fixtures, and equipment	**15,918**	16,489
Total premises and equipment	**237,146**	228,959
Less: accumulated depreciation and amortization	**(152,038)**	(144,284)
Total premises and equipment, net	**$ 85,108**	$ 84,675

Depreciation and amortization expense on premises and equipment amounted to $7.9 million and $7.8 million for the three months ended March 31, 2011 and 2010, respectively.

Lease Commitments

Future minimum rental payments required under operating leases with non-cancelable lease terms that expire after March 31, 2011 are as follows:

	Amount
April 1, 2011 – December 31, 2011	$ 12,979
Year Ended December 31,	
2012	17,595
2013	16,976
2014	16,815
2015	17,094
2016 and thereafter	42,478
Total minimum lease payments	$ 123,937

Certain of the leases contain escalation clauses and renewal options. Rental expenses under operating leases were $3.6 million and $3.8 million for the three months ended March 31, 2011 and 2010, respectively, and were recognized on a straight-line basis and included in occupancy costs over the term of the lease.

10. Bank-Owned Life Insurance

The Bank owns two tranches of life insurance on certain management level employees of the Bank. The Bank is the beneficiary of these life insurance policies for which the entire premium is maintained in a separate account by the insurance carrier. In conjunction with the bank-owned life insurance, the Bank will pay a $50,000 benefit if an insured employee dies while actively employed or retired from the Bank.

For the three months ended March 31, 2011 and 2010, the Bank recorded income related to the increase in net cash surrender value of bank-owned life insurance of $10.3 million and $9.5 million, respectively.

As of March 31, 2011 and December 31, 2010, the Bank owned $1.1 billion in cash surrender value associated with the bank-owned life insurance.

As of March 31, 2011 and December 31, 2010, the Bank recorded a liability of $1.3 million for death benefits to covered employees that extend into postretirement periods which is included within other liabilities.

11. Other Assets

The other assets balance as of March 31, 2011 and December 31, 2010 includes the following:

	March 31, 2011	December 31, 2010
Other real estate owned	**$ 238,010**	$ 270,263
Cash surrender value on key life insurance plans	**21,633**	19,802
Mortgage-backed security principal receivable	**11,696**	16,327
Other assets	**35,362**	22,248
Total other assets	**$ 306,701**	$ 328,640

Other real estate owned represents properties the Bank has repossessed from borrowers who defaulted on their residential mortgage obligations. These properties are carried at the lower of cost or fair value less cost to sell. The Bank had 910 and 978 properties in other real estate owned at March 31, 2011 and December 31, 2010, respectively. The Bank recorded $9.5 million and $1.7 million in other real estate owned expense, net, which includes any gain or loss on disposition, write-downs on properties, as well as operating expenses, during the three months ended March 31, 2011 and 2010, respectively.

The table below summarizes the activity in other real estate owned for the three months ended March, 31 2011 and 2010:

	Three Months Ended March 31,	
	2011	**2010**
Beginning balance	**$ 270,263**	$ 96,572
Acquired through foreclosure	**88,809**	80,253
Sales	**(111,148)**	(43,626)
Write-downs on properties held	**(9,914)**	(3,134)
Ending balance	**$ 238,010**	$ 130,065
Beginning number of properties	**978**	355
Properties acquired through foreclosure	**389**	286
Properties sold	**(457)**	(185)
Ending number of properties	**910**	456

The Bank owned $21.6 million and $19.8 million in variable universal life insurance policies as of March 31, 2011 and December 31, 2010, respectively. These policies insure key members of management, and the Bank is the owner and beneficiary of these insurance contracts. The assets are recorded at cash surrender value, less the current contingent deferred cash surrender charge with changes reflected in current period earnings.

The mortgage-backed security principal receivable at March 31, 2011 and December 31, 2010 relates to principal paydowns on mortgage-backed securities, which are collected within 45 days of period-end. The Bank had $11.7 million and $16.3 million of mortgage-backed security principal receivable at March 31, 2011 and December 31, 2010.

12. Goodwill and Intangibles

Goodwill

The Bank recorded goodwill as a result of the purchase of the Securities Company in 2007. Goodwill at March 31, 2011 and December 31, 2010 was $119.7 million. Based upon the Bank’s annual review for impairment, it does not believe that goodwill was impaired at December 31, 2010.

Identifiable Intangible Assets

The gross carrying values and accumulated amortization related to identifiable intangible assets at March 31, 2011 and December 31, 2010 are presented below:

	March 31, 2011			December 31, 2010		
	Gross	**Accumulated Amortization**	**Net**	**Gross**	**Accumulated Amortization**	**Net**
Identifiable intangible assets:						
Customer and partner relationships	**$ 76,500**	**$ (18,127)**	**$ 58,373**	$ 76,500	$ (16,784)	$ 59,716
Developed technology	**15,700**	**(10,598)**	**5,102**	15,700	(9,813)	5,887
Core deposit related to NetBank, fsb	**13,849**	**(13,849)**	**–**	13,849	(13,849)	–
Trade name and trademark	**10,600**	**(3,577)**	**7,023**	10,600	(3,312)	7,288
License	**1,500**	**(491)**	**1,009**	1,500	(455)	1,045
Total identifiable intangible assets	**$ 118,149**	**$ (46,642)**	**$ 71,507**	$ 118,149	$ (44,213)	$ 73,936

The weighted-average life for total amortizing identifiable intangible assets is 9.8 years as of March 31, 2011. Based upon the Bank's review for impairment, it does not believe that the intangible assets were impaired at March 31, 2011 and December 31, 2010.

The Bank had $2.4 million and $2.8 million of amortization expense for the three months ended March 31, 2011 and 2010, respectively. The following provides the projected amortization expense for intangible assets subsequent to March 31, 2011:

	Amount
Expected:	
April 1, 2011-December 31, 2011	$ 7,278
For the Year Ended December 31:	
2012	9,315
2013	6,567
2014	6,567
2015	6,567
2016 and thereafter	35,213
Total future amortization expense	$ 71,507

13. Deposits

The Bank's savings deposits include money market demand accounts and individual retirement accounts. The table below provides details on the Bank's interest-bearing deposit liabilities, by product, as of March 31, 2011 and December 31, 2010.

	March 31, 2011		December 31, 2010	
	Amount	Percent of Total	Amount	Percent of Total
Checking	**$ 15,043,109**	**18.4%**	$ 13,996,550	18.0%
Savings	**59,671,220**	**73.1**	56,047,928	72.1
Time – $250 and greater	**262,986**	**0.3**	294,371	0.4
Time – $100 to $249	**1,284,424**	**1.6**	1,443,738	1.9
Time – less than $100	**5,362,926**	**6.6**	5,874,214	7.6
Total deposits	**$ 81,624,665**	**100.0%**	$ 77,656,801	100.0%

A summary of the interest expense on deposits for the three months ended March 31, 2011 and 2010 are provided as follows:

	Three Months Ended March 31,	
	2011	2010
Checking	**$ 40,462**	$ 38,974
Savings	**150,966**	152,219
Time deposits	**22,919**	63,384
Total interest expense	$ 214,347	$ 254,577

The Emergency Economic Stabilization Act of 2008 ("EESA") temporarily raised the limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor, which was permanently raised to $250,000 per depositor as a result of the Reform Act signed into law on July 21, 2010. As of March 31, 2011 and December 31, 2010, the Bank had 19,309 and 17,159 of partially uninsured customers, respectively, with an aggregate balance of $2.6 billion and $2.2 billion, respectively, in excess of $250,000 per customer.

The table below summarizes the Bank's average deposit liability and weighted-average rate by product for the periods ended March 31, 2011 and December 31, 2010.

	Three Months Ended March 31,			
	2011		2010	
	Average Amount Outstanding	Weighted-Average Interest Rate	Average Amount Outstanding	Weighted-Average Interest Rate
Checking	**$14,535,326**	**1.13%**	$ 12,372,524	1.28%
Time deposits	**7,136,347**	**1.30**	11,836,646	2.17
Savings	**57,788,942**	**1.06**	52,450,689	1.18
Total deposits	**$79,460,615**	**1.09%**	$ 76,659,859	1.35%

Directors and executive officers of the Bank have deposits held by the Bank which were made on the same terms, including interest rates, as those prevailing at the time for other non-related party transactions. The outstanding amounts are included in deposits in the unaudited Consolidated Statements of Financial Condition and were not material to the Bank's financial results.

Time deposits as of March 31, 2011, by year of maturity, are as follows:

	Amount
2011	$ 5,542,132
2012	986,417
2013	289,120
2014	59,103
2015	27,882
2016 and thereafter	5,682
Total future maturities	$ 6,910,336

14. Borrowings

The table below summarizes the Bank's borrowings at March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Repurchase agreements		
Balance outstanding	**$ 750,000**	$ 1,000,000
Weighted-average rate	**4.71%**	4.71%
FHLB advances		
Balance outstanding	**$ –**	$ 63,000
Weighted-average rate	**–%**	3.20%

The following table provides details on the Bank's borrowings for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
Repurchase agreements		
Maximum month-end amount outstanding during the period	**$ 1,000,000**	$ 4,550,247
Average amount outstanding during the period	**958,333**	4,055,801
Weighted-average rate during the period	**4.71%**	4.70%
FHLB advances		
Maximum month-end amount outstanding during the period	**$ –**	$ 2,563,000
Average amount outstanding during the period	**11,900**	2,551,889
Weighted-average rate during the period	**3.19%**	4.24%

The Bank did not have any federal funds purchased outstanding during the three months ended March 31, 2011 and for the year ended December 31, 2010.

Interest expense on the Bank's borrowings for the three months ended March 31, 2011 and 2010 is as follows:

	Three Months Ended March 31,	
	2011	**2010**
Repurchase agreements	**$ 11,290**	$ 47,612
FHLB advances	**95**	27,057
Total interest expense on borrowings	**$ 11,385**	$ 74,669

Federal Home Loan Bank Advances

The Bank's borrowings from FHLB Pittsburgh matured during the first quarter of 2011. When held, all borrowings from FHLB Pittsburgh are secured by a blanket lien against FHLB defined qualified collateral, which includes the majority of the Bank's mortgage loans and securities portfolio.

FHLB Pittsburgh requires the Bank to deliver securities if it exceeds 50% of its maximum borrowing capacity. The Bank maintained stock in the Pittsburgh member bank of the FHLB system of $432.0 million and $454.7 million at March 31, 2011 and December 31, 2010.

At March 31, 2011, the Bank had a maximum borrowing capacity with FHLB Pittsburgh of $15.4 billion. Additionally, the Bank has an open ended monthly repurchase agreement with the FHLB Pittsburgh for $150.0 million which it did not utilize during the period ended March 31, 2011 or December 31, 2010.

Repurchase Agreements

Repurchase agreements have fixed rates ranging from 4.71% to 4.72% at March 31, 2011 and are due as follows:

	Amount	**Range of Interest Rates**
For the Period Ended March 31:		
2012	$ 750,000	4.71 to 4.72%
Total	$ 750,000	

As of March 31, 2011, borrowings from repurchase agreements were collateralized by marketable securities with a current par value of $828.0 million and a fair market value of $858.8 million. Collateral exposure is measured at the counterparty level.

As of December 31, 2010, borrowings from repurchase agreements were collateralized by marketable securities with a current par value of $1.1 billion and a fair market value of $1.2 billion. Collateral exposure was measured at the counterparty level.

Under the contract terms of FHLB advances and repurchase agreements, the Bank has the option to terminate FHLB advances or repurchase agreements with various counterparties if the Bank and the counterparty come to mutually agreeable terms. During the three months ended March 31, 2011, the Bank terminated one repurchase agreement at fair value. Payment for the early termination of the repurchase agreement was $266.2 million, resulting in a loss of $16.2 million. During the three months ended March 31, 2010, the Bank terminated four repurchase agreements and two FHLB advances at fair value. Payment for the early termination of the repurchase agreements was $1.2 billion, resulting in a loss of $26.1 million. Payment for the early termination of the FHLB advances were $980.5 million, resulting in a loss of $19.5 million.

15. Other Liabilities

The other liabilities balance as of March 31, 2011 and December 31, 2010 includes the following:

	March 31, 2011	**December 31, 2010**
Unsettled trades payable	**$ 399,158**	$ –
Income taxes payable	**229,337**	18,267
Intercompany payable	**37,074**	31,262
Compensation plan liability	**25,622**	24,413
Accrued compensation	**20,067**	40,564
Servicer principal and interest advances	**13,811**	9,961
Other liabilities	**108,965**	56,529
Total other liabilities	**$ 834,034**	$ 180,996

The unsettled trades payable represents securities purchases which have been recorded on the trade date whose settlement will be subsequent to the reporting date.

The income taxes payable at March 31, 2011 includes $217.5 million of federal income taxes expected to be paid as a result of the Internal Revenue Service's (the "IRS") audit of the 2009 federal income tax return. See Note 17 for further discussion of the IRS audit of the Bank's 2009 federal income tax return.

The intercompany payable of $37.1 million and $31.3 million at March 31, 2011 and December 31, 2010, respectively, is primarily due to an intercompany tax sharing agreement with the Corporation. The Corporation, which includes the Bank and its subsidiaries, files a consolidated federal income tax return. The amount of income tax expense or benefit is computed and allocated on a separate return basis.

Accrued compensation consists primarily of the Bank's incentive compensation program. The compensation plan liability includes amounts owed related to the Bank's deferred compensation plan and long-term incentive compensation plan. The Bank's compensation plan liability is unfunded as this is not a requirement for the Bank's specific deferred and long-term incentive compensation plans. While not funded, the Bank's cash surrender value on key life insurance plans with values of $21.6 million and $19.8 million at March 31, 2011 and December 31, 2010, respectively, as disclosed in Note 11 is maintained to offset the majority of the compensation plan liability.

Servicer principal and interest advances are associated with loans purchased and serviced by a third party, in accordance with a servicing contract. These advances represent payments remitted to the Bank, which have not yet been collected by the third party from the borrower. Other liabilities include deferred rent, accruals and other miscellaneous payables.

Other liabilities include amounts related to the Facility (see Note 6, *Notes Receivable*, for further detail related to the Facility), derivatives, and other miscellaneous accruals and payables.

16. Income Taxes

The table below summarizes income tax expense (benefit) for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	**2010**
Federal:		
Current	**$ 217,032**	$ (1,862)
Deferred	**(180,202)**	15,467
Total federal	**36,830**	13,605
State:		
Current	**4,623**	2,296
Deferred	**(6)**	553
Total state	**4,617**	2,849
Total income tax expense	**$ 41,447**	$ 16,454

The following table reconciles the expected tax expense at the statutory rate of 35% and actual tax expense for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,			
	2011		**2010**	
	Amount	**%**	**Amount**	**%**
Income before income taxes	**$ 100,947**		$ 57,985	
Tax expense computed at statutory rate	**35,331**	**35.0%**	20,295	35.0%
(Decrease) increase in expense/benefit resulting from:				
State taxes, net of federal benefit	**3,001**	**3.0**	1,852	3.2
Income from bank-owned life insurance	**(3,597)**	**(3.6)**	(3,330)	(5.7)
Interest on IRS audit, net of federal benefit	**7,378**	**7.3**	–	–
Requirement to adjust to projected full year tax rate	**(456)**	**(0.4)**	(2,679)	(4.6)
Other	**(210)**	**(0.2)**	316	0.5
Total income tax expense	**$ 41,447**	**41.1%**	$ 16,454	28.4%

The effective tax rate includes adjustments required to record income tax expense at the rate expected to occur for the full tax year. Since quarterly tax rates may be different from the rate projected for the year, ASC 740 requires interim tax expense to reflect the annual rate expected to be incurred.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following provides significant deferred tax assets and liabilities of the Bank at March 31, 2011 and December 31, 2010:

	March 31, 2011	**December 31, 2010**
Deferred tax assets:		
Accrued liabilities and other	**$ 31,109**	$ 38,130
Net operating loss and tax credit carryforwards	**298,161**	323,128
Net operating loss related to IRS settlement (see Note 17)	**206,136**	–
Book bad debt reserves – loans	**157,048**	161,117
Impairment on available-for-sale investment securities	**358,360**	355,972
Unrealized loss on available-for-sale investment securities	**141,892**	172,207
Total gross deferred tax assets	**1,192,706**	1,050,554
Deferred tax liabilities:		
Depreciation	**8,368**	8,368
Identifiable intangible assets	**24,674**	25,512
Premium on note receivable	**295,923**	318,180
Deferred loan costs	**7,820**	5,894
Total gross deferred tax liabilities	**336,785**	357,954
Less valuation allowance	**23,773**	13,760
Net deferred tax assets	**$ 832,148**	$ 678,840

Included in the previous table is the effect of certain temporary differences for which no deferred tax expense or benefit was recognized through the income statement, instead, the associated tax effect was recognized through equity. Such items consisted primarily of unrealized gains and losses on certain investments in debt securities accounted for under ASC 320 and ASC 310-40, as well as net deferred tax liabilities on intangible assets of $18.7 million that were recorded in 2007 related to the acquisition of the Securities Company.

The gross deferred tax asset was $1.2 billion and $1.1 billion at March 31, 2011 and December 31, 2010, respectively. The gross deferred tax asset at March 31, 2011 includes $206.1 million resulting from the proposed settlement with the IRS, as discussed in Note 17. The ability to realize deferred tax assets is dependent upon various factors, including the generation of future taxable income, the existence of taxes paid that are expected to be refunded, the reversal of deferred tax liabilities and tax planning strategies including those with the Global Parent Company. Based on the Bank's history of prior earnings and its expectations of the future, it is anticipated that operating income and the reversal pattern of its temporary differences will, more likely than not, be sufficient to realize a net deferred tax asset of $832.1 million at March 31, 2011.

At March 31, 2011, $9.4 million in gross deferred tax assets of the Bank were related to net operating losses and tax credits attributable to the Securities Company. The Bank has assessed a valuation allowance of $3.7 million on a portion of these deferred tax assets due to limitations imposed by the Internal Revenue Code (the "Code"). This valuation allowance was recorded during the purchase accounting adjustments related to the acquisition of the Securities Company.

The Bank had federal net operating loss carryforwards ("NOLs") of $1.3 billion at March 31, 2011. State NOLs are approximately $1.0 billion higher than the Federal NOLs and expire over the next 18 years. A valuation allowance of $20.1 million and $10.1 million as of March 31, 2011 and December 31, 2010, respectively, was recorded due to the uncertainty as to the ultimate realization of state tax benefits associated with these state NOLs. The expiration dates and amounts of such Federal NOL carryforwards as of March 31, 2011 are listed below:

	Amount
Expiration During the Year Ended December 31:	
2019	$ 22,404
2020	2,159
2021	176
2023	1
2024	12
2025	15
2026	5
2029	1,234,960
Total Federal NOL	$ 1,259,732

The Bank's ability to use its federal NOLs to offset future income is subject to restrictions enacted in Section 382 of the Code. These restrictions limit a company's future use of NOLs if there is a significant ownership change in a company's stock (an "Ownership Change").

17. Income Taxes – Recognition

ASC 740, *Income Taxes* prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information.

A tax position that meets the more likely than not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more likely than not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more likely than not recognition

threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. ASC 740-10-45 also provides guidance on the accounting for and disclosure of unrecognized tax benefits, interest and penalties.

As of March 31, 2011, there is $9.2 million of unrecognized tax benefits, all of which would affect the Bank's effective tax rate if recognized. The total amount of accrued interest and penalties included in such unrecognized tax benefits at March 31, 2011 were $2.0 million and $1.2 million, respectively. The unrecognized tax benefits are not expected to materially increase or decrease in 2011.

The following table reconciles the total amount of unrecognized tax benefits during the three months ended March 31, 2011:

	Amount
Balance at December 31, 2010	$ 9,973
Additions as a result of tax positions taken during prior years	–
Additions as a result of tax positions taken during current years	–
Reductions relating to settlements with taxing authorities	(821)
Balance at March 31, 2011	**$ 9,152**

The Bank's policy is to record interest and penalties on potential income tax deficiencies as an addition to its provision for income tax expense. As of March 31, 2011, tax years ending December 31, 2007 through 2010 tax returns are subject to examination by the IRS and, other than those mentioned further, tax years ending December 31, 2007 through 2010 are subject to examination by state examination. In July 2010, California notified the Bank that its 2007 and 2008 tax returns will be examined.

The IRS is currently auditing the Bank's 2009 federal income tax return. The primary focus of the audit is the loss on the sale of certain securities to the Dutch Co. In 2010, the Bank received a federal tax refund of $552.5 million as a result of carrying back this tax loss five years. While the Bank strongly believes in the merits of its technical arguments and believes the tax return positions taken should ultimately be sustained, subsequent to year-end the Bank proposed a non-binding settlement offer to the IRS whereby the tax loss will be respected but a portion of the loss realized on the sale of the securities to Dutch Co. will be carried forward rather than carried back. In April 2011, the IRS examination team indicated their willingness to accept the proposal. However, this settlement will be subject to approvals by the IRS Appeals Division and the Joint Committee on Taxation. Since the Bank now believes it is more likely than not that the required approvals will be obtained and the proposed settlement accepted, a current tax payable of $206.1 million was accrued during the quarter ended March 31, 2011 along with an offsetting deferred tax asset (DTA) of approximately the same amount. The Bank also recorded an interest

charge of $11.4 million through the income tax provision in the income statement as a result of the IRS settlement. Should the IRS decide not to settle and subsequently pursue denial of the net operating loss carry back claim, the Bank would reverse this accounting impact and continue to defend the original positions taken.

18. Employee Benefit Plans

The Bank maintains a defined contribution savings plan covering substantially all employees. The plan allows eligible employees to make contributions by salary deduction pursuant to the provisions of Section 401(k) of the Internal Revenue Code. Discretionary matching contributions by the Bank expensed in the unaudited Consolidated Financial Statements were $1.9 million and $1.8 million for the three months ended March 31, 2011 and 2010, respectively.

During the third quarter of 2010, the Bank implemented a Pension Plan for the benefit of all employees. The new plan, which is a Money Purchase Plan, supplements the Bank's current 401(k) Plan, as the contributions are 100% employer made. This qualified plan provides a uniform 5% contribution on applicable compensation, and investment of the funds is directed by the Bank. The plan has a six year graded vesting schedule with credit towards vesting provided for past service. Contributions expensed in the unaudited Consolidated Financial Statements were $1.1 million for the three months ended March 31, 2011.

In addition to the above plans, the Bank offers a non-qualified deferred compensation plan and a non-qualified long-term incentive compensation plan. Like the 401(k) plan, both of these plans provide participants with self-direction among the deemed investment options for their account balances.

The deferred compensation plan is offered to members of senior management. Qualified employees can elect to defer a portion of their compensation into the plan and receive a Bank match up to 6% of compensation. Changes in the notional value of the deferred compensation plan liability and matching credits are reflected in current period earnings. The outstanding liabilities to participating employees were $14.6 million and $13.7 million at March 31, 2011 and December 31, 2010, respectively and included within other liabilities in Note 15.

The long-term incentive compensation plan is offered to members of executive management. Upon successfully achieving Bank operation performance goals, annual incentive awards may be contributed by the Bank to accounts of eligible employees. Changes in the notional value of the long-term incentive compensation plan liability and the annual awards granted to participants are reflected in current period earnings. The outstanding liabilities to participating employees were $11.0 million and $10.7 million at March 31, 2011 and December 31, 2010, respectively and included within other liabilities in Note 15. All awards granted were fully vested as of December 31, 2010.

19. Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business. These financial instruments include commitments to extend credit to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the unaudited Consolidated Statements of Financial Condition. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments and, therefore, its exposure to credit loss in the event of non-performance by the other party to the financial instrument. Financial instruments whose contract amounts represent credit risk at March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011	**December 31, 2010**
Residential mortgage	**$ 1,946,542**	$ 2,758,825
Home equity	**603,711**	598,736
Other loans	**498,590**	476,857
Total commitments to extend credit	**$ 3,048,843**	$ 3,834,418

Commitments to extend credit are agreements to lend to a customer as long as there is no significant violation of any conditions established in the contract. The Bank evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral, if any, received on loan commitments is dependent upon the individual transaction and the creditworthiness of the customer. Many commitments to extend credit expire without ever having been drawn upon, so the total commitment amounts may not necessarily represent future cash requirements. The commitments at March 31, 2011 and December 31, 2010 were principally related to variable rate loans.

Included in other are commercial letters of credit and overdraft lines of credit. Letters of credit are conditional commitments issued by the Bank generally to guarantee the performance of a customer to a third party in borrowing arrangements. The Bank considers commitments outstanding as of the day the commitment letter is issued.

At March 31, 2011 and December 31, 2010, outstanding letters of credit issued by the Bank totaled $133,000.

Mortgage Commitments

In addition to the commitments to extend credit, the Bank also originates certain loans through a financial intermediary, which, once funded, are included in loans held for sale. As a result of the forward purchase commitment to fund the loan through the financial intermediary, the Bank records a mark-to-market adjustment during the rate-lock period. Simultaneous with the funding of the loan, the Bank also has forward sales commitment with the financial intermediary to acquire these loans from the Bank, which the Bank also records a mark-to-market adjustment. These mark-to-market adjustments are recorded to the unaudited Consolidated Statement of Financial Condition and included in other assets or other liabilities, as deemed appropriate, while the amount recorded to the unaudited Consolidated Statement of Financial Results will offset and have no impact. At March 31, 2011 and December 31, 2010, the Bank had $299,000 and $207,000 included in other assets and other liabilities for these commitments.

Legal Proceedings

From time to time, the Bank may be a party to lawsuits or legal proceedings arising in the ordinary course of business. While any litigation causes an element of uncertainty, management is of the opinion that the liability, if any, arising from such litigation and claims will not be material to the accompanying unaudited Consolidated Financial Statements.

20. Concentration of Credit Risk

At March 31, 2011 and December 31, 2010, the Bank had no concentration of loans in any state in excess of 10% of the total loan portfolio, except California, which was 25% and 26%, respectively, and Illinois, which was 10% for both reported periods.

In compliance with disclosure requirements of ASC 275-10, *Risks and Uncertainties*, the Bank has non-traditional loans in the form of interest-only mortgages. The amounts of such loans were $12.4 billion and $13.0 billion at March 31, 2011 and December 31, 2010, respectively. The economic characteristics of these non-traditional loans are considered when management records a provision for loan losses on its mortgage portfolio. The remainder of the Bank's loan portfolio principally includes variable rate loans, for which interest rates generally reset for the first time within three to seven years after the loans' closing date and annually thereafter.

The following table summarizes the combined fair value of the Bank's available-for-sale and held-to-maturity investment securities by credit rating as of March 31, 2011 and December 31, 2010:

	March 31, 2011		December 31, 2010	
	Amount Outstanding	Percent of Amount Outstanding	Amount Outstanding	Percent of Amount Outstanding
Credit Rating[1]				
AAA	**$ 25,882,958**	**87.4%**	$ 24,535,148	86.7%
AA	**186,161**	**0.6**	204,586	0.7
A	**208,986**	**0.7**	256,453	0.9
BBB	**282,298**	**1.0**	309,865	1.1
Non-Investment Grade[2]	**3,047,637**	**10.3**	3,013,105	10.6
Total	**$ 29,608,040**	**100.0%**	$ 28,319,157	100.0%

(1) The credit rating provided represents the lowest available published rating from Standards and Poor's, Moody's and Fitch.

(2) Non-investment grade securities are those rated below BBB-.

21. Derivative Contracts

The Bank manages market risk within limits governed by its risk management policies as established by the Asset and Liability Management Committee ("ALCO") and approved by the Board of Directors. During the first quarter of 2010, the Bank began to utilize derivatives on a limited basis to manage risk related to changes in interest rates.

The Bank is exposed to credit risk on its derivative positions, which it manages by establishing and monitoring limits as to the degree of risk that may be undertaken. The amount of credit risk is equal to the extent of the fair value gain in a derivative, as the Bank may be unable to realize that if the counterparty fails to perform. The Bank maintains a policy of requiring that all derivative contracts be governed by the International Swaps and Derivatives Association ("ISDA") Master Agreement and may also require bilateral collateral agreements.

The Bank reviews its collateral positions on a daily basis and exchanges collateral with the counterparties in accordance with ISDA and other related agreements. The Bank generally holds collateral in the form of cash and highly rated securities issued by the U.S. Treasury, government-sponsored enterprises or Ginnie Mae. Collateral requirements are also based on minimum transfer amounts, which are specific to each Credit Support Annex (a component of the ISDA Master Agreement) and signed with the counterparties.

All derivatives are required to be recorded to the unaudited Consolidated Financial Condition at fair value. The accounting for changes in the value of the derivative depends on whether or not the transaction has been designated and qualifies for hedge accounting. To qualify for hedge accounting, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. In addition, for a derivative to be designated as a hedge, the risk management objective and strategy must be documented, including identifying the derivative hedging instrument, the asset or liability or forecasted transaction and the type of risk to be hedged, and how effectiveness of the derivative is assessed prospectively and retrospectively.

The table below summarizes the notional amount and fair values of the Bank's derivative instruments designated as hedges at March 31, 2011 and December 31, 2010:

		March 31, 2011		December 31, 2010	
	Balance Sheet Location	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Derivatives accounted for as hedges:					
Cash flow interest rate contracts	Other assets	$ —	$ —	$ 5,000	$ 53
Fair value interest rate contracts	Other liabilities	5,000	(131)	5,000	(174)

Cash Flow Hedges

The Bank uses cash flow hedges to hedge the exposure to variability in the cash flows from floating-rate financial instruments. For qualifying cash flow hedges, the effective portion of the changes in fair value of derivatives are recognized in other comprehensive income, a component of shareholder's equity, and recognized in the unaudited Consolidated Statements of Operations when the hedged cash flows affect earnings. The derivative amounts affecting earnings are recognized consistent with the classification of the hedged item. The ineffective portions, if any, are immediately recognized in earnings.

During the first quarter of 2010, the Bank entered into one interest rate swap agreement, designated as a cash flow hedge, to modify the Bank's exposure to interest rate risk by effectively converting a portion of a government guaranteed floating rate note to a fixed rate note maturing in 2012. The agreement involved the receipt of fixed rate amounts in exchange for floating rate interest payments over the life of the agreement. The interest rate swap agreement was terminated early during first quarter 2011.

The following table summarizes the effect of the Bank's derivative instruments in the unaudited Consolidated Statement of Operations for the three months ended March 31, 2011 and 2010:

Cash Flow Hedging Relationship

	Interest Rate Contracts				
	Loss Recognized in OCI (Effective Portion)	**Location of Loss Reclassified from OCI into Income**	**Gain Reclassified from OCI into Income**	**Location of Gain Recognized in Income (Ineffectiveness)**	**Gain Recognized Due to Ineffectiveness**
Three Months Ended March 31,					
2011	$ –	Service charges and other income	$ 52	N/A	$ –
2010	(2)	N/A	–	N/A	–

Fair Value Hedges

The Bank uses fair value hedges to hedge the exposure to changes in the fair value of certain financial assets or liabilities, which appreciate or depreciate in value primarily as a result of interest rate fluctuations. For qualifying fair value hedges, the changes in the fair value of the derivative, and in the value of the item hedged, are recognized in earnings. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item.

During the first quarter of 2010, the Bank entered into one interest rate swap agreement, designated as a fair value hedge, to modify the Bank's exposure to interest rate risk by effectively converting a portion of a U.S. Treasury investment from fixed to variable rate maturing in 2014. The agreement involves the receipt of a floating rate amount in exchange for fixed rate interest payment over the life of the agreement.

The following table summarizes the effect of the Bank's derivative instruments in the unaudited Consolidated Statement of Operations for the three months ended March 31, 2011 and 2010:

Derivative in Fair Value Hedging Relationship

	Interest Rate Contracts					
	Location of Loss on Derivative	**Gain (Loss) on Derivative**	**Hedged Items in Fair Value Hedge Relationship**	**Location of Gain (Loss) Recognized in Income on Related Hedged Item**	**Gain (Loss) Recognized in Income on Related Hedged Item**	**Net Gain (Loss)**
Three Months Ended March 31,						
2011	Service charges and other income	$ 43	UST Note 2.625% 12/31/2014	Service charges and other income	$ (43)	$ –
2010	Service charges and other income	$ (10)	UST Note 2.625% 12/31/2014	Service charges and other income	$ 10	$ –

See Note 24 for further discussion on the Bank's fair value of derivatives.

22. Stock Option Plans

Select Bank employees may be awarded share-based compensation in the Global Parent Company's stock as a form of variable, performance-based compensation. The Bank accounts for stock-based compensation issued to employees in accordance with the fair value provisions of ASC 718-10, *Compensation – Stock Options*. The stock-based compensation plans are managed entirely by the Global Parent Company. In accordance with the fair value provisions of ASC 718, stock-based compensation cost is measured at the grant date, with the expense recognized over the appropriate vesting period using a straight-line method. The fair value of the share-based compensation on the date of grant is calculated by the Global Parent Company using a Monte Carlo simulation-based valuation model which uses the following inputs, as determined by the Global Parent Company: risk free interest rate, expected life, the current stock price, expected volatility and expected dividend yield. The Bank recorded $884,000 and $606,000 of total stock-based compensation expense during the three months ended March 31, 2011 and 2010, respectively, which is included in salaries and employee benefits expense within the unaudited Consolidated Statements of Operations, as well as in paid-in capital from the Global Parent Company.

There are three share-based payment plans managed by the Global Parent Company. The first plan provides stock options which vest over three years, expire after five or ten years, and require a certain continuous period of service. For the three months ended March 31, 2011 and 2010, the Bank recorded $375,000 and $362,000, respectively, in expense related to options granted.

The second plan provides for the issuance of performance shares. The fair value of performance share award granted is amortized over the vesting period of the share award and requires a certain continuous period of service. For the three months ended March 31, 2011 and 2010, the Bank recorded $390,000 and $244,000, respectively, of expense related to the issuance of performance shares.

The third plan provides for the issuance of deferred share units which are issued unconditionally upon the participant remaining an employee for an uninterrupted period of three years from the date of grant. The fair value of deferred share units granted is amortized over the three-year vesting period from the date of grant. On the date of vesting, eligible employees will be entitled to receive the cash equivalent fair value of the deferred share units. For the three months ended March 31, 2011, the Bank recorded $119,000 of expense related to the issuance of the deferred share units. The Bank did not incur any expense related to this plan during the three months ended March 31, 2010.

23. Fair Value of Financial Instruments

The carrying amounts of financial instruments (i.e., monetary assets and liabilities) are determined under different accounting methods. The following disclosure discusses these instruments on a uniform fair value basis. For a portion of the Bank’s financial instruments, no quoted market exists; therefore, estimates of fair value are based on a number of assumptions regarding the amount and timing of estimated future cash flows, which are discounted to reflect varying degrees of risk. Given the uncertainties surrounding these assumptions, the reported fair values may not represent actual values of financial instruments that could have been realized as of March 31, 2011 or that will be realized in the future. Use of different assumptions or methodologies is likely to result in significantly different fair value estimates.

The Bank accounts for fair value measurement in accordance with ASC 820. In accordance with ASC 825-10-50-10, *Fair Value of Financial* Instruments, the Bank is required to disclose the fair value of financial instruments. A summary of the practices used for determining the Bank’s fair value of its financial instruments is as follows:

Cash and Cash Equivalents, Federal Funds Sold, FHLB Stock, Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase – Current carrying amounts approximate fair value.

Investment Securities and Securities Sold Not Yet Purchased – Fair value measurement is based upon prices provided by third-party vendors or quoted prices when available. Third-party vendors may utilize matrix pricing or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security’s credit rating, prepayment assumptions, vintage and other credit loss assumptions when actual market trades are not available.

Notes Receivable – Fair value is based on market assumptions which incorporate expected payments, coupon rates and forward interest rate curves. Once determined, the assumptions are used to calculate the present value of the estimated cash flows of the notes.

Loans – Fair value is based on market based assumptions obtained in the secondary market. The assumptions are used to calculate the present value of the estimated cash flows, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Deposits – The fair value of deposits with no stated maturity, which include checking and savings, are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Deposits with a stated maturity, which includes time deposits, have been valued using the present value of cash flows discounted at rates approximating the current market for similar deposits.

Borrowings – Borrowings have been valued using the present value of cash flows discounted at rates approximating the current market for similar liabilities.

Derivative Financial Instruments – Derivative financial instruments have been valued using the present value of future cash flows discounted at rates approximating the current market for similar contracts.

The fair value and carrying amounts of financial instruments at March 31, 2011 and December 31, 2010 are summarized as follows:

	March 31, 2011		**December 31, 2010**	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets:				
Cash and cash equivalents	**$ 3,826,174**	**$ 3,826,174**	$ 516,390	$ 516,390
Investment securities available-for-sale	**28,710,751**	**28,710,751**	27,315,780	27,315,780
Investment securities held-to-maturity	**842,953**	**897,289**	934,574	1,003,377
Investment securities trading	**2,129**	**2,129**	2,027	2,027
FHLB stock	**431,970**	**431,970**	454,705	454,705
Notes receivable	**14,177,742**	**13,826,572**	15,516,521	15,120,340
Loans	**40,994,382**	**40,719,935**	40,018,497	39,526,288
Derivative financial assets	**299**	**299**	260	260
Total financial assets	**$88,986,400**	**$88,415,119**	$84,758,754	$83,939,167

	March 31, 2011		December 31, 2010	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial liabilities:				
Checking	**$15,043,109**	**$15,043,109**	$13,996,550	$13,996,550
Savings	**59,671,220**	**59,671,220**	56,047,928	56,047,928
Time deposits	**6,910,336**	**6,950,747**	7,612,323	7,662,821
Borrowings	**750,000**	**799,415**	1,063,000	1,136,002
Securities sold, not yet purchased	**2,187**	**2,187**	5,267	5,267
Derivative financial liabilities	**430**	**430**	381	381
Total financial liabilities	**$82,377,282**	**$82,467,108**	$78,725,449	$78,848,949

24. Fair Value Measurement

The Bank accounts for fair value measurements in accordance with ASC 820. ASC 820-10 defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. It establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and expands the disclosures about instruments measured at fair value. ASC 820-10 requires consideration of a company’s own creditworthiness when valuing liabilities.

Determination of Fair Value

The following is a description of the Bank’s valuation methodology for investment securities. Fair value is based upon quoted market prices when available. When market quotes are not available, the Bank utilizes an internal process to determine fair value based on a range of external vendor prices. The selection of the vendor price most representative of fair value for the Bank’s private label residential mortgage backed securities is driven by an internal process which utilizes regression analysis to determine a hierarchy of the Bank’s external vendors based on correlation with recently observed market activity for similar or the same securities. For security classes other than the private label residential mortgage backed securities, the Bank utilizes a vendor hierarchy to value the respective security. The Bank performs internal validation procedures to assess the reasonableness of fair value by asset class. The price selected from the preferred vendor is subject to an outlier test. The outliers are further researched and may result in a different vendor price selection if it is more representative of fair value.

The methods described above may produce a current fair value calculation that may not be indicative of net realizable value. The Bank believes that the procedures utilized to determine fair value are appropriate and consistent with other market participants. However, the use of different methodologies or different assumptions to value certain financial instruments could result in a varying range of fair value.

Fair Value Hierarchy

ASC 820-10 specifies a three-level grouping or hierarchy, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's internal market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuations in which all significant assumptions are observable in the market.

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

ASC 820 requires the Bank to disclose the fair value for financial assets on both a recurring and non-recurring basis. The following is a description of the valuation methodologies utilized by the Bank, as well as the general classification of such instruments pursuant to the fair value hierarchy.

Assets

Investment Securities Trading – Investment securities trading include odd lot and fractional shares of readily marketable common stock and exchange-traded funds retained when shares are purchased by the Securities Company on behalf of customers. Currently, all investment securities trading on the Bank's books are classified as Level 1 securities as they are all traded on an active exchange, such as the New York Stock Exchange.

Securities Available-for-sale – Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices when available. When market quotes are not available, the Bank utilizes an internally developed process to guide the

selection of a third-party vendor price. Level 1 securities, which includes U.S. Treasuries, are those securities traded in an active market. Level 2 securities include U.S. government, foreign government, foreign agency, U.S. agency mortgage-backed securities, agency bonds, certain private label mortgage-backed and commercial mortgage-backed securities. Level 3 securities include certain private label residential mortgage-backed securities. Level 3 indicates that significant valuation assumptions are not consistently observable in the market due to market illiquidity for certain asset classes. These inputs reflect management's judgment about the assumptions that a market participant would use in valuing the asset and are based on the best available information, some of which is internally developed.

Impaired Loans – Impaired loans are recorded at fair value on a non-recurring basis. The fair value of impaired loans, which is calculated as the carrying value of the loan less any applicable specific reserve, is calculated based upon the present value of expected future cash flows, the market price of the loan, or the fair value of the underlying collateral less cost to sell, if the loan is collateral dependent. As such, these types of loans are classified as Level 2.

Derivative Financial Instruments – Derivative financial instruments, which are comprised of interest rate swaps, are recorded at fair value on a recurring basis. Fair value measurement is based upon a present value of future cash flows using interest rate assumptions obtained in the secondary market. These instruments are classified as Level 2.

Other Real Estate Owned Properties – These properties are carried at the lower of carrying value or fair value less costs to sell on a non-recurring basis. Fair value is generally based upon independent market prices or appraised values of the property, which are observable inputs. Accordingly, the Bank classifies other real estate owned properties as Level 2.

Liabilities

Securities Sold, Not Yet Purchased – Securities sold, not yet purchased represent securities that the Bank has sold to other parties but does not own and are fair valued on a recurring basis. The Bank is obligated to purchase these securities at a future date. Fair value measurement for securities sold, not yet purchased is based upon quoted market prices in active markets and, therefore, are classified as Level 1 liabilities. The Bank includes these balances as part of other liabilities.

Financial Instruments Recorded at Fair Value on a Recurring Basis

The table below summarizes the Bank's assets and liabilities measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010:

	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
March 31, 2011				
Assets:				
Money market funds	**$ 37,183**	**$ –**	**$ –**	**$ 37,183**
Trading securities	**2,129**	**–**	**–**	**2,129**
Government obligations:				
Government guaranteed securities	**–**	**6,927,998**	**–**	**6,927,998**
US Treasuries	**2,605,535**	**–**	**–**	**2,605,535**
Mortgage-backed securities:				
Agency pass-through securities	**–**	**15,001,882**	**–**	**15,001,882**
Prime	**–**	**835,352**	**–**	**835,352**
Alt-A	**–**	**2,053,294**	**804,597**	**2,857,891**
Commercial	**–**	**280,657**	**–**	**280,657**
Subprime	**–**	**–**	**84,772**	**84,772**
Covered Bonds	**–**	**100,000**	**–**	**100,000**
Mutual funds	**16,664**	**–**	**–**	**16,664**
Derivative financial assets	**–**	**299**	**–**	**299**
Total assets	**$ 2,661,511**	**$ 25,199,482**	**$ 889,369**	**$ 28,750,362**
Liabilities:				
Securities sold, not yet purchased	**$ 2,187**	**$ –**	**$ –**	**$ 2,187**
Derivative financial liabilities	**–**	**430**	**–**	**430**
Total liabilities	**$ 2,187**	**$ 430**	**$ –**	**$ 2,617**
December 31, 2010				
Assets:				
Money market funds	$ 48,142	$ –	$ –	$ 48,142
Trading securities	2,027	–	–	2,027
Government obligations:				
Government guaranteed securities	–	7,021,239	–	7,021,239
US Treasuries	2,013,024	–	–	2,013,024
Mortgage-backed securities:				
Agency pass-through securities	–	14,017,811	–	14,017,811
Prime	–	918,942	–	918,942
Alt-A	–	2,185,953	799,560	2,985,513
Commercial	–	262,601	–	262,601
Subprime	–	–	80,038	80,038
Mutual funds	16,612	–	–	16,612
Derivative financial assets	–	260	–	260
Total assets	$ 2,079,805	$ 24,406,806	$ 879,598	$ 27,366,209
Liabilities:				
Securities sold, not yet purchased	$ 5,267	$ –	$ –	$ 5,267
Derivative financial liabilities	–	381	–	381
Total liabilities	$ 5,267	$ 381	$ –	$ 5,648

The following table includes a roll forward of the balance sheet amounts for the three months ended March 31, 2011 and 2010 (including changes in fair value) for all financial instruments classified by the Bank within Level 3 of the fair value hierarchy. When a determination is made to classify a financial instrument within Level 3, the decision is based on the significance of the unobservable parameters to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components (components that can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to unobservable, as well as observable, factors that are part of the valuation methodology.

	Available-for-sale Mortgage-backed Securities			
	Prime	**Alt-A**	**Subprime**	**Total**
Balance, December 31, 2010	$ –	$ 799,560	$ 80,038	$ 879,598
Transfers into Level 3[1]	–	–	–	–
Transfers out of Level 3[1]	–	–	–	–
Total gains or losses (realized/unrealized)				
Included in earnings (or changes in net assets)	**–**	**(5,835)**	**(2)**	**(5,837)**
Included in other comprehensive income	**–**	**62,436**	**5,924**	**68,360**
Settlements	**–**	**(51,564)**	**(1,188)**	**(52,752)**
Balance, March 31, 2011	**$ –**	**$ 804,597**	**$ 84,772**	**$ 889,369**
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses on assets held at March 31, 2011	**$ –**	**$ (5,835)**	**$ (2)**	**$ (5,837)**
Balance, December 31, 2009	$ –	$ 756,581	$ 60,924	$ 817,505
Transfers into Level 3[1]	–	–	–	–
Transfers out of Level 3[1]	–	–	–	–
Total gains or losses (realized/unrealized):				
Included in earnings (or changes in net assets)	–	(16,503)	–	(16,503)
Included in other comprehensive income	–	106,839	8,758	115,597
Settlements	–	(56,066)	(1,951)	(58,017)
Balance, March 31, 2010	$ –	$ 790,851	$ 67,731	$ 858,582
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses on assets held at March 31, 2011	$ –	$ (16,503)	$ –	$ (16,503)

(1) The Bank's policy is to recognize transfers in and transfers out as of period end.

The table below summarizes gains and losses, due to changes in fair value, which were recorded in earnings for Level 3 assets during the three months ended March 31, 2011 and 2010, as well as changes in unrealized gains and losses, also recorded in earnings, during the three months ended March 31, 2011 and 2010 for Level 3 assets which were still held as of March 31, 2011 and 2010.

	Net Impairment Loss Recognized in Earnings
Total gains or losses included in earnings (or changes in net assets) for the three months ended March 31:	
2011	**$ (5,837)**
2010	(16,503)
Change in unrealized gains or losses related to assets still held at March 31:	
2011	**$ (5,837)**
2010	(16,503)

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

Assets Recorded at Fair Value on a Nonrecurring Basis

The Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis in accordance with GAAP, that is, the instruments are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (for example, certain assets are carried at the lower of cost or market). The valuation methodologies used to measure these fair value adjustments are described previously in this note. At March 31, 2011 and December 31, 2010, these assets were valued in accordance with GAAP and, except for those indicated in the following table which summarizes the Bank's assets measured at fair value on a non-recurring basis, did not require fair value disclosure under the provisions of ASC 820:

	Fair Value Hierarchy				
	Level 1	**Level 2**	**Level 3**	**Total**	**Total Losses**
March 31, 2011					
Assets:					
Impaired loans	**$ –**	**$ 742,892**	**$ –**	**$ 742,892**	**$ (27,780)**
Other real estate owned	**–**	**111,626**	**–**	**111,626**	**(13,880)**
Total assets	**$ –**	**$ 854,518**	**$ –**	**$ 854,518**	**$ (41,660)**

	Fair Value Hierarchy				
	Level 1	**Level 2**	**Level 3**	**Total**	**Total Losses**
December 31, 2010					
Assets:					
Impaired loans	$ –	$ 1,061,303	$ –	$ 1,061,303	$ (499)
Other real estate owned	–	73,574	–	73,574	(12,430)
Total assets	$ –	$ 1,134,877	$ –	$ 1,134,877	$ (12,929)

25. Regulatory Matters

Under the OTS capital regulations, savings institutions, such as the Bank, must maintain “tangible” capital equal to 1.5% of adjusted total assets, “core” capital equal to 4% of adjusted total assets, “Tier 1” capital equal to 4% of risk-weighted assets, and “total” or “risk-based” capital (a combination of core and supplementary capital) equal to 8% of risk-weighted assets, as defined.

Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank’s consolidated financial statements. The Bank’s capital amounts have been computed in accordance with regulatory practice. At March 31, 2011, management believes the Bank was in compliance with all regulatory capital requirements and is a “well-capitalized” institution. Management anticipates that the Bank will continue to be classified as well-capitalized.

The table below summarizes the Bank's capital position as of March 31, 2011 and December 31, 2010:

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
March 31, 2011						
Total risk-based capital (to risk-weighted assets)	**$9,153,249**	**27.70%**	**$ 2,643,760**	**8.00%**	**$ 3,304,700**	**10.00%**
Leverage ratio (tier 1 capital to adjusted total assets)	**8,740,049**	**9.50**	**3,678,630**	**4.00**	**4,598,288**	**5.00**
Tangible capital (to tangible assets)	**8,740,049**	**9.50**	**1,379,486**	**1.50**	**N/A**	**N/A**
Tier 1 risk-based capital (to risk-weighted assets)	**8,740,049**	**26.45**	**1,321,880**	**4.00**	**1,982,820**	**6.00**
December 31, 2010						
Total risk-based capital (to risk-weighted assets)	$9,271,168	28.08%	$ 2,640,957	8.00%	$ 3,301,197	10.00%
Leverage ratio (tier 1 capital to adjusted total assets)	8,858,263	10.09	3,511,106	4.00	4,388,882	5.00
Tangible capital (to tangible assets)	8,858,263	10.09	1,316,665	1.50	N/A	N/A
Tier 1 risk-based capital (to risk-weighted assets)	8,858,263	26.83	1,320,479	4.00	1,980,718	6.00

The decline in the Bank's Leverage ratio from December 31, 2010 includes the impact of the deferred tax asset disallowed in Tier 1 capital as a result of the deferred tax asset recorded as part of the potential IRS settlement, as discussed in Note 17.

The ability of the Bank to pay dividends to the Corporation is controlled by certain regulatory restrictions. Generally, dividends declared in a given year by the Bank are limited to its net profit, as defined by regulatory agencies, for that year, combined with its retained net income for the preceding two years. In addition, the Bank may not declare any dividends if such declaration would leave the bank inadequately capitalized. Therefore, the ability of the Bank to declare dividends will generally depend on its future net income and capital requirements. The Bank did not pay dividends to the Corporation during the three months ended March 31, 2011 and 2010.

The Bank's deposits are insured to applicable limits by the FDIC. As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), which was signed into law on July 21, 2010, the maximum deposit insurance limit was increased permanently to $250,000. In November, 2009, the FDIC amended the assessment regulations to require all insured depository institutions to prepay their estimated risk-based assessments for the

fourth quarter of 2009, and for all of 2010, 2011, and 2012 on December 30, 2009. For purposes of estimating the future assessments, each institution's base assessment rate in effect on September 30, 2009 was used, assuming a 5% annual growth rate in the assessment base and a three basis point increase in the assessment rate in 2011 and 2012. The prepaid assessment will be applied against actual quarterly assessments until exhausted. Any funds remaining after June 30, 2013 will be returned to the institution. If the prepayment would impair an institution's liquidity or otherwise create significant hardship, it was able to apply for an exemption. Requiring this prepaid assessment does not preclude the FDIC from changing assessment rates or from further revising the risk-based assessment system. The Bank's prepaid assessment, which was originally paid in December 2009, was $378.5 million and $422.2 million at March 31, 2011 and December 31, 2010, respectively, which is included in prepaid assets in the unaudited Consolidated Statements of Financial Condition.

The Securities Company

The Securities Company is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1) which requires that the Securities Company maintains minimum net capital equivalent to the greater of $250,000 or 6.67% of aggregate indebtedness, and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. At March 31, 2011, the Securities Company had net capital of $91.2 million, as defined, which was $89.3 million in excess of its required minimum net capital of $1.9 million. The Securities Company ratio of aggregate indebtedness to net capital was 0.32 to 1 and 0.19 to 1 at March 31, 2011 and December 31, 2010, respectively.

Advances to affiliates, repayment of subordinated borrowings, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule or other regulatory bodies.

Under the clearing arrangement with the clearing broker, the Securities Company is required to maintain certain minimum levels of net capital and to comply with other financial ratio requirements. At March 31, 2011, the Securities Company was in compliance with all such requirements.

26. Subsequent Events

During second quarter 2011, the Bank terminated the three remaining repurchase agreements. Payment for the early termination of the repurchase agreements was $795.4 million, resulting in a loss of $45.4 million. In addition, during the second quarter 2011, the Bank sold available-for-sale securities with an amortized cost of $967.2 million to unrelated third parties, resulting in a realized gain of $46.6 million.

The Bank has evaluated subsequent events through May 12, 2011, which is the date these financial statements are being issued, and there are no matters to report other than those previously disclosed.

PRELIMINARY UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The preliminary unaudited pro forma condensed combined financial information and explanatory notes present how the combined balance sheet of Capital One, ING Bank, fsb and Other Assets and Liabilities acquired, primarily real estate, may have appeared had the businesses actually been combined as of March 31, 2011 and the combined income statement may have appeared for the three months ended March 31, 2011 and for the year ended December 31, 2010 assuming the ING Direct acquisition was completed on January 1, 2010. The preliminary unaudited pro forma condensed combined financial information shows the impact of the ING Direct acquisition on the combined balance sheets and the combined statements of income under the acquisition method of accounting with Capital One treated as the acquirer. Under this method of accounting, the assets and liabilities of ING Direct are recorded by Capital One at their estimated fair values as of the date the acquisition is completed. References to “ING Direct” or the “ING Direct business” refer to the business and assets of ING Bank, fsb and Other Assets and Liabilities acquired.

It is anticipated that the ING Direct acquisition will provide Capital One with financial benefits such as possible expense efficiencies and revenue enhancements, among other factors, although no assurances can be given that such benefits will actually be achieved. These benefits have not been reflected in the preliminary unaudited pro forma condensed combined financial information. As required, the preliminary unaudited pro forma condensed combined financial information includes adjustments which give effect to events that are directly attributable to the transaction and factually supportable; as such, any planned adjustments affecting the balance sheet, income statement or shares of common stock outstanding subsequent to the assumed acquisition completion date are not included. Upon consummation of the ING Direct acquisition, we will review ING Direct’s accounting policies to determine if it may be necessary to harmonize any differences between those policies and our policies. The preliminary unaudited pro forma condensed combined financial information does not adjust for any differences in accounting policies between those of Capital One and ING Direct.

The preliminary unaudited pro forma condensed combined financial information is presented for illustrative purposes only and addresses a hypothetical situation. The preliminary unaudited pro forma condensed combined financial information is based on currently available information and a number of assumptions, estimates and adjustments as described in the accompanying notes.

In addition, as explained in more detail in the accompanying notes to the preliminary unaudited pro forma condensed combined financial information, the amounts reflected in the preliminary unaudited pro forma condensed combined financial information are subject to adjustment. The preliminary unaudited pro forma business combination adjustments for the ING Direct acquisition will vary from the actual business combination adjustments that will be recorded upon the completion of the acquisition based upon changes in the estimated fair value of the assets and liabilities acquired from ING Direct. In addition, subsequent to the acquisition completion dates, there may be further refinements of the business combination adjustments as additional information becomes available.

The preliminary unaudited pro forma condensed combined financial information is derived from and should be read in conjunction with the historical consolidated financial statements and related notes of Capital One and the historical consolidated financial statements and related notes of ING Bank, fsb included in our Current Report on Form 8-K filed on July 13, 2011, each of which are incorporated into this document by reference.

The preliminary unaudited pro forma condensed combined financial information presented in this document is not necessarily indicative of the combined financial position that would have resulted had the ING Direct acquisition been completed at the beginning of the applicable periods presented, nor is it indicative of the future financial position of the combined company.

The following preliminary unaudited pro forma condensed combined balance sheet as of March 31, 2011, combines the March 31, 2011 historical balance sheets of Capital One and ING Direct assuming the companies had been combined on March 31, 2011, on an acquisition method of accounting.

Preliminary Unaudited Pro Forma Condensed Combined Balance Sheet

March 31, 2011 (In Millions)	Capital One	ING Bank, fsb	Other Assets & Liabilities	Pro Forma Adjustments		Capital One & ING Direct Combined
Assets:						
Cash and due from banks	$ 2,028	$ 3	$	$ (500)	(A)	$ 1,531
Interest-bearing deposits with banks	5,397	3,823		13,826	(L)	23,046
Federal funds sold and securities purchased under agreements to resell	546					546
Cash and cash equivalents	7,971	3,826		13,326		25,123
Restricted cash for securitization investors	2,556					2,556
Securities available for sale, at fair value	41,566	28,711				70,277
Securities held to maturity		843				843
Securities trading, at fair value		2				2
Notes receivable		14,178		(14,178)	(L)	0
Loans held for investment:						
Unsecuritized loans held for investment, at amortized cost	75,184	41,422	2	(2,438)	(B)	114,170
Restricted loans for securitization investors	48,908					48,908
Total loans held for investment	124,092	41,422	2	(2,438)		163,078
Less: Allowance for loan and lease losses	(5,067)	(428)		428	(B)	(5,067)
Net loans held for investment	119,025	40,994	2	(2,010)		158,011
Loans held for sale, at lower-of-cost-or-fair value	117					117
Accounts receivable from securitizations	112					112
Premises and equipment, net	2,739	85	34	(18)	(K)	2,840
Interest receivable	1,025	247		(124)	(K)	1,148
Goodwill	13,597	120		1,346	(C)	15,063
Core deposit intangibles	605			455	(D)	1,060
Other identifiable intangibles	154	72		169	(D)	395
Other	9,833	3,134	(23)	566	(F)	13,572
				(18)	(K)	
				(83)	(L)	
				141	(L)	
				22	(N)	
Total assets	$ 199,300	$ 92,212	$ 13	$ (406)		$ 291,119
Liabilities:						
Interest payable	$ 411	$ 7	$	$		$ 418
Customer deposits:						
Non-interest bearing deposits	16,349					16,349
Interest bearing deposits	109,097	81,625	(7)	5	(E)	190,720
Total customer deposits	125,446	81,625	(7)	5		207,069
Securitized debt obligations	24,506					24,506
Other debt:						
Federal funds purchased and securities loaned or sold under agreements to repurchase	1,970	750				2,720
Senior and subordinated notes	8,545			3,700	(A)	12,245
Other borrowings	4,776		6	5	(E)	4,787
Total other debt	15,291	750	6	3,705		19,752
Other liabilities	6,096	834	(20)	(51)	(L)	6,924
				5	(E)	
				60	(N)	
Total liabilities	171,750	83,216	(21)	3,724		258,669
Stockholders' equity:						
Common stock	5					5
Paid-in capital, net	19,141	9,642		2,000	(A)	24,079
				(9,642)	(G)	
				2,938	(G)	
Retained earnings / accumulated deficit	11,399	(414)	34	380	(G)	11,361
				(38)	(N)	
Accumulated other comprehensive income (loss)	245	(232)		232	(G)	245
Less: Treasury stock, at cost	(3,240)					(3,240)
Total stockholders' equity	27,550	8,996	34	(4,130)		32,450
Total liabilities and stockholders' equity	$ 199,300	$ 92,212	$ 13	$ (406)		$ 291,119

The following preliminary unaudited pro forma condensed combined income statement for the three months ended March 31, 2011, combines the historical income statements of Capital One and ING Direct assuming the companies had been combined on January 1, 2010.

Preliminary Unaudited Pro Forma Condensed Combined Statement of Income

For the three months ended March 31, 2011 (In Millions, Except Per Share Data)	Capital One	ING Bank, fsb	Other Assets & Liabilities	Pro Forma Adjustments		Capital One & ING Direct Combined
Interest income:						
Loans held for investment, including past-due fees	$ 3,417	$ 424	$	$ 60	(B)	$ 3,901
Investments & notes receivable	316	197		(13)	(L)	500
Other	19	1				20
Total interest income	3,752	622		47		4,421
Interest expense:						
Deposits	322	214				536
Securitized debt obligations	140					140
Senior and subordinated notes	64					64
Other borrowings	86	12		33	(A)	131
Total interest expense	612	226		33		871
Net interest income	3,140	396		14		3,550
Provision for loan and lease losses	534	116		(116)	(B)	534
Net interest income after provision for loan and lease losses	2,606	280		130		3,016
Non-interest income:						
Servicing and securitizations	11					11
Service charges and other customer-related fees	525	22				547
Interchange fees	320	4				324
Total other-than-temporary losses	(23)	(21)		21	(M)	(23)
Less: Non-credit component of other-than-temporary losses recorded in AOCI	20	2		(2)	(M)	20
Net other-than-temporary impairment losses recognized in earnings	(3)	(19)		19		(3)
Other	89	1	1			91
Total non-interest income	942	8	1	19		970
Non-interest expense:						
Salaries and associate benefits	741	60				801
Marketing	276	26				302
Communications and data processing	164	5				169
Supplies and equipment	135	1				136
Occupancy	119	6				125
Other	727	89		(2) 34	(H) (D)	848
Total non-interest expense	2,162	187		32		2,381
Income from continuing operations before income taxes	1,386	101	1	117		1,605
Income tax provision	354	41		43	(I)	438
Net income from continuing operations, net of tax	$ 1,032	$ 60	$ 1	$ 74		$ 1,167
Basic earnings per common share:						
Net income per basic common share	$ 2.27					$ 2.13
Diluted earnings per common share:						
Net income per diluted common share	$ 2.24					$ 2.11
Dividends paid per common share	$ 0.05					$ 0.04
Basic common shares	454			94	(J)	548
Dilutive potential common shares	460			94	(J)	554

The following preliminary unaudited pro forma condensed combined income statement for the year ended December 31, 2010, combines the historical income statements of Capital One and ING Direct assuming the companies had been combined on January 1, 2010.

Preliminary Unaudited Pro Forma Condensed Combined Statement of Income

For the year ended December 31, 2010 (In Millions, Except Per Share Data)	Capital One	ING Bank, fsb	Other Assets & Liabilities	Pro Forma Adjustments		Capital One & ING Direct Combined
Interest income:						
Loans held for investment, including past-due fees	$ 13,934	$ 1,729	$	$ 318	(B)	$ 15,981
Investments & notes receivable	1,342	942		(149)	(L)	2,135
Other	77	6				83
Total interest income	15,353	2,677		169		18,199
Interest expense:						
Deposits	1,465	959				2,424
Securitized debt obligations	809					809
Senior and subordinated notes	276					276
Other borrowings	346	173	1	83	(A)	613
				10	(E)	
Total interest expense	2,896	1,132	1	93		4,122
Net interest income	12,457	1,545	(1)	76		14,077
Provision for loan and lease losses	3,907	497		(497)	(B)	3,907
Net interest income after provision for loan and lease losses	8,550	1,048	(1)	573		10,170
Non-interest income:						
Servicing and securitizations	7					7
Service charges and other customer-related fees	2,073	77				2,150
Interchange fees	1,340	15				1,355
Total other-than-temporary losses	(128)	(166)		166	(M)	(128)
Less: Non-credit component of other-than-temporary losses recorded in AOCI	63	94		(94)	(M)	63
Net other-than-temporary impairment losses recognized in earnings	(65)	(72)		72		(65)
Other	359	3	4			366
Total non-interest income	3,714	23	4	72		3,813
Non-interest expense:						
Salaries and associate benefits	2,594	219				2,813
Marketing	958	81				1,039
Communications and data processing	693	21				714
Supplies and equipment	520	4	1			525
Occupancy	486	25				511
Other	2,683	356		(14)	(H)	3,170
				145	(D)	
Total non-interest expense	7,934	706	1	131		8,772
Income from continuing operations before income taxes	4,330	365	2	514		5,211
Income tax provision	1,280	101	–	188	(I)	1,569
Net income from continuing operations, net of tax	$ 3,050	$ 264	$ 2	$ 326		$ 3,642
Basic earnings per common share:						
Net income (loss) per basic common share	$ 6.74					$ 6.67
Diluted earnings per common share:						
Net income (loss) per diluted common share	$ 6.68					$ 6.62
Dividends paid per common share	$ 0.20					$ 0.17
Basic common shares	452			94	(J)	546
Dilutive potential common shares	456			94	(J)	550

Note 1 – Basis of Preliminary Pro Forma Presentation

The preliminary unaudited pro forma condensed combined financial information related to the acquisition is included as of and for the three months ended March 31, 2011 and for the year ended December 31, 2010. The historical financial statements of ING Direct and the Other Assets and Liabilities acquired have been adjusted to reflect reporting reclassifications necessary to conform to the presentation of the historical financial statements of Capital One. The preliminary unaudited pro forma condensed combined financial information reflects the application of accounting principles generally accepted in the United States of America ("US GAAP") as of and for the three months ended March 31, 2011, and for the year ended December 31, 2010. The adoption of new or changes to existing US GAAP subsequent to the preliminary unaudited condensed combined pro forma financial statement dates may result in changes to the presentation of the preliminary unaudited pro forma condensed combined financial information, if material.

The preliminary unaudited pro forma condensed combined financial information includes estimated adjustments to record the assets and liabilities of ING Direct at their respective fair values based on management's best estimate using the information available at this time. The pro forma adjustments may be revised as additional information becomes available and as additional analysis is performed. The final allocation of the ING Direct purchase price will be determined after the acquisition is completed and after the completion of a final analysis to determine the fair values of ING Direct's tangible and identifiable intangible assets and liabilities as of the closing date. The final business combination adjustments may differ materially from the pro forma adjustments presented in this document. Increases or decreases in fair value of certain balance sheet amounts and other items of ING Direct as compared to the information presented in this document may change the amount of the business combination adjustments to goodwill and other assets and liabilities and may impact the statement of income due to adjustments in yield and/or amortization of adjusted assets and liabilities. In addition, as discussed further below in Note 2, Capital One will fund certain portions of this acquisition through the issuance of common stock. Subsequent changes in the share price of Capital One's common stock could impact the purchase price as it relates to shares issued in conjunction with the acquisition and therefore impact goodwill.

The pro forma basic and diluted potential common shares were calculated using the actual weighted-average shares outstanding for Capital One for the periods presented, plus the incremental shares issued or expected to be issued, assuming the transactions occurred on January 1, 2010.

The preliminary unaudited pro forma condensed combined financial information presented in this document does not necessarily indicate the results of operations or the combined financial position that would have resulted had the acquisition been completed at the beginning of the applicable periods presented, nor is it indicative of the results of operations in future periods or the future financial position of the combined company.

ING Direct Acquisition

On June 16, 2011, Capital One announced a definitive agreement under which Capital One will acquire ING Direct from ING Groep in a stock and cash transaction. ING Direct is headquartered in Wilmington, Delaware. Since launching in the U.S. in 2000, ING Direct – the operating name of ING Bank, fsb, a federally chartered savings bank – has become the largest direct bank in the United States.

The business combination will be accounted for using the acquisition method of accounting, and accordingly, the assets acquired (including identifiable intangible assets) and liabilities assumed of ING Direct will be recognized at fair value, with goodwill determined as the residual, on the date the transaction is completed.

The consideration will be paid with the issuance of approximately 55.9 million shares of Capital One's common stock and $6.2 billion in cash consideration. The cash portion of the consideration is expected to be financed through a public equity raise of approximately $2.0 billion with the remainder from cash sourced from current liquidity and through debt offerings totaling approximately $3.7 billion prior to the close of the transaction.

Note 2 – Preliminary Pro Forma Adjustments

The preliminary unaudited pro forma condensed combined financial information for the acquisition includes the preliminary unaudited pro forma condensed combined balance sheet as of March 31, 2011, assuming the acquisition with ING Direct was completed on March 31, 2011. The preliminary unaudited pro forma condensed combined income statements for the three months ended March 31, 2011 and for the year ended December 31, 2010 were prepared assuming the acquisition with ING Direct was completed on January 1, 2010.

ING Direct Acquisition Pro Forma Adjustments

The preliminary unaudited pro forma condensed combined financial information reflects the issuance of approximately 55.9 million shares of Capital One common stock and $6.2 billion in cash consideration.

A reconciliation of the excess consideration paid by Capital One over ING Direct's net assets acquired ("goodwill") is as follows (in millions):

Costs to acquire ING Direct:		
Capital One common stock issued	**$ 2,938**	**(G)**
Cash consideration paid	**6,200**	**(A)**
Total consideration paid for ING Direct	**9,138**	
ING Direct's net assets at fair value:		
ING Direct stockholders' equity at March 31, 2011	**9,030**	**(G)**
Elimination of ING Direct's intangibles (including goodwill) and related deferred tax liability	**(167)**	**(D), (F)**
Settlement of note receivable, net	**(243)**	**(L)**
Estimated adjustments to reflect assets acquired at fair value:		
Net loans	**(2,010)**	**(B)**
Deferred tax assets	**795**	**(F)**
Other assets	**(160)**	**(K)**
Estimated adjustments to reflect liabilities assumed at fair value:		
Interest-bearing deposits	**(5)**	**(E)**
Other borrowings	**(5)**	**(E)**
Other liabilities	**(5)**	**(E)**
Less: Adjusted identifiable net assets acquired	**7,230**	
Core deposit intangibles:		
Adjustment to recognize core deposit intangibles	**(455)**	**(D)**
Adjustment to recognize deferred tax liability from core deposit intangibles	**166**	**(F)**
Trade name:		
Adjustment to recognize trade name	**(50)**	**(D)**
Adjustment to recognize deferred tax liability from trade name	**18**	**(F)**
Other intangibles:		
Adjustment to recognize other intangibles	**(191)**	**(D)**
Adjustment to recognize deferred tax liability from other intangibles	**70**	**(F)**
Less: core deposit intangibles and related deferred tax liability for all intangibles	**(442)**	
Total estimated goodwill	**$ 1,466**	

(A) Adjustment to recognize cash consideration paid to complete the acquisition. Capital One currently expects to finance the cash portion of the consideration through a public equity raise of approximately $2.0 billion with the remainder from cash sourced from current liquidity and through debt offerings totaling approximately $3.7 billion prior to the close of the transaction. The preliminary unaudited pro forma combined income statement impact of the additional borrowings issued resulted in pre-tax increases to interest expense of $33 million and $83 million for the three months ended March 31, 2011 and the year ended December 31, 2010, respectively. The final financing of the cash portion of the transaction may differ from these preliminary adjustments. The cost of the borrowings may be significantly different based on changes in market rates and Capital One may choose to repay any such additional borrowings with cash from operations, net securities maturities or future market borrowings.

(B) Adjustment to eliminate ING Direct's historical allowance for loan losses and to fair value ING Direct's loan portfolio. The accretable yield will be recognized over the estimated remaining life of the loan portfolio using the effective yield method. The adjustment reflected is based upon currently available fair value information. The preliminary unaudited pro forma combined income statement impact for recognition of the accretable yield resulted in increases to interest income of $60 million and $318 million for the three months ended March 31, 2011, and the year ended December 31, 2010, respectively. In addition, the elimination of provision for loan losses of $116 million and $497 million for the three months ended March 31, 2011 and the year ended December 31, 2010, respectively, is included in the pro forma unaudited income statement. The final adjustment may be significantly different.

(C) Adjustment to eliminate historical ING Direct goodwill of $120 million and recognize goodwill of $1,466 million resulting from the acquisition. See the reconciliation of the excess consideration paid by Capital One over ING Direct's net assets acquired above for more information.

(D) Adjustment to eliminate ING Direct's other identified intangibles of $72 million, recognize core deposit intangibles and other identifiable intangibles of $455 million and $241 million, respectively, and the related preliminary unaudited pro forma combined income statement impact resulting from the acquisition. The preliminary unaudited pro forma combined income statement impact for the adjustment resulted in increases to other non-interest expense of $34 million and $145 million for the intangibles amortization for the three months ended March 31, 2011 and the year ended December 31, 2010, respectively. The final adjustment may be significantly different. See Note 3 – *Core Deposit Intangibles* for more information.

(E) Adjustment to fair value ING Direct's interest-bearing deposits of $5 million, other borrowings of $5 million, and other liabilities of $5 million. The entire adjustment will be recognized in the year ended December 31, 2010 using the effective yield method. The final adjustments may be significantly different.

(F) Adjustment to eliminate ING Direct's historical deferred tax liability of $25 million and recognize net deferred tax assets of $541 million resulting from the fair value adjustments.

(G) Adjustment to eliminate ING Direct's historical stockholders' equity. The acquisition will result in the issuance of approximately 55.9 million shares of Capital One common stock, in addition to the cash consideration discussed in preliminary pro forma adjustment A. The issuance of Capital One Common stock is recognized in the preliminary unaudited pro forma balance sheet at a value of $52.55 per share, which was the 10-day average closing price of Capital One common stock on the NYSE for the period ended July 8, 2011, which results in an increase to Capital One's total stockholders' equity of $2.9 billion[1]. For more detail of the structure of the transaction, see Note 1 – Basis of Preliminary Pro Forma Presentation. The final adjustment may be significantly different.

(H) Adjustment to eliminate $2 million and $14 million of amortization for intangible assets recorded on ING Direct's historical income statement for the three months ended March 31, 2011, and the year ended December 31, 2010, respectively.

(I) Adjustment to record the net tax effect of the preliminary unaudited pro forma adjustments using the effective tax rate of 36.5%. The final adjustment may be significantly different.

(J) The pro forma basic and diluted potential common shares for the incremental shares issued in connection with the ING Direct acquisition, assuming the transaction occurred at the beginning of the periods presented.

(K) Adjustment to accrued interest receivable of $124 million, fixed assets of $18 million, and other real estate owned assets (OREO) of $18 million resulting from the fair value adjustments. The subsequent depreciation expense does not have a material impact on the preliminary unaudited pro forma combined income statement for the three months ended March 31, 2011 and the year ended December 31, 2010, respectively.

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[1] Subsequent changes on the price of Capital One's common stock could impact the total purchase price and therefore impact the pro forma goodwill presented.

(L) Adjustments to reflect the settlement of the note receivable associated with the Illiquid Assets Back-Up Facility (Facility). The Facility was entered into by the Parent of ING Direct and the Dutch Government. As a condition to the business combination, the Parent of ING Direct will settle the note receivable with cash of $13.8 billion. This adjustment shows the impact of this transaction and is reflected in the determination of goodwill as the transaction will be completed prior to consummation of the acquisition. Includes income statement adjustments for interest income on the note receivable of $13 million and $149 million for the three months ended March 31, 2011, and the year ended December 31, 2010, respectively. Includes adjustments of $83 million, $141 million and $51 million for prepaid assets, deferred tax assets and other liabilities, respectively, related to the Facility.

(M) Adjustment to reflect the elimination of the other than temporary losses on available for sale securities owned by ING Direct.

(N) Adjustment for direct incremental cost associated with the acquisition and related tax impact.

Note 3 – ING Direct Core Deposit Intangibles

The pro forma business combination adjustments include the establishment of core deposit intangibles of $455 million as of March 31, 2011. The $455 million was based on a preliminary valuation by an independent third party using a combination of ING Direct specific deposit information and industry specific benchmarks. A final analysis and valuation of the core deposit intangibles will be performed with the assistance of the independent third party upon completion of the acquisition. The amortization of the core deposit intangibles resulting from the acquisition in the pro forma statement of income for the three months ended March 31, 2011, and the year ended December 31, 2010, was assumed to be over a 10-year period using an accelerated amortization method.

The following table summarizes the amortization of the core deposit intangibles made in connection with the acquisition at a statutory annual tax rate of 36.5%:

(in millions)	Gross Amortization	Net After-Tax Impact
Year 1	$ 86	$ 54
Year 2	77	49
Year 3	68	43
Year 4	59	37
Year 5	50	32
Year 6 and thereafter	115	74
Total	$ 455	$ 289

PART I

Item 1A. Risk Factors

As a company operating in a complex and highly regulated industry, ING Bank, fsb ("the Bank") encounters a variety of risks and uncertainties. On an ongoing basis, the Bank devotes resources to developing enterprise-wide risk management processes, in addition to the processes in place within its business lines. Overall, management believes that the Bank is well positioned to respond quickly and effectively in the event that adversities materialize. Depending on the nature and extent of the execution challenges, management may be able to employ mitigating action to maintain performance in line with its key operating and financial targets.

The following represent risks and uncertainties that may have a material and adverse effect on the Bank's business, liquidity, results of operations or financial condition. Additional risks and uncertainties not currently known to the Bank, or that the Bank does not currently think are significant may materially impact the Bank's business, liquidity, financial condition and results of operations.

REGULATORY RISKS

The Bank operates in a highly regulated industry, which limits the manner and scope of its business activities.

The Bank is subject to extensive supervision, regulation and examination by its regulators. This complex regulatory environment also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to capital levels, the timing and amount of dividend payments, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. In addition, the Bank must comply with significant anti-money laundering and anti-terrorism laws. Government agencies have substantial discretion to impose significant monetary penalties, as well as the ability to revoke the Bank's charter, on institutions that fail to comply with these laws. As a result, the Bank is limited in the manner in which it conducts its business, undertakes new investments and activities and obtains financing. If the Bank fails to comply with bank regulations, the regulators may limit our activities or growth, fine us or ultimately put us out of business. In addition, bank regulations can hinder our ability to compete with financial services companies that are not regulated in the same manner as the Bank.

The recent adoption of regulatory reform legislation may have a material effect on operations and capital requirements.

Many provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("the Reform Act") will be implemented via regulations that must be adopted over the next 12 to 18 months. The Reform Act also merges the Office of Thrift Supervision (the "OTS") into the Office of the Comptroller of the Currency (the "OCC") on July 21, 2011. OTS regulated thrift holding companies will be supervised by the Federal Reserve Board as of that date. Consumer financial services regulation will move from existing banking regulators to the Consumer Financial Protection Bureau, a new agency created by the Act. It is not possible at this time to

identify how the new regulators or regulations will affect Bank operations, or to quantify the effect of the changes. At a minimum, the following Reform Act provisions are considered likely to affect the Bank:

- **Consolidated Holding Company Capital Requirements –** The Reform Act allows the regulators to change capital requirements. If they do so, the requirements must be no less than those to which insured depository institutions are currently subject. The Federal Reserve Bank generally imposes capital requirements on holding companies that are different from that currently held by the Bank's holding company parent, ING DIRECT Bancorp, a wholly owned subsidiary of ING Groep, N.V. ("the Global Parent Company"). It is unclear what capital requirements the Federal Reserve Board will impose on the Bank's immediate holding company parent, or the timing of such change.

- **Deposit Insurance Assessments –** The Reform Act increases the minimum designated reserve ratio, assesses premiums on assets (less tangible equity) rather than deposits, and puts a greater burden on institutions greater than $10 billion. As a result, the Bank's deposit premium on Federal Deposit Insurance Corporation (the "FDIC") insurance may increase substantially.

- **New Consumer Regulations –** While management believes that the Bank is well-positioned as it pertains to consumer financial services regulation, it is not possible to predict how the new agency will enforce its mandate or apply the new standards to federal depositories.

The impact of the European Commission-mandated divestiture of the Bank by the Global Parent Company is unknown. At this stage, management cannot predict how a divestiture would be structured or the impact it would have on the Bank's results of operations.

The Global Parent Company announced on October 26, 2009 that it will divest the Bank by the end of 2013 as part of an agreement reached with the European Commission. The exact timing and structure of any divestiture is currently unknown. Furthermore, the uncertainty of the divestiture process may negatively impact employee morale, expose the Bank to reputation risk and result in additional expenses incurred to support the divestiture process. The Bank's ability to utilize its deferred tax assets to offset future taxable income may be limited if it experiences an ownership change under Section 382 of the Internal Revenue Code.

ACCOUNTING RISKS

A subsequent change in control of the Bank could impact its ability to recognize future income tax benefits.

Section 382 of the Internal Revenue Code can limit future tax benefits (e.g. net operating losses) of companies who experience a change in control. Should such an ownership change occur, a portion of the Bank's existing deferred tax asset may become impaired and be subject to write-off.

In addition, the Internal Revenue Service (the "IRS") is currently auditing the Bank's 2009 income tax return, which is routine in nature. IRS adjustments may impact the Bank's current income taxes payable with an offsetting increase to deferred tax assets. Changes to deferred tax assets could result in additional impairment to the extent there is a subsequent change in control.

The Bank's financial statements are based in part on assumptions and estimates which, if wrong, could cause unexpected losses in the future.

The Bank's accounting policies are fundamental to determining and understanding its financial condition and results of operations. Pursuant to generally accepted accounting principles in the United States ("GAAP"), the Bank is required to use certain assumptions and estimates in preparing its financial statements, including but not limited to assumptions used to determine the allowance for loan losses, the fair value of certain assets and liabilities, including securities impairment, and the realization of deferred tax assets. If these assumptions or estimates are incorrect, the Bank could incur unexpected future losses.

Several of the Bank's accounting policies are critical because they require management to make difficult, subjective and complex judgments about matters that are inherently uncertain and because materially different amounts could be reported under different conditions or using different assumptions.

New accounting pronouncements or guidance and the convergence of GAAP with International Financial Reporting Standards ("IFRS") could require the Bank to change the way it accounts for results of operations.

The Financial Accounting Standards Board (the "FASB"), the OTS, and other regulatory bodies may issue new accounting standards or pronouncements, including the convergence of GAAP with IFRS or changes in the interpretation of existing standards or pronouncements, from time to time, which could have a significant effect on the Bank's reported results of operations and financial condition.

INDUSTRY RISKS

Future taxes on liabilities could adversely affect the Bank's financial condition.

President Obama and some members of Congress have proposed a so-called "bank tax" to repay costs associated with the financial crisis and implementation of the Reform Act. While no proposal has been adopted at this time, it is unclear what a future bank tax might entail. Based on past proposals, any bank tax would most likely be assessed on large financial institutions, such as the Bank, which may adversely affect its results of operations and financial condition.

The Bank faces risks in the marketplace, including intensifying competition, changes in consumer behavior or trading volumes.

Intensifying Competition

The competitive landscape remained challenging in 2010. The Bank has seen, and continues to expect, a shift towards a more traditional, retail deposit-based banking model. An increasingly

cluttered market space, including competitors with greater resources and product offerings, as well as aggressive pricing throughout the industry, may pressure the retention of existing balances and efficient acquisition of new deposit funds. Should these conditions remain in effect, or even increase, the Bank may be required to trade-off balance growth in order to achieve its earnings forecast or vice versa.

Once the credit and liquidity shortage fully normalizes, sidelined mortgage banks may forcefully re-enter the market and pursue a discount pricing strategy in order to attract production volume. The production focus will likely revolve around high quality credit loans, which represent the Bank's core segment. The consequence may be a contraction in origination volumes and/or lower asset yields for the Bank.

Customer Behavior

The Bank continues to market more products to its large customer base. Life-to-date, 12.5% of the Bank's customers own transaction accounts, which is a strong performance compared to industry benchmarks. The sale of more products may not be sustainable long-term which would reduce the potential for future transaction account growth. The Bank also assumes that customers will continue to adopt its available transaction account functionalities.

The United States ("U.S.") savings rate has increased as customers reduced their debt in 2009 and 2010. At present, consumer behavior appears to have shifted to saving versus consumption and excessive risk taking. Theoretically, as credit becomes more available, consumer preference may revert back to over-consumption and excessive risk taking. If this occurs, the Bank may be challenged to deliver on its deposit growth target or alternatively, may have to pay higher interest rates or increase marketing expenditures to maintain its growth target, either of which would reduce earnings.

The Bank's ability to sell more products to customers is a key part or its strategy to grow revenue and earnings. Many of the Bank's competitors also focus on cross-selling, which could limit the Bank's ability to execute its own cross-self strategy or require lower pricing on its loan products or higher pricing on its deposit products, as well as affect the Bank's ability to keep existing customers.

The Bank faces competition to attract and retain key people.

The Bank's success largely depends on its ability to attract and retain highly motivated and qualified personnel. The competition in the financial services industry for individuals and teams with unique or specialized skills is rapidly intensifying. In the event that the Bank is unable to offer competitive compensation packages to new or existing staff, due to potential restrictions of new or amended compensation-related legislation, or expense constraints, it could have significant difficulty recruiting and retaining top talent. In addition, the current uncertainty surrounding the Global Parent Company's planned divestiture of the Bank is a significant challenge which could make candidates reluctant to accept positions with us and make existing employees more likely to accept opportunities at competitor firms. The Bank's ability to effectively execute its key initiatives and business strategy and to provide high quality service may be adversely affected if it is unable to recruit and retain a sufficient number of qualified employees.

Interest Rate Risks

Changes in interest rates could significantly impact the Bank's ability to meet its earning targets or could negatively impact future performance.

Interest Rate Development

Changes in interest rates could reduce the Bank's net interest income and earnings. Net interest income is the interest earned on loans, debt securities and other assets, less the interest the Bank pays on deposits and other liabilities. Net interest income is a measure of both net interest margin, the difference between the yield the Bank earns on its assets and the interest rate it pays for deposits and other sources of funding, as well as the amount of earning assets it holds. Changes in either the net interest margin or the amount of earning assets it holds could affect the Bank's net interest income and earnings.

Prepayment Risk

Since a large portion of the Bank's originated mortgage portfolio is of high quality (low current loan to value ratio, high FICO score) loans, the historically low rate environment increases the Bank's exposure to mortgage prepayment risk.

Because the Bank competes on the basis of the interest rates it offers depositors and the terms of loans it offers borrowers, its margins could decrease if the Bank was required to increase deposit rates or lower interest rates on loans in response to competitive pressures.

The Bank faces intense competition both in making loans and attracting deposits. The Bank competes primarily on the basis of the rates it pays on deposits and the rates and other terms it charges on the mortgage loans it originates or purchases, as well as the quality of its customer service. The Bank's competition for loans comes principally from mortgage banking firms, commercial banks, savings institutions, credit unions, finance companies, insurance companies and brokerage and investment banking firms. Price competition for loans might result in the Bank originating fewer loans or earning less on its loans.

During 2010, the Federal Reserve continued to purchase securities issued by Fannie Mae or Freddie Mac to provide these government-sponsored enterprises with a source of liquidity and thereby reduce the interest rates they offer on mortgage loans. While the intent of these actions was to stimulate the housing market, it also resulted in additional price competition for mortgage loans which are the Bank's primary lending product. In addition, there are entities which offer mortgages with more lenient underwriting standards which do not meet the Bank's current underwriting requirements.

BUSINESS RISKS

Future performance of the Bank's business will depend on its ability to manage operational risks and execute its strategic and operational initiatives effectively.

The Bank places great importance on the effective management of operational risk. The Operational Risk Management (the "ORM") team is charged with developing and implementing effective programs and processes to prevent fraudulent activities and minimize fraud-related losses. If the Bank's risk management framework proves ineffective, the Bank could suffer unexpected losses and could be materially adversely affected. As the Bank's business changes and grows, and the markets in which it operates continues to evolve, the Bank's risk management framework may not keep sufficient pace with those changes. As a result, there is the risk that the credit and market risks associated with new products or new business strategies may not be appropriately identified, monitored, or managed. In addition, in a difficult or less liquid market environment, the Bank's risk management strategies may not be effective because other market participants may be attempting to use the same or similar strategies to deal with the challenging market conditions. In such circumstances, it may be difficult for the Bank to reduce its risk positions due to the activity of such other market participants.

If the Bank does not adequately manage its strategic risks, it may not be able to meet its financial objectives.

Strategic risk is the risk that adverse business decisions, ineffective or inappropriate business plans or failure to respond to changes in the competitive environment, business cycles, and/or customer preferences will impact the Bank's ability to meet its objectives. Product obsolescence, poor execution and other intrinsic risks of business are also strategic risks. The Bank uses its planning process to help manage these risks by aligning strategies, goals, tactics and resources throughout the enterprise. However, if the Bank does not effectively manage these risks it could have a material and adverse impact on results of operations.

Higher charge-offs and worsening credit conditions could require the Bank to increase its allowance for credit losses through a charge to earnings.

When the Bank lends money or commits to lend money it incurs credit risk or the risk of losses if its borrowers do not repay their loans. The Bank reserves for credit losses by establishing an allowance through a charge to earnings. The amount of this allowance is based on the Bank's assessment of credit losses inherent in its loan portfolio. The process for determining the amount of the allowance is critical to the Bank's financial condition and results of operations. It requires difficult, subjective and complex judgments about the future, including forecasts of economic or market conditions that might impair the ability of the Bank's borrowers to repay their loans.

The Bank might underestimate the credit losses inherent in its loan portfolio and have credit losses in excess of the amount reserved. It might increase the allowance because of changing economic conditions, including falling home prices and higher unemployment, or other factors such as changes in borrower behavior. As an example, borrowers may be less likely to continue making payments on their real estate-secured loans if the value of the real estate is less than what they owe, even if they are still financially able to make the payments.

While the Bank believes that its allowance for credit losses was adequate at December 31, 2010, there is no assurance that it will be sufficient to cover future credit losses, especially if housing and employment conditions worsen. The Bank may be required to build reserves in 2011, thus reducing earnings.

The geographic concentration of the Bank's loan portfolio and lending activities makes it vulnerable to a downturn in the economy.

Loans secured by residential real estate are one of the Bank's primary products. Its financial condition and results of operations may be adversely affected by changes in prevailing economic conditions, including decreases in real estate values, adverse employment conditions, the monetary and fiscal policies of the federal and state government and other significant external events.

Financial institutions continue to be affected by the sharp declines in the real estate market that occurred over the last three years as well as the effects of the overall recessionary economy. Declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment, including job losses, have had and may continue to have an adverse effect on the Bank's borrowers, which could adversely affect the Bank's financial condition and results of operations. In addition, decreases in real estate values have adversely affected the value of property used as collateral for the Bank's loans and result in higher loss experience on its non-performing loans.

Further deterioration in local economic conditions in the Bank's markets could drive losses beyond that which is provided for in the allowance for loan losses and result in the following other consequences: loan delinquencies, problem assets and foreclosures may increase; demand for products and services may decline; deposits may decrease, which would adversely impact its liquidity position; and collateral for loans, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with the Bank's existing loans which may result in increased levels of loan loss provisions.

Sustained or significant deterioration in economic conditions could adversely impact the future performance of the Bank.

Adverse changes in the economy, particularly in employment conditions, may also have a negative effect on the ability of the Bank's borrowers to make timely repayments of their loans, which would have an adverse impact on the Bank's earnings. If poor economic conditions result in decreased demand for real estate loans, the Bank's profits may decrease because its investment alternatives may earn less income than real estate loans. If the economic environment in which the Bank operates suffers sustained or significant deterioration, the Bank's financial condition and results of operations could be adversely affected as described below:

Damage to the Brand

Future adverse market volatility and economic conditions could cause the Bank to further alter its marketing strategy and rates which may cause future damage to the brand's goodwill in the marketplace. The brand is very important to the Bank and negative public opinion could result from our actual or alleged conduct in any number of activities, including lending practices,

corporate governance, regulatory compliance, and disclosure, sharing or inadequate protection of customer information, and from actions taken by government regulators and community organizations in response to that conduct. Because the Bank conducts most of its business under the "ING Direct" brand, negative public opinion about one business could affect our other businesses.

The Bank's brand may be negatively impacted by a number of factors, including service outages, product malfunctions, data privacy, lack of training and security issues. If the Bank fails to maintain and enhance its brand, or if it incurs excessive expenses in this effort, the business, results of operations, and financial condition could be materially and adversely affected. As with many financial services institutions, maintaining and enhancing the brand will depend largely on the Bank's ability to be a technology leader and continue to provide high-quality products and services.

Credit Performance: Retail Mortgages

The 2010 allowance for loan losses takes into consideration various factors when estimating its adequacy, including known inherent risk of the portfolio and current market conditions. If delinquencies increase or housing prices decline, higher provisions may be required. If loan modifications do not perform as anticipated, the Bank will be required to record additional provisions or credit losses on these loans. Management will continue its efforts to ensure loan modifications remain in the best interests of the Bank and its customers.

Credit Performance: Securities Portfolio

The Bank continues to monitor the credit relationship between collateral, cumulative loss and pipeline loss compared to the current credit support and bond structural features for the investment portfolio. The Bank may be required to recognize further security credit impairments if economic and market conditions do not improve. Management is closely monitoring both the residential and commercial real estate markets to ensure that individual security credit impairments are adequate. The process for determining whether impairment is other-than-temporary requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Depending on the impact of changing economic and market conditions affecting issuers and the performance of the underlying collateral, the Bank may be required to recognize additional other-than-temporary impairment in future periods, thus reducing earnings.

Negative publicity could damage the Bank's reputation.

Reputation risk from negative public opinion could adversely affect the Bank's ability to keep and attract customers and expose it to adverse legal and regulatory consequences. Negative public opinion could 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.

If the Bank's security measures are breached, or if its services are subject to attacks that degrade or deny the ability of its customers to access its products and services, the Bank's products and services may be perceived as not being secure, customers may curtail or stop using the Bank's products and services, and the Bank may incur significant legal and financial exposure.

The Bank's products and services involve the storage and transmission of its customers' personal and private information, and security breaches could expose the Bank to a risk of loss of this information, litigation, and potential liability. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to the Bank's reputation, and a loss of confidence in the security of its products and services that could potentially have an adverse effect on business. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, the Bank may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of the Bank's security occurs, the market perception of the effectiveness of its security measures could be harmed and it could lose customers.

Privacy concerns relating to the Bank's technology could damage its reputation and deter current and potential customers from using its products and services.

While the Bank strives to comply with all applicable data protection laws and regulations, as well as its own posted privacy policies, any failure or perceived failure to comply may result in actions against the Bank, or cause it to lose customers.

The failure of the Bank's software or hardware back-up protocols could cause a serious disruption in service to its customers. The Bank relies on its systems and certain counterparties, and certain failures could cause a material and adverse effect on its operations.

Nearly all of the Bank's products and services are web-based. Any systems failure or compromise of the Bank's security or systems that disrupts its ability to provide service to its customers could seriously harm the Bank's reputation, brand and business.

The Bank's businesses are dependent on its ability to process, record and monitor a large number of complex transactions. If any of its financial, accounting, or other data processing systems fail or have other significant shortcomings, the Bank could be materially adversely affected. Third parties with which the Bank does 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 the Bank's ability to operate one or more of its businesses, or result in potential liability to clients, reputation damage and regulatory intervention, any of which could result in a material adverse effect.

If personal, confidential or proprietary information of customers or clients in the Bank's possession were to be mishandled or misused, it could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who are not

permitted to have the information, either by fault of the Bank’s systems, employees, or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties.

The Bank may be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control, which may include, for example, computer viruses or electrical or telecommunications outages, natural disasters, disease pandemics or 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 the Bank.

RISK FACTORS

Investing in the securities of Capital One Financial Corporation involves risks, including the risks described below that could affect us and our business. Other risks may prove to be important in the future or new risks may emerge at any time, and we cannot predict such risks or estimate the extent to which they may affect our financial performance. In addition to the risks described below, you should consider carefully the risks set forth under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010 and in our other reports filed with the Securities and Exchange Commission.

Risks relating to ING Direct

ING Direct, as a company that conducts banking operations and provides financial products, is subject to operating and other risks, including as discussed in risk factors that were prepared by ING Bank, fsb, included in our Current Report on Form 8-K filed on July 13, 2011, and incorporated by reference into this prospectus supplement. You should consider these risks before purchasing our common stock. Following the completion of the ING Direct acquisition, we expect that the financial performance and results of operations of ING Bank, fsb, and the combined company will continue to be subject to the risks and uncertainties described in this prospectus supplement and in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, including those set forth under the caption "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010.

Risks relating to the proposed ING Direct acquisition and other acquisitions

We may grow through future acquisitions, which could adversely affect our results of operations or result in dilution of our common stockholders.

During the past several years, we have explored opportunities to acquire financial services companies and financial assets and enter into strategic partnerships as part of our growth strategy. For example, as described under "Summary — Recent Developments," we announced the ING Direct acquisition in June 2011. In addition, we acquired the credit card loan portfolios of, and entered into credit card partnership agreements with, Kohl's Corp., Sony Corporation and Hudson's Bay Company during the past two years, and we acquired Chevy Chase Bank in February 2009. We continue to evaluate and anticipate engaging in additional strategic partnerships and selected acquisitions of financial institutions and other financial assets, including credit card and other loan portfolios.

Any acquisitions we undertake will entail certain risks, which may materially and adversely affect our results of operations. These risks include the risk that we may incorrectly assess the asset quality and value of the particular assets or institutions we acquire and we may be unable to profitably deploy any assets we acquire in an acquisition. Our acquisitions also may involve our entry into new businesses and new geographic or other markets which present risks resulting from our relative inexperience in these new areas or these new businesses. These new businesses 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. We also cannot assure you that we will identify or acquire suitable financial assets or institutions to supplement our organic growth through acquisitions or strategic partnerships.

Any future acquisitions may be subject to regulatory approval, which will require 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 regulatory approval.

We may issue common stock or debt in connection with future acquisitions, including in public offerings to fund such acquisitions or to provide adequate capital for the additional assets acquired. Issuances of our common stock, whether as consideration for such acquisitions or to raise necessary funds or capital, may have a dilutive effect on earnings per share and our common stockholders' equity.

It may be difficult to integrate businesses we acquire, including ING Direct, and we may fail to realize all of the anticipated benefits of the ING Direct acquisition and any strategic partnerships, mergers or acquisitions.

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 the ING Direct acquisition or other strategic partnerships, mergers or acquisitions, 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 the merger or acquisition. Integration efforts also may divert management attention and resources. These integration matters may have an adverse effect on us during any transition period.

We have made certain assumptions relating to the ING Direct acquisition which may prove to be materially inaccurate.

We have made certain assumptions relating to the ING Direct acquisition, which assumptions may be inaccurate, including as the result of the failure to realize the expected benefits of the ING Direct acquisition, 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 the ING Direct acquisition. These assumptions relate to numerous matters, including:

- projections of ING Direct's future net income and our earnings per share;
- our ability to issue equity and debt to complete the ING Direct acquisition;
- our expected capital structure and capital ratios after the ING Direct acquisition;
- projections as to the amount of future loan losses in ING Direct's portfolios;
- the amount of goodwill and intangibles that will result from the ING Direct acquisition;
- certain other purchase accounting adjustments that we expect will be recorded in our financial statements in connection with the ING Direct acquisition;
- cost, deposit, cross-selling and balance sheet synergies;
- acquisition costs, including restructuring charges and transaction costs;
- our ability to maintain, develop and deepen relationships with customers of ING Direct;
- our ability to grow ING Direct's customer deposits and manage ING Direct's mortgage portfolio; and
- other financial and strategic risks of the ING Direct acquisition.

This offering is not conditioned upon the closing of the ING Direct acquisition, and we cannot assure you that the ING Direct acquisition will be completed.

In June 2011, we signed a purchase and sale agreement under which we would acquire ING Direct in a stock and cash transaction. We expect the ING Direct acquisition to close by late 2011 or early 2012, subject to customary closing conditions, including certain governmental clearances and approvals, including banking approvals in both the U.S. and The Netherlands. This offering is not conditioned on the closing of the ING Direct acquisition, and we cannot assure you that the ING Direct acquisition will be completed.

In order to complete the ING Direct acquisition, we and ING Direct must obtain certain governmental approvals, and if such approvals are not granted or are granted with conditions that become applicable to the parties, the completion of the ING Direct acquisition may be jeopardized or the anticipated benefits of the ING Direct acquisition could be reduced.

The purchase and sale agreement for the ING Direct acquisition is subject to a number of conditions which must be fulfilled in order to complete the ING Direct acquisition, including receipt of banking approvals in both the U.S.

and The Netherlands and certain other governmental clearances and approvals. We cannot assure you as to whether or when these approvals will be obtained. In addition, the governmental authorities from which these approvals are required have broad discretion in administering the governing regulations. As a condition to approval of the ING Direct acquisition, these governmental authorities may impose requirements, limitations or costs or require divestitures or place restrictions on the conduct of our or ING Direct's business after the completion of the ING Direct acquisition. If such approvals are not granted or are granted with conditions that become applicable to the parties, the completion of the ING Direct acquisition may be jeopardized or the anticipated benefits of the ING Direct acquisition could be reduced.

Failure to complete the ING Direct acquisition in certain circumstances could require us to pay a termination fee.

If the purchase and sale agreement is terminated under certain circumstances, we would be obligated to pay a $270 million termination fee to ING Groep. Payment of the termination fee could materially adversely affect our results of operations or financial condition.