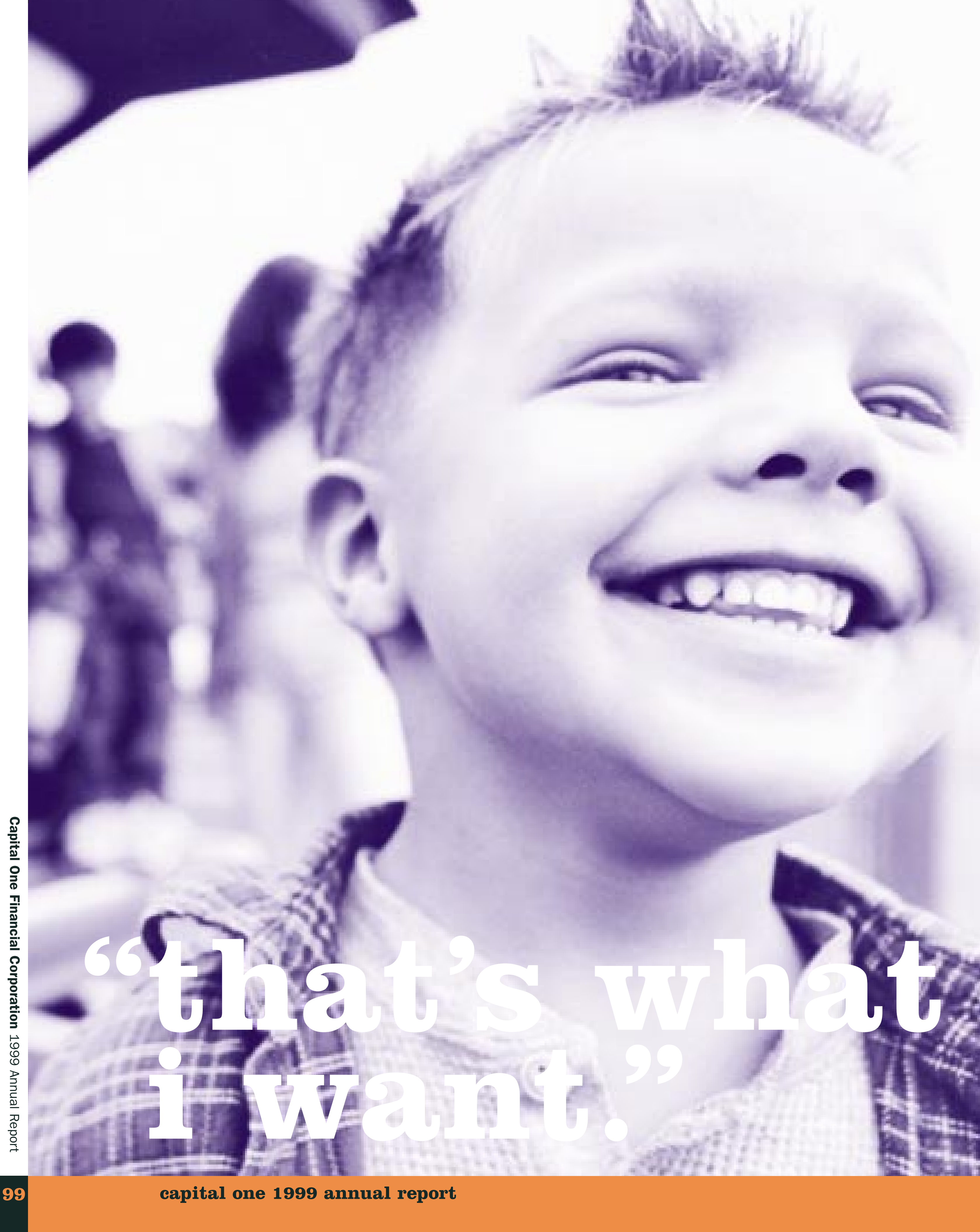

"that's what i want."

Do you remember what it felt like
to turn 10 years old?

For a whole day, the entire universe
seemed to revolve around you.

If we could translate that feeling into
a mission statement, we would because
our world revolves around you.

Where other companies aim to "meet
or exceed" the expectations of their
associates,
customers and
shareholders ...

our goal is to absolutely
blow your doors off.

Capital One. **"that's what i want."**

we emp our associates

The best of the best. That's who we recruit, and that's what they expect us to be. So we've made Capital One a terrific place to work. We give associates big opportunities. We invest in their growth and reward great performance. Compensation and benefits are highly innovative. We're proud that 15,500 smart, energetic, committed individuals — the kind of people who could work anywhere — say

Capital One.

"that's what i want."

ower

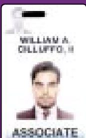
options for a better life

JOE FERGUSON, COMMUNICATION SPECIALIST, CHESTER, VIRGINIA

Equity Ownership. **After two years of waiting, Joe and Jan Ferguson went overseas to bring home an adoptive son — only to have the arrangements fall through. “It was devastating to come home empty-handed,” Joe says. “The Company’s employee benefit plan paid part of the cost, but the rest of the money we’d spent to get that far had tapped out our savings.” A few weeks later, the Fergusons were presented with an opportunity to adopt a baby about to be born in a local hospital. “My stock options made it possible. I don’t know how we would have done it otherwise. Our son Ryan is now two. He’s healthy, smart and happy — the love of our life.”**

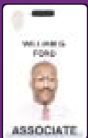
opportunity

BILL CILLUFFO, DIRECTOR, MARKETING & ANALYSIS, VIENNA, VIRGINIA



A Piece of the Action. **Bill joined in 1994, after graduating from college. Promoted three times, he manages a marketing budget of well over $100 million. "I came because of the people and the culture," he says. "The Company has grown fast because everybody is encouraged to go out and add value. Through stock ownership and options programs, there's an opportunity to create substantial value for yourself as well." Like many senior managers, Bill has traded half his bonus for options and recently traded his options for the next two years in exchange for the possibility of even bigger rewards in the future.**

BILL FORD, MANAGER, SITE OPERATIONS, RICHMOND, VIRGINIA



Go-For-It Culture. **An Eagle Scout and former U.S. Army major, Bill came to Capital One in 1997 as a site operations manager. After two promotions he now manages a team of technicians who provide computer support to all of Capital One's U.S. buildings. "I came here because I could see that everything was wide open. You don't have to do the same thing the same way every time. When you think you've found a better way, you can try it. One reason children are so much fun is that they believe anything is possible. Capital One is like that."**

Our scores for work-family balance and performance-based pay are among the best in corporate America.

For the second time, a survey in *FORTUNE*℠ named us one of the 100 Best Companies to Work for in America.

91% of our associates told an independent survey firm they think Capital One is a fun place to work.

96%

say they are proud to work for Capital One.

to

we want WOW our customers

Each of our customers takes a unique journey through Capital One. Every account is custom-fitted to the individual's circumstances. We market to our customers' practical needs, their personal passions, their stages of life. We build strong, lasting relationships through high-value products and first-class service. Now 24 million customers say

Capital One.
"that's what i want."

webcentricity

ADAM GEFFNER. PLYMOUTH MEETING, PENNSYLVANIA

www.capitalone.com. Capital One is a leader in online credit cards. Setting up a Capital One account on the Internet takes less than 60 seconds, and new customers can immediately shop online. Our Web site also expands service options. “The online payment system was one of the main reasons I signed up with Capital One,” says Adam Geffner, a telecom coordinator. “The Web site gives me account information when I want it. And the statements are very current, which allows me to do a better job of managing my finances.”

a helping hand

DENISE MEMMELAAR AND HER DAUGHTER, TARA. SNOW HILL, NORTH CAROLINA

Customer Focus. **When three hurricanes blew through North Carolina last September, they also blew a hole through the family budget of Quentin and Denise Memmelaar. Bad roads and washed-out bridges kept Quentin from work for three weeks. “I called Capital One to explain that we had no money coming in,” Denise says. “We just needed a little time to get back on our feet. Capital One really came through for us. For two months they let us make payments of $10 a month and didn’t charge interest.”**

BARBARA STAGG AND JOHN GILLIAT. RUGBY, TENNESSEE

Fixed Rates. **"We live off the beaten path, so credit cards are a real lifeline for us," says Barbara, who is executive director of Historic Rugby, a restored Victorian village that draws 60,000 visitors a year. Her husband, John Gilliat, is Rugby's property director. "Capital One is a partner we know we can count on. It is the only credit card company we've dealt with in a long time that hasn't thrown us any curves, like rate increases or unexpected fees."**

Consumer Reports® rates our MilesOne℠ Platinum Visa, the #1 travel reward credit card. No wonder. Miles are redeemable on any airline. No blackout periods. Low fixed rate.

Capital One profitably serves customers across the credit spectrum.

Capital One has 24 million customers — more than AOL®, Fidelity Investments® or Charles Schwab®.

In 1999, we added 19,000 customers a day.

we've rewa our investors

With our Information-Based Strategy, we have reinvented the credit card industry and created explosive growth for Capital One. Our financial performance has set records across the board in our five years as a public company. Our radically new approach and its superior results have led our institutional and individual investors to say

Capital One.
"that's what i want."

rded

a winning team

KENT SIMONS, PORTFOLIO MANAGER, NEUBERGER BERMAN. NEW YORK, NEW YORK

81%
of associates own our stock or options

Intellectual Capital. **Kent is in the business of picking winners. The mutual fund he manages, Neuberger Berman's Focus Fund, owns 2,767,500 shares of Capital One stock, and Kent personally owns 112,000 shares. "What sold me is that the senior managers truly believe that recruiting the right people is the most important job they do. Successful companies are like championship teams. They attract winning people. And that's a major reason they keep on winning."**

a brilliant future

SID AND MARCY PASKOWITZ, INDIVIDUAL INVESTORS. McLEAN, VIRGINIA

compound annual revenue growth for 5 years:
44%

Education and Retirement Savings. **Sid decided to invest in Capital One soon after the Company's first annual meeting. "Marcy and I were there because she was already a stockholder," Sid recalls. "I had been working as a logistics consultant, so I immediately recognized the uniqueness of the Company's strategy and the sophistication of its approach to information technology. I think Capital One has a great future. In the meantime, our shares have appreciated enough to help put our son James through college and medical school."**

a place at the top

TOM BROWN, SECOND CURVE CAPITAL. NEW YORK, NEW YORK

369% growth in customers since 1995

Growth, Year After Year. For a security analyst, there is no higher professional honor than a spot on one of *Institutional Investor®* magazine's annual all-star lists. In the financial services category, Tom Brown headed the list 8 times between 1989 and 1997. "I recommended Capital One's stock in the very beginning, and now that I'm a portfolio manager focused on the financial services industry, it's still my #1 pick," he says. "It now has a broader product line, a deeper management team and a stronger infrastructure. It also has proven that its information-based strategy is a superior radar system for directing the Company to its most profitable opportunities."

Our earnings growth and return on equity have topped

20%

for five years in a row.

Between our IPO in 1994 and year-end 1999, our revenues increased 512%.

In 1999, we won four Alexander Hamilton Awards, given by *Treasury & Risk Management®* magazine for excellence in financial management. Our treasury department took first prize.

Richard D. Fairbank
Chairman and
Chief Executive Officer

Nigel W. Morris
President and
Chief Operating Officer

to our shareholders and friends:

What *we* want for Capital One

Capital One turned five in November, and in every year since its public offering, it has set financial records across the board. We are especially proud of consistently meeting two of our most ambitious annual goals, a 20%-plus increase in earnings per share and a 20%-plus return on equity. We have delivered both for five consecutive years, a record matched by only 10 of the country's 10,000 public companies.

Other highlights:

- We started as a U.S. credit card company. We now have a growing international business. We also market auto loans, installment loans, deposit accounts, other consumer financial products and wireless phone service.
- In 1994, we had 5 million customers. Today we have 24 million, giving us one of the largest customer bases in the world and a large, ready-made market for our other products.
- We're one of the fastest-growing financial service companies on the Internet.

Even after this high-velocity growth, we believe our opportunities are broader and brighter than ever. But what we want most for Capital One goes well beyond making the most of opportunities. We want to build one of the world's truly great companies. That is the dream at the heart of all we do. We want Capital One to be great in every way that matters — great as a place to work, great at innovation and customer service, great as a financial performer and a corporate citizen. And we want this greatness to endure.

To ensure that it will, we often forgo short-run gains to achieve long-term success. Our marketing investment, which funds testing and product rollouts, is huge: the $732 million we invested in 1999 was 127% of our pretax earnings. Our capital base significantly exceeds the regulatory requirements for a "well-capitalized" financial institution.

As in the past, our growth will be driven by our information-based strategy (IBS), which we created 12 years ago. IBS links our database (one of the world's largest) to prize-winning information technology and highly sophisticated analytics. With IBS we scientifically test ideas before taking them to market, and we tailor the product to the individual customer. Before IBS, issuers priced all cards at 19.8% and denied credit to applicants whose risk profiles did not fit narrow parameters. The testing and customizing made possible with IBS have transformed the credit card industry by dramatically reducing credit costs for most consumers and by making credit cards available for the first time to millions of people.

IBS allows us to reach hard-to-find customers in thousands of "microsegments" and offer them innovative, high-value products tailored to their needs. We have built a thriving business in the superprime market — the country's most blue-chip customers. We also successfully market to the needs and passions of sports fans, music lovers, newlyweds, new parents, and hundreds of other lifestyle and lifestage groups. And we market profitably to the underserved — customers traditionally overlooked by our competitors.

With IBS we can innovate constantly. And rapid, substantive innovation is essential to greatness. The winners in an increasingly competitive world will be the companies that offer the best buys, offer them first and move on when competitors move in. Capital One's innovation machine is running smoothly at very high speed: in 1999, we tested 36,114 new ideas, 25% more than in 1998.

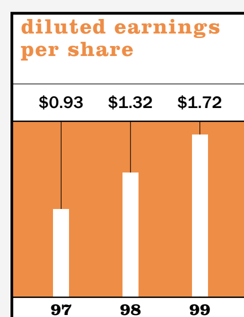
IBS has generated consistently high returns for Capital One and has helped us maintain excellent credit quality. Our profitability in 1999 was one of the highest among major issuers, and our charge-off rate was the very lowest.

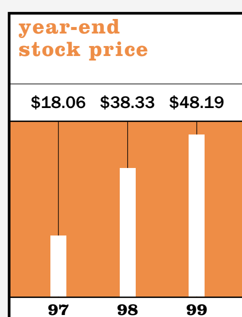
While we are enjoying explosive growth in the U.S. credit card business, we have also been successful in exporting IBS to other markets. We now operate in Canada and the United Kingdom and are actively testing in other countries. In addition, we continue to diversify beyond credit cards. Our 1998 acquisition of Summit Acceptance Corporation has given us a beachhead in auto finance, a market almost twice the size of the credit card business. Our installment loan business grew by 45% in 1999.

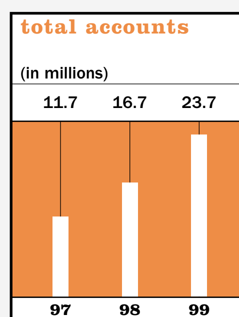
financial summary

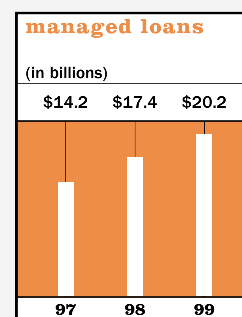
Year Ended December 31 (Dollars in Thousands, Except Per Share Data)	1999	1998	Percent Change
EARNINGS:			
Net interest income	**$ 1,052,602**	$ 687,252	53.16%
Non-interest income	**2,372,359**	1,488,283	59.40
Marketing	**731,898**	446,264	64.01
Other non-interest expense	**1,733,098**	1,018,322	70.19
Net income	**363,091**	275,231	31.92
Tax Rate	**37.1%**	38.0%	–2.45
PER COMMON SHARE:[1]			
Basic earnings	**$ 1.84**	$ 1.40	31.43
Diluted earnings	**1.72**	1.32	30.30
Dividends	**0.11**	0.11	
Book value as of year-end	**7.69**	6.45	19.22
Market prices			
Year-end	**48 3/16**	38 1/3	25.71
High	**60 1/8**	43 5/16	38.91
Low	**35 5/8**	16 7/8	112.48
Price/Earnings ratio	**28.02**	29.04	–3.51
RATIOS:			
Return on average assets	**3.28%**	3.30%	–0.61
Return on average equity	**25.79**	25.30	1.94
Capital to assets	**12.10**	14.53	–16.72
Allowance for loan losses to loans as of year-end	**3.45**	3.75	–8.00
MANAGED CONSUMER LOAN DATA:			
Average reported loans	**$ 7,667,355**	$ 5,348,559	43.35
Average off-balance sheet loans	**10,379,558**	9,860,978	5.26
Average total managed loans	**18,046,913**	15,209,537	18.66
Year-end reported loans	**9,913,549**	6,157,111	61.01
Year-end off-balance sheet loans	**10,323,039**	11,238,015	–8.14
Year-end total managed loans	**20,236,588**	17,395,126	16.33
Year-end total accounts (000s)	**23,705**	16,706	41.90
Yield	**17.59%**	16.99%	3.53
Net interest margin	**10.83**	9.91	9.28
Delinquency rate (30+ days)	**5.23**	4.70	11.28
Net charge-off rate	**3.85**	5.33	–27.77
YEAR-END REPORTED DATA:			
Assets	**$ 13,336,443**	$ 9,419,403	41.58
Earning assets	**11,882,402**	8,238,091	44.24
Average assets	**11,085,013**	8,330,432	33.07
Average earning assets	**9,694,406**	7,225,835	34.16
Common equity	**1,515,607**	1,270,406	19.30
Associates (FTEs)	**15,426**	10,432	47.87
Shares outstanding (000s)	**197,046**	196,979	0.03
Common stockholders of record	**9,738**	9,692	0.47

(1) All periods have been restated to reflect the Company's three-for-one stock split effective June 1, 1999.









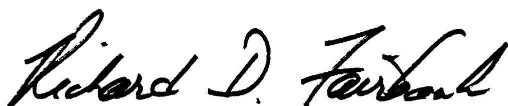
Profits from cross-selling have tripled in the last two years. In 1999, 57% of new customers bought at least one other product from us. The products we cross-sell are best in class. We don't market a product until our associates try it and say they're satisfied with it.

The magnitude of Capital One's potential is best appreciated in the context of two of the biggest business revolutions of our time — direct marketing and the Internet. Capital One is at the forefront of both because it excels at data mining, testing, customizing and innovating. Financial services are ideal for direct marketing, and customer interactions produce an endless stream of information for research and development.

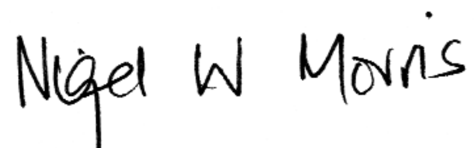
On the Internet, IBS works at unprecedented speeds. Testing and customizing happen in real time. Approvals take less than a minute instead of a week. Account numbers are assigned with approvals, so customers can use their cards online immediately. We're a leader in online credit cards. The Internet also expands opportunities for account servicing and cross-selling, and it opens the way for new online products and services. As we move into these new areas, we remain deeply committed to protecting the privacy of customer information on the Internet, in our database and throughout our marketing and customer service operations.

Knowing that there are no great companies without great people, we make recruiting our top priority. The people we attract are talented, entrepreneurial individuals with big dreams of their own. They come for the big opportunities they see in a high-growth company with a culture that prizes performance more than time and grade. Capital One's 15,500 associates are first-rate at work and in their communities, where they volunteer their creativity, energy and time. These contributions, plus financial support from Capital One, are making a difference in countless nonprofit programs, especially for children and families at risk.

For five years, Capital One has created great opportunities for associates, great products for customers and great returns for investors. We expect the next five years to be just as exciting. We have a winning strategy as well as the market power and the momentum for continued strong growth. Most important, we have the people who can help us realize our dream of greatness. It has been said that you can tell a lot about people by the company they keep. We agree. We're proud to be judged by the company *we* keep. We invite you to join us in pursuing our dream.



Richard D. Fairbank
Chairman and Chief Executive Officer



Nigel W. Morris
President and Chief Operating Officer

To describe our trajectory over the last five years, we had to invent a word:

hyper-growth.

Revenues grew from $628 million to $3.8 billion. Up 512%.

Customer base grew from 5 million to 24 million. Up 369%.

Our ranks grew from 2,500 associates to 15,500. Up 532%.

1999 financial presentation

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selected financial and operating data

Year Ended December 31 (Dollars in Thousands, Except Per Share Data)	1999	1998	1997	1996	1995	Five-Year Compound Growth Rate
Income Statement Data:						
Interest income	**$ 1,593,484**	$ 1,111,536	$ 717,985	$ 660,483	$ 457,409	43.85%
Interest expense	**540,882**	424,284	341,849	294,999	249,396	42.00
Net interest income	**1,052,602**	687,252	376,136	365,484	208,013	44.87
Provision for loan losses	**382,948**	267,028	262,837	167,246	65,895	65.62
Net interest income after provision for loan losses	**669,654**	420,224	113,299	198,238	142,118	37.91
Non-interest income	**2,372,359**	1,488,283	1,069,130	763,424	553,043	42.99
Non-interest expense	**2,464,996**	1,464,586	876,976	713,182	497,430	45.02
Income before income taxes	**577,017**	443,921	305,453	248,480	197,731	31.49
Income taxes	**213,926**	168,690	116,072	93,213	71,220	32.92
Net income	**$ 363,091**	$ 275,231	$ 189,381	$ 155,267	$ 126,511	30.68
Dividend payout ratio	**5.69%**	7.46%	10.90%	13.24%	12.55%	
Per Common Share:[1]						
Basic earnings	**$ 1.84**	$ 1.40	$ .96	$ .78	$ .64	30.83%
Diluted earnings	**1.72**	1.32	.93	.77	.64	29.08
Dividends	**.11**	.11	.11	.11	.08	
Book value as of year-end	**7.69**	6.45	4.55	3.72	3.02	
Average common shares	**197,593,371**	196,768,929	198,209,691	198,682,893	197,072,514	
Average common and common equivalent shares	**210,682,740**	208,765,296	202,952,592	201,075,699	199,176,852	
Selected Average Balances:						
Securities	**$ 2,027,051**	$ 1,877,276	$ 1,650,961	$ 1,147,079	$ 962,624	100.46%
Allowance for loan losses	**(269,375)**	(214,333)	(132,728)	(83,573)	(69,939)	32.31
Total assets	**11,085,013**	8,330,432	6,568,937	5,568,960	4,436,055	33.34
Interest-bearing deposits	**2,760,536**	1,430,042	958,885	1,046,122	769,688	137.87
Borrowings	**6,078,480**	5,261,588	4,440,393	3,623,104	2,952,162	21.59
Stockholders' equity	**1,407,899**	1,087,983	824,077	676,759	543,364	42.50
Selected Year-End Balances:						
Securities	**$ 1,968,853**	$ 2,080,980	$ 1,475,354	$ 1,358,103	$ 1,244,195	
Consumer loans	**9,913,549**	6,157,111	4,861,687	4,343,902	2,921,679	
Allowance for loan losses	**(342,000)**	(231,000)	(183,000)	(118,500)	(72,000)	
Total assets	**13,336,443**	9,419,403	7,078,279	6,467,445	4,759,321	
Interest-bearing deposits	**3,783,809**	1,999,979	1,313,654	943,022	696,037	
Borrowings	**6,961,014**	5,481,593	4,526,550	4,525,216	3,301,672	
Stockholders' equity	**1,515,607**	1,270,406	893,259	740,391	599,191	
Managed Consumer Loan Data:						
Average reported loans	**$ 7,667,355**	$ 5,348,559	$ 4,103,036	$ 3,651,908	$ 2,940,208	27.38%
Average off-balance sheet loans	**10,379,558**	9,860,978	8,904,146	7,616,553	6,149,070	21.56
Average total managed loans	**18,046,913**	15,209,537	13,007,182	11,268,461	9,089,278	23.83
Interest income	**3,285,736**	2,583,872	2,045,967	1,662,990	1,192,100	34.97
Year-end total managed loans	**20,236,588**	17,395,126	14,231,015	12,803,969	10,445,480	22.36
Year-end total accounts (000s)	**23,705**	16,706	11,747	8,586	6,149	36.25
Yield	**17.59%**	16.99%	15.73%	14.76%	13.12%	
Net interest margin	**10.83**	9.91	8.81	8.16	6.27	
Delinquency rate	**5.23**	4.70	6.20	6.24	4.20	
Net charge-off rate	**3.85**	5.33	6.59	4.24	2.25	
Operating Ratios:						
Return on average assets	**3.28%**	3.30%	2.88%	2.79%	2.85%	
Return on average equity	**25.79**	25.30	22.98	22.94	23.28	
Equity to assets (average)	**12.70**	13.06	12.55	12.15	12.25	
Allowance for loan losses to loans as of year-end	**3.45**	3.75	3.76	2.73	2.86	

(1) **All periods have been restated to reflect the Company's three-for-one stock split effective June 1, 1999.**

management's discussion and analysis of financial condition and results of operations

INTRODUCTION

Capital One Financial Corporation (the "Corporation") is a holding company whose subsidiaries provide a variety of products and services to consumers using its Information-Based Strategy ("IBS"). The principal subsidiaries are Capital One Bank (the "Bank"), which offers credit card products, and Capital One, F.S.B. (the "Savings Bank"), which offers consumer lending products (including credit cards) and deposit products. The Corporation and its subsidiaries are collectively referred to as the "Company." As of December 31, 1999, the Company had 23.7 million accounts and $20.2 billion in managed consumer loans outstanding and was one of the largest providers of MasterCard and Visa credit cards in the world.

The Company's profitability is affected by the net interest income and non-interest income earned on earning assets, consumer usage patterns, credit quality, the level of marketing expense and operating efficiency. The Company's revenues consist primarily of interest income on consumer loans and securities, and non-interest income consisting of servicing income on securitized loans, fees (such as annual membership, cash advance, cross-sell, interchange, overlimit, past-due and other fee income, collectively "fees") and gains on the securitizations of loans. The Company's primary expenses are the costs of funding assets, credit losses, operating expenses (including salaries and associate benefits), marketing expenses and income taxes.

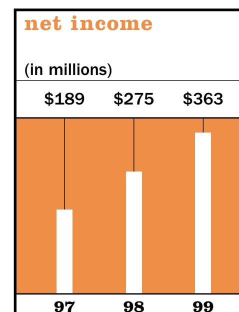
Significant marketing expenses (e.g., advertising, printing, credit bureau costs and postage) to implement the Company's new product strategies are incurred and expensed prior to the acquisition of new accounts while the resulting revenues are recognized over the life of the acquired accounts. Revenues recognized are a function of the response rate of the initial marketing program, usage and attrition patterns, credit quality of accounts, product pricing and effectiveness of account management programs.

EARNINGS SUMMARY

The following discussion provides a summary of 1999 results compared to 1998 results and 1998 results compared to 1997 results. Each component is discussed in further detail in subsequent sections of this analysis.

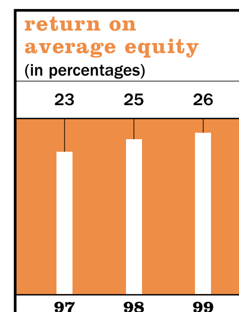
Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Net income of $363.1 million, or $1.72 per share, for the year ended December 31, 1999, compares to net income of $275.2 million, or $1.32 per share, in 1998. The 32% increase in net income of $87.9 million is primarily the result of an increase in both asset and account volumes and an increase in net interest margin. Net interest income increased $365.4 million, or 53%, as average earning assets increased 34% and the net interest margin increased to 10.86% from 9.51%. The provision for loan losses increased $115.9 million, or 43%, as the average reported consumer loans increased 43%, offset by the reported net charge-off rate decrease to 3.59% in 1999 from 4.24% in 1998. Non-interest income increased $884.1 million, or 59%, primarily due to the increase in average managed accounts of 42%. Increases in marketing expenses of $285.6 million, or 64%, and salaries and benefits expense of $303.8 million, or 64%, reflect the increase in marketing investment in existing and new product opportunities and the cost of operations to manage the growth in the Company's accounts and products offered. Average managed consumer loans grew 19% for the year ended December 31, 1999, to $18.0 billion from $15.2 billion for the year ended December 31, 1998, and average accounts grew 42% for the same period to 19.6 million from 13.8 million as a result of the continued success of the Company's marketing and account management strategies.



Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Net income of $275.2 million, or $1.32 per share, for the year ended December 31, 1998, compares to net income of $189.4 million, or $.93 per share, in 1997. The 45% increase in net income of $85.9 million is primarily the result of an increase in both asset and account volumes and an increase in net interest margin. Net interest income



increased $311.1 million, or 83%, as average earning assets increased 26% and the net interest margin increased to 9.51% from 6.54%. The provision for loan losses increased $4.2 million, or 2%, as the reported charge-off rate decreased to 4.24% in 1998 from 4.83% in 1997, offset by average reported consumer loans increasing 30%. Non-interest income increased $419.2 million, or 39%, primarily due to the increase in average managed accounts of 39%. Increases in marketing expenses of $221.4 million, or 98%, and salaries and benefits expense of $187.1 million, or 65% reflect the increase in marketing investment in existing and new product opportunities and the cost of operations to manage the growth in the Company's accounts and products offered. Average managed consumer loans grew 17% for the year ended December 31, 1998, to $15.2 billion from $13.0 billion for the year ended December 31, 1997, and average accounts grew 39% for the same period to 13.8 million from 9.9 million as a result of the continued success of the Company's marketing and account management strategies.

MANAGED CONSUMER LOAN PORTFOLIO

The Company analyzes its financial performance on a managed consumer loan portfolio basis. Managed consumer loan data adds back the effect of off-balance sheet consumer loans. The Company also evaluates its interest rate exposure on a managed portfolio basis.

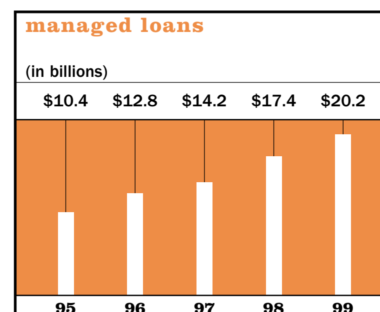
The Company's managed consumer loan portfolio is comprised of reported and off-balance sheet loans. Off-balance sheet loans are those which have been securitized and accounted for as sales in accordance with Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"), and are not assets of the Company. Therefore, those loans are not shown on the balance sheet.

Table 1 summarizes the Company's managed consumer loan portfolio.

table 1: MANAGED CONSUMER LOAN PORTFOLIO

Year Ended December 31 (In Thousands)	**1999**	1998	1997	1996	1995
Year-End Balances:					
Reported consumer loans	**$ 9,913,549**	$ 6,157,111	$ 4,861,687	$ 4,343,902	$ 2,921,679
Off-balance sheet consumer loans	**10,323,039**	11,238,015	9,369,328	8,460,067	7,523,801
Total managed consumer loan portfolio	**$ 20,236,588**	$ 17,395,126	$ 14,231,015	$ 12,803,969	$ 10,445,480
Average Balances:					
Reported consumer loans	**$ 7,667,355**	$ 5,348,559	$ 4,103,036	$ 3,651,908	$ 2,940,208
Off-balance sheet consumer loans	**10,379,558**	9,860,978	8,904,146	7,616,553	6,149,070
Total managed consumer loan portfolio	**$ 18,046,913**	$ 15,209,537	$ 13,007,182	$ 11,268,461	$ 9,089,278

Since 1990, the Company has actively engaged in consumer loan securitization transactions. Securitization involves the transfer by the Company of a pool of loan receivables to an entity created for securitizations, generally a trust or other special purpose entity ("the trusts"). The credit quality of the receivables is supported by credit enhancements, which may be in various forms including a letter of credit, a cash collateral guaranty or account, or a subordinated interest in the receivables in the pool. Certificates ($10.3 billion outstanding as of December 31, 1999) representing undivided ownership interests in the receivables are sold to the public through an underwritten offering or to private investors in private placement transactions. The Company receives the proceeds of the sale.



The Company retains an interest in the trusts ("seller's interest") equal to the amount of the receivables transferred to the trust in excess of the principal balance of the certificates. The Company's interest in the trusts varies as the amount of the excess receivables in the trusts fluctuates as the accountholders make principal payments and incur new charges on the selected accounts. The securitization generally results in the removal of the receivables, other than the seller's interest, from the Company's balance sheet for financial and regulatory accounting purposes.

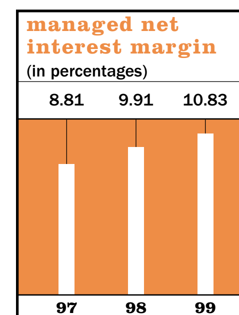
The Company's relationship with its customers is not affected by the securitization. The Company acts as a servicing agent and receives a fee.

Collections received from securitized receivables are used to pay interest to certificateholders, servicing and other fees, and are available to absorb the investors' share of credit losses. Amounts collected in excess of that needed to pay the above amounts are remitted to the Company, as described in Servicing and Securitizations Income.

Certificateholders in the Company's securitization program are generally entitled to receive principal payments either through monthly payments during an amortization period or in one lump sum after an accumulation period. Amortization may begin sooner in certain circumstances, including if the annualized portfolio yield (consisting, generally, of interest and fees) for a three-month period drops below the sum of the certificate rate payable to investors, loan servicing fees and net credit losses during the period.

Prior to the commencement of the amortization or accumulation period, all principal payments received on the trusts' receivables are reinvested in new receivables to maintain the principal balance of certificates. During the amortization period, the investors' share of principal payments is paid to the certificateholders until they are paid in full. During the accumulation period, the investors' share of principal payments is paid into a principal funding account designed to accumulate amounts so that the certificates can be paid in full on the expected final payment date.

Table 2 indicates the impact of the consumer loan securitizations on average earning assets, net interest margin and loan yield for the periods presented. The Company intends to continue to securitize consumer loans.



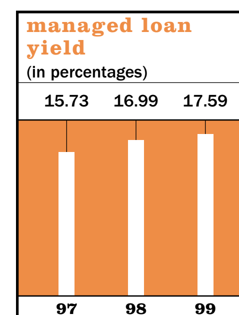
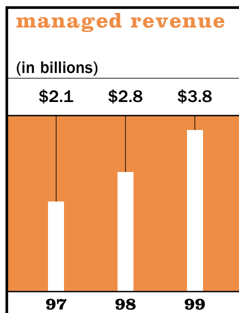


table 2: OPERATING DATA AND RATIOS

Year Ended December 31 (Dollars in Thousands)	**1999**	1998	1997
Reported:			
Average earning assets	**$ 9,694,406**	$ 7,225,835	$ 5,753,997
Net interest margin	**10.86%**	9.51%	6.54%
Loan yield	**19.33**	18.75	15.11
Managed:			
Average earning assets	**$ 20,073,964**	$ 17,086,813	$ 14,658,143
Net interest margin	**10.83%**	9.91%	8.81%
Loan yield	**17.59**	16.99	15.73

RISK ADJUSTED REVENUE AND MARGIN

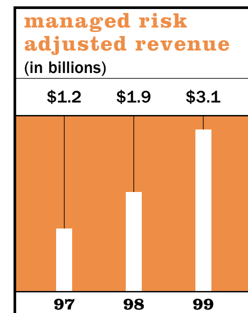
The Company's products are designed with the objective of maximizing revenue for the level of risk undertaken. Management believes that comparable measures for external analysis are the risk adjusted revenue and risk adjusted margin of the managed portfolio. Risk adjusted revenue is defined as net interest income and non-interest income less net charge-offs. Risk adjusted margin measures risk adjusted revenue as a percent-



age of average earning assets. It considers not only the loan yield and net interest margin, but also the fee income associated with these products. By deducting net charge-offs, consideration is given to the risk inherent in these differing products.

The Company markets its card products to specifically targeted consumer populations. The terms of each card product are actively managed in an effort to maximize return at the consumer level, reflecting the risk and expected performance of the account. For example, card product terms typically include the ability to reprice individual accounts upwards or downwards based on the consumer's performance. In addition, since 1998, the Company has aggressively marketed low non-introductory rate cards to consumers with the best established credit profiles to take advantage of the favorable risk return characteristics of this consumer type. Industry competitors have continuously solicited the Company's customers with similar interest rate strategies. Management believes the competition has put, and will continue to put, additional pressure on the Company's pricing strategies.

By applying its IBS and in response to dynamic competitive pressures, the Company also targets a significant amount of its marketing expense to other credit card product opportunities. Examples of such products include secured cards and other customized card products including affinity and co-branded cards, student cards and other cards targeted to certain markets that are underserved by the Company's competitors. These products do not have a significant, immediate impact on managed loan balances; rather they typically consist of lower credit limit accounts and balances that build over time. The terms of these customized card products tend to include annual membership fees and higher annual finance charge rates. The profile of the consumers targeted for these products, in some cases, may also tend to result in higher account delinquency rates and consequently higher past-due and overlimit fees as a percentage of loan receivables outstanding than the low non-introductory rate products.



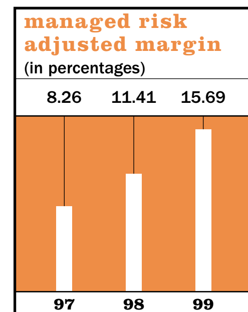


Table 3 provides income statement data and ratios for the Company's managed consumer loan portfolio. The causes of increases and decreases in the various components of risk adjusted revenue are discussed in further detail in subsequent sections of this analysis.

table 3: MANAGED RISK ADJUSTED REVENUE

Year Ended December 31 (Dollars in Thousands)	**1999**	1998	1997
Managed Income Statement:			
Net interest income	**$ 2,174,726**	$ 1,692,894	$ 1,292,315
Non-interest income	**1,668,381**	1,066,413	775,516
Net charge-offs	**(694,073)**	(810,306)	(856,704)
Risk adjusted revenue	**$ 3,149,034**	$ 1,949,001	$ 1,211,127
Ratios:[(1)]			
Net interest margin	**10.83%**	9.91%	8.81%
Non-interest income	**8.31**	6.24	5.29
Net charge-offs	**(3.45)**	(4.74)	(5.84)
Risk adjusted margin	**15.69%**	11.41%	8.26%

(1) As a percentage of average managed earning assets.

NET INTEREST INCOME

Net interest income is interest and past-due fees earned from the Company's consumer loans and securities less interest expense on borrowings, which include interest-bearing deposits, other borrowings and borrowings from senior and deposit notes.

Reported net interest income for the year ended December 31, 1999, was $1.1 billion compared to $687.3 million for 1998, representing an increase of $365.4 million, or 53%. Net interest income increased as a result of both growth in earning assets and an increase in the net interest margin. Average earning assets increased 34% for the year ended December 31, 1999, to $9.7 billion from $7.2 billion for the year ended December 31, 1998. The reported net interest margin increased to 10.86% in 1999, from 9.51% in 1998 primarily attributable to a 58 basis point increase in the yield on consumer loans to 19.33% for the year ended December 31, 1999, from 18.75% for the year ended December 31, 1998. The yield on consumer loans increased primarily due to an increase in the amount and frequency of past-due fees as compared to the prior year, continued growth in the Company's portfolio of higher yielding products and repricings of low introductory rate loans during late 1998 and early 1999.

The managed net interest margin for the year ended December 31, 1999, increased to 10.83% from 9.91% for the year ended December 31, 1998. This increase was primarily the result of a 60 basis point increase in consumer loan yield for the year ended December 31, 1999, as well as a decrease of 26 basis points in borrowing costs to 5.79% in 1999, from 6.05% in 1998. The increase in consumer loan yield to 17.59% for the year ended December 31, 1999, from 16.99% in 1998 principally reflected increases in the amount and frequency of past-due fees and growth in higher yielding loans.

Reported net interest income for the year ended December 31, 1998 was $687.3 million, compared to $376.1 million for 1997, representing an increase of $311.1 million, or 83%. Net interest income increased as a result of growth in earning assets and an increase in the net interest margin. Average earning assets increased 26% for the year ended December 31, 1998, to $7.2 billion from $5.8 billion for 1997. The reported net interest margin increased to 9.51% in 1998, from 6.54% in 1997 and was primarily attributable to a 364 basis point increase in the yield on consumer loans to 18.75% for the year ended December 31, 1998, from 15.11% for the year ended December 31, 1997. The yield on consumer loans increased primarily due to an increase in the amount and frequency of past-due fees as compared to the prior year. In addition, the Company's continued shift to higher yielding products, offset by growth in low non-introductory rate products, contributed to the increase in yield on consumer loans during the same periods.

The managed net interest margin for the year ended December 31, 1998, increased to 9.91% from 8.81% for the year ended December 31, 1997. This increase was primarily the result of a 126 basis point increase in consumer loan yield for the year ended December 31, 1998, offset by an increase of nine basis points in borrowing costs for the same period, as compared to 1997. The increase in consumer loan yield to 16.99% for the year ended December 31, 1998, from 15.73% in 1997 principally reflected increases in the amount and frequency of past-due fees and growth in higher yielding loans. The average rate paid on borrowed funds increased slightly reflecting the Company's shift to more fixed rate funding to match the increase in fixed rate consumer loan products.

Table 4 provides average balance sheet data, an analysis of net interest income, net interest spread (the difference between the yield on earning assets and the cost of interest-bearing liabilities) and net interest margin for each of the years ended December 31, 1999, 1998 and 1997.

table 4: STATEMENTS OF AVERAGE BALANCES, INCOME AND EXPENSE, YIELDS AND RATES

Year Ended December 31	1999			1998			1997		
(Dollars in Thousands)	**Average Balance**	**Income/ Expense**	**Yield/ Rate**	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets:									
Earning assets									
Consumer loans[1]	**$ 7,667,355**	**$ 1,482,371**	**19.33%**	$ 5,348,559	$ 1,003,122	18.75%	$ 4,103,036	$ 619,785	15.11%
Securities available for sale	**1,852,826**	**105,438**	**5.69**	1,628,164	94,436	5.80	1,289,592	78,542	6.09
Other	**174,225**	**5,675**	**3.26**	249,112	13,978	5.61	361,369	19,658	5.44
Total earning assets	**9,694,406**	**$ 1,593,484**	**16.44%**	7,225,835	$ 1,111,536	15.38%	5,753,997	$ 717,985	12.48%
Cash and due from banks	**17,046**			4,385			(2,636)		
Allowance for loan losses	**(269,375)**			(214,333)			(132,728)		
Premises and equipment, net	**366,709**			201,173			181,610		
Other	**1,276,227**			1,113,372			768,694		
Total assets	**$ 11,085,013**			$ 8,330,432			$ 6,568,937		
Liabilities and Equity:									
Interest-bearing liabilities									
Deposits	**$ 2,760,536**	**$ 137,792**	**4.99%**	$ 1,430,042	$ 67,479	4.72%	$ 958,885	$ 41,932	4.37%
Other borrowings	**1,687,042**	**100,392**	**5.95**	1,473,949	96,130	6.52	721,405	46,068	6.39
Senior and deposit notes	**4,391,438**	**302,698**	**6.89**	3,787,639	260,675	6.88	3,718,988	253,849	6.83
Total interest-bearing liabilities	**8,839,016**	**$ 540,882**	**6.12%**	6,691,630	$ 424,284	6.34%	5,399,278	$ 341,849	6.33%
Other	**838,098**			550,819			345,582		
Total liabilities	**9,677,114**			7,242,449			5,744,860		
Equity	**1,407,899**			1,087,983			824,077		
Total liabilities and equity	**$ 11,085,013**			$ 8,330,432			$ 6,568,937		
Net interest spread			**10.32%**			9.04%			6.15%
Interest income to average earning assets			**16.44**			15.38			12.48
Interest expense to average earning assets			**5.58**			5.87			5.94
Net interest margin			**10.86%**			9.51%			6.54%

(1) Interest income includes past-due fees on loans of approximately $478,918, $301,979 and $132,297 for the years ended December 31, 1999, 1998 and 1997, respectively.

INTEREST VARIANCE ANALYSIS

Net interest income is affected by changes in the average interest rate earned on earning assets and the average interest rate paid on interest-bearing liabilities. In addition, net interest income is affected by changes in the volume of earning assets and interest-bearing liabilities. Table 5 sets forth the dollar amount of the increases (decreases) in interest income and interest expense resulting from changes in the volume of earning assets and interest-bearing liabilities and from changes in yields and rates.

table 5: INTEREST VARIANCE ANALYSIS

Year Ended December 31	1999 vs. 1998			1998 vs. 1997		
	Increase	Change Due to[1]		Increase	Change Due to[1]	
(In Thousands)	(Decrease)	Volume	Yield/Rate	(Decrease)	Volume	Yield/Rate
Interest Income:						
Consumer loans	$ 479,249	$ 447,414	$ 31,835	$ 383,337	$ 213,453	$ 169,884
Securities available for sale	11,002	12,814	(1,812)	15,894	19,789	(3,895)
Other	(8,303)	(3,466)	(4,837)	(5,680)	(6,281)	601
Total interest income	481,948	401,413	80,535	393,551	206,040	187,511
Interest Expense:						
Deposits	70,313	66,199	4,114	25,547	22,007	3,540
Other borrowings	4,262	13,140	(8,878)	50,062	49,060	1,002
Senior and deposit notes	42,023	41,619	404	6,826	4,713	2,113
Total interest expense	116,598	131,870	(15,272)	82,435	81,941	494
Net interest income[1]	$ 365,350	$ 258,291	$ 107,059	$ 311,116	$ 111,967	$ 199,149

(1) The change in interest due to both volume and yield/rates has been allocated in proportion to the relationship of the absolute dollar amounts of the change in each. The changes in income and expense are calculated independently for each line in the table. The totals for the volume and yield/rate columns are not the sum of the individual lines.

SERVICING AND SECURITIZATIONS INCOME

In accordance with SFAS 125, the Company records gains or losses on the securitizations of consumer loan receivables on the date of sale based on the estimated fair value of assets sold and retained and liabilities incurred in the sale. Gains represent the present value of estimated excess cash flows the Company has retained over the estimated outstanding period of the receivables and are included in servicing and securitizations income. This excess cash flow essentially represents an "interest only" ("I/O") strip, consisting of the excess of finance charges and past-due fees over the sum of the return paid to certificateholders, estimated contractual servicing fees and credit losses. However, exposure to credit losses on the securitized loans is contractually limited to these cash flows.

Servicing and securitizations income increased $397.3 million, or 50%, to $1.2 billion for the year ended December 31, 1999, from $789.8 million in 1998. This increase was primarily due to a decrease in net charge-offs on such loans as a result of improved general economic trends in consumer credit, increased purchase volume, membership and overlimit fees, as well as a slight increase in average off-balance sheet consumer loans.

Servicing and securitizations income increased $107.5 million, or 16%, to $789.8 million for the year ended December 31, 1998, from $682.3 million for 1997. This increase was primarily due to an increase of 11% in average off-balance sheet consumer loans. Also contributing to this increase were decreased charge-offs on such loans as a result of improving consumer credit.

Certain estimates inherent in the determination of the fair value of the I/O strip are influenced by factors outside the Company's control, and as a result, such estimates could materially change in the near term. Any future gains that will be recognized in accordance with SFAS 125 will be dependent on the timing and amount of future securitizations. The Company

will continuously assess the performance of new and existing securitization transactions as estimates of future cash flows change.

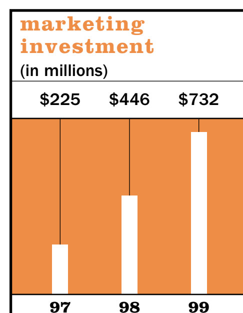
OTHER NON-INTEREST INCOME

Interchange income increased $57.8 million, or 67%, to $144.3 million for the year ended December 31, 1999, from $86.5 million in 1998. Service charges and other fees increased to $1.0 billion, or 70%, for the year ended December 31, 1999 compared to $612.0 million for the year ended December 31, 1998. These increases were primarily due to a 42% increase in the average number of accounts for the year ended December 31, 1999, from 1998, an increase in purchase volume, an increase in interchange rates received by the Company and a shift to more fee-intensive products.

Interchange income increased $37.5 million, or 76%, to $86.5 million for the year ended December 31, 1998, from $49.0 million in 1997. Service charges and other fees increased to $612.0 million, or 81%, for the year ended December 31, 1998 compared to $337.8 million for the year ended December 31, 1997. These increases were due to a 39% increase in the average number of accounts for the year ended December 31, 1998, from 1997, an increase in charge volume, a shift to more fee-intensive products and changes in the terms of overlimit fees charged.

NON-INTEREST EXPENSE

Non-interest expense for the year ended December 31, 1999, increased $1.0 billion, or 68%, to $2.5 billion from $1.5 billion for the year ended December 31, 1998. Contributing to the increase in non-interest expense were marketing expenses which increased $285.6 million, or 64%, to $731.9 million in 1999, from $446.3 million in 1998. The increase in marketing expenses during 1999 reflects the Company's continued identification of and investments in opportunities for growth. Salaries and associate benefits increased $303.8 million, or 64%, to $780.2 million in 1999, from $476.4 million in 1998, as the Company added approximately 5,000 associates to our staffing levels to manage the growth in the Company's accounts. All other non-interest expenses increased $411.0 million, or 76%, to $952.9 million for the year ended December 31, 1999, from $541.9 million in 1998. The increase in other non-interest expense, as well as the increase in salaries and associate benefits, was primarily a result of a 42% increase in the average number of accounts for the year ended December 31, 1999 and the Company's continued exploration and testing of new products and markets.



Non-interest expense for the year ended December 31, 1998 increased $587.6 million, or 67%, to $1.5 billion from $877.0 million for the year ended December 31, 1997. Contributing to the increase in non-interest expense were marketing expenses which increased $221.4 million, or 98%, to $446.3 million in 1998, from $224.8 million in 1997. The increase in marketing expenses during 1998 reflects the Company's continued identification of and investments in opportunities for growth. Salaries and associate benefits increased $187.1 million, or 65%, to $476.4 million in 1998 from $289.3 million in 1997, as the Company added approximately 4,500 associates to manage the growth in the Company's accounts. This increase also reflects an additional $45.3 million in compensation expense associated with the Company's associate stock plans compared to the prior year. All other non-interest expenses increased $179.1 million, or 49%, to $541.9 million for the year ended December 31, 1998 from $362.8 million in 1997. The increase in other non-interest expenses was primarily the result of a 39% increase in the average number of accounts for the year ended December 31, 1998.

INCOME TAXES

The Company's income tax rate was 37%, 38% and 38%, for the years ended December 31, 1999, 1998 and 1997, respectively. The effective rate includes both state and federal income tax components.

ASSET QUALITY

The asset quality of a portfolio is generally a function of the initial underwriting criteria used, levels of competition, account

management activities and demographic concentration, as well as general economic conditions. The seasoning of the accounts is also an important factor as accounts tend to exhibit a rising trend of delinquency and credit losses as they season. As of December 31, 1999 and 1998, 60% and 59% of managed accounts, respectively, representing 51% of the total managed loan balance, were less than eighteen months old. Accordingly, it is likely that the Company's managed loan portfolio could experience increased levels of delinquency and credit losses as the average age of the Company's accounts increases.

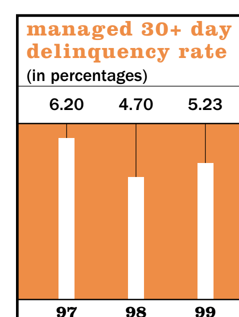
Changes in the rates of delinquency and credit losses can also result from a shift in the product mix. As discussed in "Risk Adjusted Revenue and Margin," certain other customized card products have, in some cases, higher delinquency and higher charge-off rates. In the case of secured card loans, collateral, in the form of cash deposits, reduces any ultimate charge-offs. The costs associated with higher delinquency and charge-off rates are considered in the pricing of individual products.

During 1999, general economic conditions for consumer credit remained stable as industry levels of charge-offs (including bankruptcies) and delinquencies both decreased. These trends have positively impacted the Company's 1999 results.

DELINQUENCIES

Table 6 shows the Company's consumer loan delinquency trends for the years presented on a reported and managed basis. The entire balance of an account is contractually delinquent if the minimum payment is not received by the payment due date. Delinquencies not only have the potential to impact earnings if the account charges off, they also are costly in terms of the personnel and other resources dedicated to resolving the delinquencies.

The 30-plus day delinquency rate for the reported consumer loan portfolio increased to 5.92% as of December 31, 1999, from 4.70% as of December 31, 1998. The 30-plus day delinquency rate for the managed consumer loan portfolio was 5.23% as of December 31, 1999, up from 4.70% as of December 31, 1998.



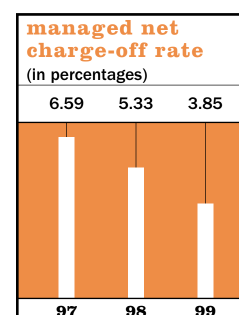


table 6: DELINQUENCIES

December 31	**1999**		1998		1997		1996		1995	
(Dollars in Thousands)	**Loans**	**% of Total Loans**	Loans	% of Total Loans	Loans	% of Total Loans	Loans	% of Total Loans	Loans	% of Total Loans
Reported:										
Loans outstanding	**$ 9,913,549**	**100.00%**	$ 6,157,111	100.00%	$ 4,861,687	100.00%	$ 4,343,902	100.00%	$ 2,921,679	100.00%
Loans delinquent:										
30–59 days	**236,868**	**2.39**	123,162	2.00	104,216	2.14	96,819	2.23	65,711	2.25
60–89 days	**129,251**	**1.30**	67,504	1.10	64,217	1.32	55,679	1.28	38,311	1.31
90 or more days	**220,513**	**2.23**	98,798	1.60	99,667	2.05	111,791	2.57	79,694	2.73
Total	**$ 586,632**	**5.92%**	$ 289,464	4.70%	$ 268,100	5.51%	$ 264,289	6.08%	$ 183,716	6.29%
Managed:										
Loans outstanding	**$ 20,236,588**	**100.00%**	$ 17,395,126	100.00%	$ 14,231,015	100.00%	$ 12,803,969	100.00%	$ 10,445,480	100.00%
Loans delinquent:										
30–59 days	**416,829**	**2.06**	329,239	1.89	327,407	2.30	279,787	2.19	165,306	1.58
60–89 days	**238,476**	**1.18**	182,982	1.05	213,726	1.50	162,668	1.27	92,665	.89
90 or more days	**403,464**	**1.99**	305,589	1.76	340,887	2.40	356,700	2.78	181,243	1.73
Total	**$ 1,058,769**	**5.23%**	$ 817,810	4.70%	$ 882,020	6.20%	$ 799,155	6.24%	$ 439,214	4.20%

NET CHARGE-OFFS

Net charge-offs include the principal amount of losses (excluding accrued and unpaid finance charges, fees and fraud losses) less current period recoveries. The Company charges off credit card loans (net of any collateral) at 180 days past due.

For the year ended December 31, 1999, the managed net charge-off rate decreased 148 basis points to 3.85%. For the year ended December 31, 1999, the reported net charge-off rate decreased 65 basis points to 3.59%. The decreases in managed and reported net charge-off rates were the result of improved general economic trends in consumer credit performance as well as improved recovery efforts. The impact was less apparent in the reported net charge-offs due to changes in the composition of the reported portfolio compared to the off-balance sheet portfolio. Table 7 shows the Company's net charge-offs for the years presented on a reported and managed basis.

The Company's objective is to optimize the profitability of each account within acceptable risk characteristics. The Company takes measures as necessary, including requiring collateral on certain accounts and other marketing and account management techniques, to maintain the Company's credit quality standards and to manage the risk of loss on existing accounts. See "Risk Adjusted Revenue and Margin" for further discussion.

table 7: NET CHARGE-OFFS

Year Ended December 31 (Dollars in Thousands)	**1999**	1998	1997	1996	1995
Reported:					
Average loans outstanding	**$ 7,667,355**	$ 5,348,559	$ 4,103,036	$ 3,651,908	$ 2,940,208
Net charge-offs	**275,470**	226,531	198,192	132,590	59,618
Net charge-offs as a percentage of average loans outstanding	**3.59%**	4.24%	4.83%	3.63%	2.03%
Managed:					
Average loans outstanding	**$ 18,046,913**	$ 15,209,537	$ 13,007,182	$ 11,268,461	$ 9,089,278
Net charge-offs	**694,073**	810,306	856,704	477,732	204,828
Net charge-offs as a percentage of average loans outstanding	**3.85%**	5.33%	6.59%	4.24%	2.25%

PROVISION AND ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at an amount estimated to be sufficient to absorb probable future losses, net of recoveries (including recovery of collateral), inherent in the existing reported loan portfolio. The provision for loan losses is the periodic cost of maintaining an adequate allowance. Management believes that the allowance for loan losses is adequate to cover anticipated losses in the reported homogeneous consumer loan portfolio under current conditions. There can be no assurance as to future credit losses that may be incurred in connection with the Company's consumer loan portfolio, nor can there be any assurance that the loan loss allowance that has been established by the Company will be sufficient to absorb such future credit losses. The allowance is a general allowance applicable to the entire reported homogeneous consumer loan portfolio, including the Company's international portfolio which to date has performed with relatively lower loss and delinquency rates than the overall portfolio.

The amount of allowance necessary is determined primarily based on a migration analysis of delinquent and current accounts. In evaluating the sufficiency of the allowance for loan losses, management also takes into consideration the following factors: recent trends in delinquencies and charge-offs including bankrupt, deceased and recovered amounts; historical trends in loan volume; forecasting uncertainties and size of credit risks; the degree of risk inherent in the composition of the loan portfolio; economic conditions; credit evaluations and underwriting policies. Additional information on the Company's

allowance for loan loss policy can be found in Note A to the Consolidated Financial Statements.

Table 8 sets forth the activity in the allowance for loan losses for the periods indicated. See "Asset Quality," "Delinquencies" and "Net Charge-Offs" for a more complete analysis of asset quality.

table 8: SUMMARY OF ALLOWANCE FOR LOAN LOSSES

Year Ended December 31 (Dollars in Thousands)	**1999**	1998	1997	1996	1995
Balance at beginning of year	**$ 231,000**	$ 183,000	$ 118,500	$ 72,000	$ 68,516
Provision for loan losses	**382,948**	267,028	262,837	167,246	65,895
Acquisitions/other	**3,522**	7,503	(2,770)	(18,887)	(11,504)
Charge-offs	**(400,143)**	(294,295)	(223,029)	(115,159)	(64,260)
Recoveries	**124,673**	67,764	27,462	13,300	13,353
Net charge-offs	**(275,470)**	(226,531)	(195,567)	(101,859)	(50,907)
Balance at end of year	**$ 342,000**	$ 231,000	$ 183,000	$ 118,500	$ 72,000
Allowance for loan losses to loans at end of year	**3.45%**	3.75%	3.76%	2.73%	2.86%

For the year ended December 31, 1999, the provision for loan losses increased to $382.9 million, or 43%, from the 1998 provision for loan losses of $267.0 million as average reported loans increased by 43%. The Company increased the allowance for loan losses by $111.0 million during 1999 due to the increase in the delinquency rate, the growth in reported loans and the increase in the dollar amount of net charge-offs.

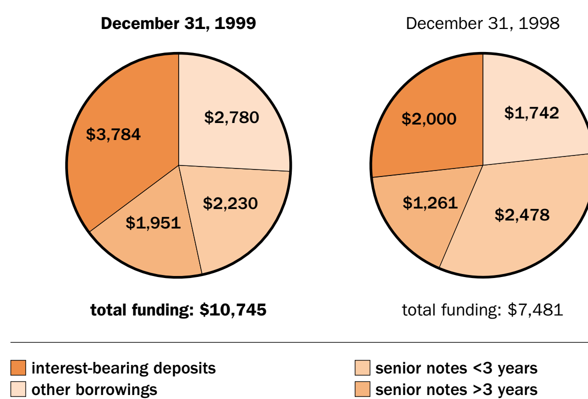
For the year ended December 31, 1998, the provision for loan losses increased to $267.0 million, or 2%, from the 1997 provision for loan losses of $262.8 million as average reported loans increased by 30%, offset by general improvements in consumer credit performance. The Company increased the allowance for loan losses by $48.0 million during 1998 primarily due to the growth in reported loans.

FUNDING

The Company has established access to a wide range of domestic funding alternatives, in addition to securitization of its consumer loans. The Company primarily issues senior unsecured debt of the Bank through its $8 billion bank note program, of which $3.6 billion was outstanding as of December 31, 1999, with original terms of one to ten years. During 1999, the Bank continued to expand its fixed income investor base by launching $925 million of benchmark underwritten senior note transactions. The Corporation continued to access the capital markets with a $225 million seven-year senior note.

Internationally, the Company has funding programs designed for foreign investors or to raise funds in foreign currencies. The Company has accessed the international securitization market for a number of years with both US$ and foreign denominated transactions. Both of the Company's committed revolving credit facilities offer foreign currency funding options. The Bank has established a $1.0 billion Euro Medium Term Note program that is targeted to non-U.S. investors. The Company funds its foreign assets by directly or synthetically borrowing or securitizing in the local currency to mitigate the financial statement effect of currency translation.

funding (in millions)



The Company has significantly expanded its retail deposit gathering efforts through both direct and broker marketing channels. The Company uses its IBS capabilities to test and market a variety of retail deposit origination strategies, including the Internet, as well as to develop customized account management programs. As of December 31, 1999, the Company had $3.8 billion in interest-bearing deposits, with maturities up to ten years.

Table 9 reflects the costs of other borrowings of the Company as of and for each of the years ended December 31, 1999, 1998 and 1997.

table 9: SHORT-TERM BORROWINGS

(Dollars in Thousands)	Maximum Outstanding as of any Month-End	Outstanding as of Year-End	Average Outstanding	Average Interest Rate	Year-End Interest Rate
1999					
Federal funds purchased					
and resale agreements	**$ 1,491,463**	**$ 1,240,000**	**$ 1,046,475**	**5.33%**	**5.84%**
Other	**193,697**	**97,498**	**175,593**	**8.42**	**3.97**
Total		**$ 1,337,498**	**$ 1,222,068**	**5.77%**	**5.70%**
1998					
Federal funds purchased					
and resale agreements	$ 1,451,029	$ 1,227,000	$ 1,169,952	6.09%	5.53%
Other	417,279	417,279	206,204	8.44	6.58
Total		$ 1,644,279	$ 1,376,156	6.44%	5.80%
1997					
Federal funds purchased					
and resale agreements	$ 999,200	$ 705,863	$ 503,843	5.54%	5.75%
Other	160,144	90,249	128,033	8.71	7.09
Total		$ 796,112	$ 631,876	6.18%	5.90%

Table 10 shows the maturities of certificates of deposit in denominations of $100,000 or greater (large denomination CDs) as of December 31, 1999.

table 10: MATURITIES OF DOMESTIC LARGE DENOMINATION CERTIFICATES — $100,000 OR MORE

December 31, 1999 (Dollars in Thousands)	Balance	Percent
3 months or less	**$ 205,630**	**19.11%**
Over 3 through 6 months	**106,435**	**9.89**
Over 6 through 12 months	**254,858**	**23.68**
Over 12 months	**509,153**	**47.32**
Total	**$ 1,076,076**	**100.00%**

Additional information regarding funding can be found in Note E to the Consolidated Financial Statements.

LIQUIDITY

Liquidity refers to the Company's ability to meet its cash needs. The Company meets its cash requirements by securitizing assets, gathering deposits and issuing debt. As discussed in "Managed Consumer Loan Portfolio," a significant source of liquidity for the Company has been the securitization of consumer loans. Maturity terms of the existing securitizations vary from 2000 to 2008 and typically have accumulation periods during which principal payments are aggregated to make payments to investors. As payments on the loans are accumulated and are no longer reinvested in new loans, the Company's funding requirements for such new loans increase accordingly. The

occurrence of certain events may cause the securitization transactions to amortize earlier than scheduled, which would accelerate the need for funding.

Table 11 shows the amounts of investor principal from off-balance sheet securitized consumer loans that are expected to amortize, or be otherwise paid over the periods indicated, based on outstanding securitized consumer loans as of January 1, 2000. As of December 31, 1999 and 1998, 51% and 65%, respectively, of the Company's total managed loans were securitized.

table 11: SECURITIZATIONS — AMORTIZATION TABLE

(Dollars in Thousands)	2000	2001	2002	2003	2004–2008
Balance at beginning of year	$ 10,319,400	$ 8,125,365	$ 6,062,870	$ 4,108,738	$ 3,248,517
Less repayment amounts	(2,194,035)	(2,062,495)	(1,954,132)	(860,221)	(3,248,517)
Balance at end of year	$ 8,125,365	$ 6,062,870	$ 4,108,738	$ 3,248,517	$ —

As such amounts amortize or are otherwise paid, the Company believes it can securitize consumer loans, purchase federal funds and establish other funding sources to fund the amortization or other payment of the securitizations in the future, although no assurance can be given to that effect. Additionally, the Company maintains a portfolio of high-quality securities such as U.S. Treasuries and other U.S. government obligations, commercial paper, interest-bearing deposits with other banks, federal funds and other cash equivalents in order to provide adequate liquidity and to meet its ongoing cash needs. As of December 31, 1999, the Company had $2.0 billion of such securities.

Liability liquidity is measured by the Company's ability to obtain borrowed funds in the financial markets in adequate amounts and at favorable rates. As of December 31, 1999, the Company, the Bank and the Savings Bank collectively had over $1.6 billion in unused commitments, under its credit facilities, available for liquidity needs.

CAPITAL ADEQUACY

The Bank and the Savings Bank are subject to capital adequacy guidelines adopted by the Federal Reserve Board (the "Federal Reserve") and the Office of Thrift Supervision (the "OTS") (collectively, the "regulators"), respectively. The capital adequacy guidelines and the regulatory framework for prompt corrective action require the Bank and the Savings Bank to maintain specific capital levels based upon quantitative measures of their assets, liabilities and off-balance sheet items.

The most recent notifications received from the regulators categorized the Bank and the Savings Bank as "well-capitalized." As of December 31, 1999, there are no conditions or events since the notifications discussed above that management believes have changed either the Bank or the Savings Bank's capital category.

During 1996, the Bank received regulatory approval and established a branch office in the United Kingdom. In connection with such approval, the Company committed to the Federal Reserve that, for so long as the Bank maintains a branch in the United Kingdom, the Company will maintain a minimum Tier 1 Leverage ratio of 3.0%. As of December 31, 1999 and 1998, the Company's Tier 1 Leverage ratio was 12.79% and 13.49%, respectively.

Additional information regarding capital adequacy can be found in Note J to the Consolidated Financial Statements.

DIVIDEND POLICY

Although the Company expects to reinvest a substantial portion of its earnings in its business, the Company intends to continue to pay regular quarterly cash dividends on the Common Stock. The declaration and payment of dividends, as well as the amount thereof, is subject to the discretion of the Board of Directors of the Company and will depend upon the Company's results of operations, financial condition, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. Accordingly, there can be no assurance that the Corporation will declare and pay any dividends. As a holding company, the ability of the Company to pay dividends is dependent upon the receipt of dividends or other payments from its subsidiaries. Applicable banking regulations and provisions that may be contained in borrowing agreements of the Company or

its subsidiaries may restrict the ability of the Company's subsidiaries to pay dividends to the Corporation or the ability of the Corporation to pay dividends to its stockholders.

OFF-BALANCE SHEET RISK

The Company is subject to off-balance sheet risk in the normal course of business including commitments to extend credit, reduce the interest rate sensitivity of its securitization transactions and its off-balance sheet financial instruments. The Company enters into interest rate swap agreements in the management of its interest rate exposure. The Company also enters into forward foreign currency exchange contracts and currency swaps to reduce its sensitivity to changing foreign currency exchange rates. These off-balance sheet financial instruments involve elements of credit, interest rate or foreign currency exchange rate risk in excess of the amount recognized on the balance sheet. These instruments also present the Company with certain credit, market, legal and operational risks. The Company has established credit policies for off-balance sheet instruments as it has for on-balance sheet instruments.

Additional information regarding off-balance sheet financial instruments can be found in Note N to the Consolidated Financial Statements.

INTEREST RATE SENSITIVITY

Interest rate sensitivity refers to the change in earnings that may result from changes in the level of interest rates. To the extent that managed interest income and expense do not respond equally to changes in interest rates, or that all rates do not change uniformly, earnings could be affected. The Company's managed net interest income is affected by changes in short-term interest rates, primarily the London InterBank Offering Rate, as a result of its issuance of interest-bearing deposits, variable rate loans and variable rate securitizations. The Company manages and mitigates its interest rate sensitivity through several techniques which include, but are not limited to, changing the maturity, repricing and distribution of assets and liabilities and entering into interest rate swaps.

The Company measures exposure to its interest rate risk through the use of a simulation model. The model generates a distribution of possible twelve-month managed net interest income outcomes based on (i) a set of plausible interest rate scenarios, as determined by management based upon historical trends and market expectations, (ii) all existing financial instruments, including swaps, and (iii) an estimate of ongoing business activity over the coming twelve months. The Company's asset/liability management policy requires that based on this distribution there be at least a 95% probability that managed net interest income achieved over the coming twelve months will be no more than 3% below the mean managed net interest income of the distribution. As of December 31, 1999, the Company was in compliance with the policy; more than 99% of the outcomes generated by the model produced a managed net interest income of no more than 1.3% below the mean outcome. The interest rate scenarios evaluated as of December 31, 1999 included scenarios in which short-term interest rates rose in excess of 400 basis points or fell by as much as 175 basis points over twelve months.

The analysis does not consider the effects of the changed level of overall economic activity associated with various interest rate scenarios. Further, in the event of a rate change of large magnitude, management would likely take actions to further mitigate its exposure to any adverse impact. For example, management may reprice interest rates on outstanding credit card loans subject to the right of the consumers in certain states to reject such repricing by giving timely written notice to the Company and thereby relinquishing charging privileges. However, the repricing of credit card loans may be limited by competitive factors as well as certain legal constraints.

Interest rate sensitivity at a point in time can also be analyzed by measuring the mismatch in balances of earning assets and interest-bearing liabilities that are subject to repricing in future periods.

Table 12 reflects the interest rate repricing schedule for earning assets and interest-bearing liabilities as of December 31, 1999.

SUBSEQUENT EVENTS

On February 22, 2000, the Company's Board of Directors approved the repurchase of up to 10,000,000 shares of the Company's common stock over the next two years, in addition to the 2,250,000 shares then remaining under the Company's repurchase programs approved in 1997 and 1998. As of February 29, 2000, the Company had 10,846,400 shares available for repurchase under these programs.

table 12: INTEREST RATE SENSITIVITY

As of December 31, 1999 Subject to Repricing (Dollars in Millions)	Within 180 Days	>180 Days– 1 Year	>1 Year– 5 Years	Over 5 Years
Earning assets:				
Interest-bearing deposits at other banks	$ 112			
Securities available for sale	246	$ 210	$ 1,025	$ 375
Consumer loans	4,632	7	5,275	
Total earning assets	4,990	217	6,300	375
Interest-bearing liabilities:				
Interest-bearing deposits	1,406	717	1,598	63
Other borrowings	2,715	65		
Senior notes	631	135	2,709	706
Total interest-bearing liabilities	4,752	917	4,307	769
Non-rate related assets				(1,137)
Interest sensitivity gap	238	(700)	1,993	(1,531)
Impact of swaps	1,930	(287)	(1,350)	(293)
Impact of consumer loan securitizations	(5,018)	(274)	5,893	(601)
Interest sensitivity gap adjusted for impact of securitizations and swaps	$ (2,850)	$ (1,261)	$ 6,536	$ (2,425)
Adjusted gap as a percentage of managed assets	–12.06%	–5.33%	27.65%	–10.26%
Adjusted cumulative gap	$ (2,850)	$ (4,111)	$ 2,425	$ —
Adjusted cumulative gap as a percentage of managed assets	–12.06%	–17.39%	10.26%	0.00%

BUSINESS OUTLOOK

Earnings, Goals and Strategies

This business outlook section summarizes the Company's expectations for earnings for the year ending December 31, 2000, and its primary goals and strategies for continued growth. The statements contained in this section are based on management's current expectations. Certain statements are forward looking and, therefore, actual results could differ materially. Factors, which could materially influence results, are set forth throughout this section and in the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (Part I, Item 1, Risk Factors).

The Company has set targets, dependent on the factors set forth below, to achieve a 25% return on equity in 2000 and to increase its earnings per share in 2000 by approximately 30% over 1999 earnings per share. As discussed elsewhere in this report and below, the Company's actual earnings are a function of its revenues (net interest income and non-interest income on its earning assets), consumer usage and payment patterns, credit quality of its earning assets (which affects fees and charge-offs), marketing expenses and operating expenses.

Product and Market Opportunities

The Company's strategy for future growth has been, and is expected to continue to be, to apply its proprietary IBS to its lending business as well as to other businesses, both financial and non-financial, including telecommunications and Internet services. The Company will seek to identify new product opportunities and to make informed investment decisions regarding new and existing products. The Company's lending and other financial and non-financial products are subject to competitive pressures, which management anticipates will increase as these markets mature.

Lending

Lending includes credit card and other consumer lending products, including automobile financing. Credit card opportunities include, and are expected to continue to include, a wide variety of highly customized products with interest rates, credit lines and other features specifically tailored for numerous consumer populations. The Company expects continued growth across a broad spectrum of new and existing customized products, which are distinguished by a varied range of credit lines, pricing structures and other characteristics. For example, the Company's low non-introductory rate products, which are marketed to consumers

with the best established credit profiles, are characterized by higher credit lines, lower yields and an expectation of lower delinquencies and credit losses than the traditional low introductory rate balance transfer products. On the other hand, certain other customized card products are characterized by lower credit lines, higher yields (including fees) and in some cases, higher delinquencies and credit losses than the Company's traditional products. These products also involve higher operational costs but exhibit better response rates, less adverse selection, less attrition and a greater ability to reprice than the Company's traditional introductory rate products. More importantly, as a whole, all of these customized products continue to have less volatile returns than the traditional products in recent market conditions.

Telecommunications

The Company markets telecommunications services through its subsidiary America One Communications, Inc. ("America One"). In the first half of 1999, America One's primary business, the reselling of analog and digital wireless services through direct marketing channels, began experiencing significant competitive pressures in its core wireless markets. In response to these changing market conditions, the Company decreased its marketing investment in America One during the second half of 1999 and has been testing wireless products and services in other markets that are not being adequately served by the major telecommunications competitors. Management remains optimistic that, over time, its strategy can be successful in the wireless telecommunications industry. Accordingly, marketing investment may increase in the future.

International Expansion

The Company has expanded its existing operations outside of the United States and has experienced growth in the number of accounts and loan balances in its international business. To date, the Company's principal operations outside of the United States have been in the United Kingdom, with additional operations in Canada. To support the continued growth of its United Kingdom business and any future business in Europe, the Company opened a new operations center in Nottingham, England in July 1998 and expanded it in early 1999. The Company anticipates entering and doing business in additional countries from time to time as opportunities arise.

The Company will continue to apply its IBS in an effort to balance the mix of credit card products with other financial and non-financial products and services to optimize profitability within the context of acceptable risk. The Company's growth through expansion and product diversification will be affected by the ability to internally build or acquire the necessary operational and organizational infrastructure, recruit experienced personnel, fund these new businesses and manage expenses. Although management believes it has the personnel, financial resources and business strategy necessary for continued success, there can be no assurance that the Company's results of operations and financial condition in the future will reflect its historical financial performance.

Marketing Investment

The Company expects its 2000 marketing expenses to exceed 1999's expense level, as the Company continues to invest in its various credit card products and services, brand development and other financial and non-financial products and services. Increasing marketing expenses have historically led to the growth of accounts and revenues that, in turn, have enabled the Company to meet or exceed its earnings per share and return on equity targets for the last five years. The Company cautions, however, that an increase in marketing expenses does not necessarily equate to a comparable increase in outstanding balances or accounts based on historical results. As the Company's portfolio continues to grow, generating balances and accounts to offset attrition requires increasing amounts of marketing. Intense competition in the credit card market has resulted in a decrease in credit card response rates and has reduced the productivity of marketing dollars invested in that line of business. In addition, the cost to acquire new accounts varies across product lines and is expected to rise as the Company moves beyond the domestic card business. With competition affecting the profitability of traditional introductory rate card products, the Company has been allocating, and expects to continue to allocate, a greater portion of its marketing expense to other customized credit card products and other financial and non-financial products. For example, the cost to acquire an America One wireless account traditionally has included the cost of providing a free phone to the customer, and consequently has been substantially more than the cost to acquire a credit card account. The Company intends to continue a flexible approach in its allocation of marketing expenses. The Company is also developing a brand marketing strategy to supplement current strategies and is investigating opportunities on the Internet. The actual amount of marketing investment is subject to a variety of external and internal factors, such as competition in the consumer credit and wireless service industries, general economic conditions affecting consumer credit performance, the asset quality of the Company's portfolio and the identification of market opportunities across product lines that exceed the Company's targeted rates of return on investment.

The amount of marketing expense allocated to various products or businesses will influence the characteristics of the Company's portfolio as various products or businesses are

characterized by different account growth, loan growth and asset quality characteristics. The Company currently expects continued strong account growth and loan growth in 2000. Actual growth, however, may vary significantly depending on the Company's actual product mix and the level of attrition on the Company's managed portfolio, which is primarily affected by competitive pressures.

Impact of Delinquencies, Charge-Offs and Attrition

The Company's earnings are particularly sensitive to delinquencies and charge-offs on the Company's portfolio and to the level of attrition due to competition in the credit card industry. As delinquency levels fluctuate, the resulting amount of past-due and overlimit fees, which are significant sources of revenue for the Company, will also fluctuate. Further, the timing of revenues from increasing or decreasing delinquencies precedes the related impact of higher or lower charge-offs that ultimately result from varying levels of delinquencies. Delinquencies and net charge-offs are impacted by general economic trends in consumer credit performance, including bankruptcies, the degree of seasoning of the Company's portfolio and the product mix.

As of December 31, 1999, the Company had the lowest net charge-off rate among the top ten credit card issuers in the United States. However, management expects delinquencies to increase moderately through 2000 and that, as a result, charge-offs will also increase in 2000. Management cautions that delinquency and charge-off levels are not always predictable and may vary from projections. In the case of an economic downturn or recession, delinquencies and charge-offs are likely to increase more quickly. In addition, competition in the credit card industry, as measured by the volume of mail solicitations, declined in 1999 but remains very high. Competition can affect the Company's earnings by increasing attrition of the Company's outstanding loans (thereby reducing interest and fee income) and by making it more difficult to retain and attract more profitable customers.

The Year 2000 Issue

The year 2000 problem is a result of computer systems using two digits rather than four digits to define an applicable year. The Company uses a significant number of internal computer software programs and operating systems across its entire organization. In addition, the Company depends on its external business vendors to provide external services for its operations. As of February 29, 2000, the Company had not experienced material difficulties with either our internal systems or vendors arising from the advent of the year 2000. The Company will continue to monitor its systems and address any issues that might arise. As of December 31, 1999, the Company had spent approximately $14.5 million for remediation of year 2000 issues. The Company expects to spend an additional $500,000 in 2000 to continue to monitor its systems for year 2000 compliance.

Cautionary Factors

The Company's strategies and objectives outlined above, and the other forward-looking statements contained in this section, 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. In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: continued intense competition from numerous providers of products and services which compete with the Company's businesses; with respect to financial and other products, changes in the Company's aggregate accounts or consumer loan balances and the growth rate thereof, including changes resulting from factors such as shifting product mix, amount of actual marketing expenses made by the Company and attrition of accounts and loan balances; an increase in credit losses (including increases due to a worsening of general economic conditions); the ability of the Company to continue to securitize its credit cards and consumer loans and to otherwise access the capital markets at attractive rates and terms to fund its operations and future growth; difficulties or delays in the development, production, testing and marketing of new products or services; losses associated with new products or services or expansion internationally; financial, legal, regulatory or other difficulties that may affect investment in, or the overall performance of, a product or business, including changes in existing laws to regulate further the credit card and consumer loan industry and the financial services industry, in general (including the flexibility of financial services companies to use and share data); the amount of, and rate of growth in, the Company's expenses (including salaries and associate benefits and marketing expenses) as the Company's business develops or changes or as it expands into new market areas; the availability of capital necessary to fund the Company's new businesses; the ability of the Company to build the operational and organizational infrastructure necessary to engage in new businesses or to expand internationally; the ability of the Company to recruit experienced personnel to assist in the management and operations of new products and services; and other 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, 1999 (Part I, Item 1, Risk Factors).

selected quarterly financial data

(Unaudited)	1999 Fourth Quarter	1999 Third Quarter	1999 Second Quarter	1999 First Quarter	1998 Fourth Quarter	1998 Third Quarter	1998 Second Quarter	1998 First Quarter
Summary of Operations:								
(In Thousands)								
Interest income	**$ 450,604**	**$ 412,036**	**$ 377,773**	**$ 353,071**	$ 298,947	$ 283,109	$ 271,438	$ 258,042
Interest expense	**154,798**	**135,807**	**128,288**	**121,989**	117,601	107,984	103,599	95,100
Net interest income	**295,806**	**276,229**	**249,485**	**231,082**	181,346	175,125	167,839	162,942
Provision for loan losses	**120,000**	**114,061**	**74,301**	**74,586**	54,580	67,569	59,013	85,866
Net interest income after provision for loan losses	**175,806**	**162,168**	**175,184**	**156,496**	126,766	107,556	108,826	77,076
Non-interest income	**654,623**	**621,063**	**572,047**	**524,626**	456,476	386,955	328,953	315,899
Non-interest expense	**681,185**	**629,421**	**606,137**	**548,253**	466,034	381,598	329,951	287,003
Income before income taxes	**149,244**	**153,810**	**141,094**	**132,869**	117,208	112,913	107,828	105,972
Income taxes	**51,372**	**58,448**	**53,616**	**50,490**	44,539	42,907	40,975	40,269
Net income	**$ 97,872**	**$ 95,362**	**$ 87,478**	**$ 82,379**	$ 72,669	$ 70,006	$ 66,853	$ 65,703
Per Common Share:[1]								
Basic earnings	**$ .50**	**$ .48**	**$ .44**	**$ .42**	$ .37	$ .36	$ .34	$ .33
Diluted earnings	**.47**	**.45**	**.41**	**.39**	.35	.33	.32	.32
Dividends	**.03**	**.03**	**.03**	**.03**	.03	.03	.03	.03
Market prices								
High	**54 27/32**	**57 3/4**	**60 1/6**	**51 25/64**	41 13/16	43 5/16	41 4/5	27 5/16
Low	**35 7/8**	**35 4/5**	**46**	**36 5/16**	17 1/4	27 2/3	27 7/16	16 7/8
Average common shares (000s)	**197,252**	**197,423**	**197,643**	**197,239**	196,990	197,178	196,611	196,284
Average common and common equivalent shares (000s)	**210,284**	**210,142**	**211,499**	**209,991**	209,056	210,035	208,582	205,245
Average Balance Sheet Data:								
(In Millions)								
Consumer loans	**$ 8,620**	**$ 7,791**	**$ 7,406**	**$ 6,832**	$ 5,758	$ 5,623	$ 5,213	$ 4,786
Allowance for loan losses	**(312)**	**(273)**	**(254)**	**(239)**	(231)	(216)	(213)	(197)
Securities	**2,348**	**1,898**	**1,831**	**2,047**	2,155	1,626	1,826	1,922
Other assets	**1,728**	**1,803**	**1,663**	**1,511**	1,511	1,473	1,280	1,025
Total assets	**$ 12,384**	**$ 11,219**	**$ 10,646**	**$ 10,151**	$ 9,193	$ 8,506	$ 8,106	$ 7,536
Interest-bearing deposits	**$ 3,649**	**$ 3,002**	**$ 2,271**	**$ 2,101**	$ 1,886	$ 1,369	$ 1,193	$ 1,266
Other borrowings	**2,038**	**1,333**	**1,600**	**1,778**	1,704	1,594	1,417	1,175
Senior and deposit notes	**4,259**	**4,494**	**4,621**	**4,190**	3,742	3,819	3,906	3,683
Other liabilities	**945**	**929**	**780**	**780**	649	575	553	462
Stockholders' equity	**1,493**	**1,461**	**1,374**	**1,302**	1,212	1,149	1,037	950
Total liabilities and equity	**$ 12,384**	**$ 11,219**	**$ 10,646**	**$ 10,151**	$ 9,193	$ 8,506	$ 8,106	$ 7,536

(1) All periods have been restated to reflect the Company's three-for-one stock split effective June 1, 1999.

The above schedule is a tabulation of the Company's unaudited quarterly results for the years ended December 31, 1999 and 1998. The Company's common shares are traded on the New York Stock Exchange under the symbol COF. In addition, shares may be traded in the over-the-counter stock market. There were 9,738 and 9,692 common stockholders of record as of December 31, 1999 and 1998, respectively.

management's report on consolidated financial statements and internal controls over financial reporting

The Management of Capital One Financial Corporation is responsible for the preparation, integrity and fair presentation of the financial statements and footnotes contained in this Annual Report. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States and are free of material misstatement. The Company also prepared other information included in this Annual Report and is responsible for its accuracy and consistency with the financial statements. In situations where financial information must be based upon estimates and judgments, they represent the best estimates and judgments of Management.

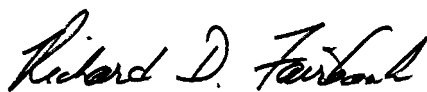
The Consolidated Financial Statements have been audited by the Company's independent auditors, Ernst & Young LLP, whose independent professional opinion appears separately. Their audit provides an objective assessment of the degree to which the Company's Management meets its responsibility for financial reporting. Their opinion on the financial statements is based on auditing procedures, which include reviewing accounting systems and internal controls and performing selected tests of transactions and records as they deem appropriate. These auditing procedures are designed to provide reasonable assurance that the financial statements are free of material misstatement.

Management depends on its accounting systems and internal controls in meeting its responsibilities for reliable financial statements. In Management's opinion, these systems and controls provide reasonable assurance that assets are safeguarded and that transactions are properly recorded and executed in accordance with Management's authorizations. As an integral part of these systems and controls, the Company maintains a professional staff of internal auditors that conducts operational and special audits and coordinates audit coverage with the independent auditors.

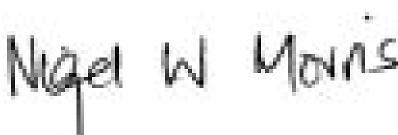
The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the internal auditors, the independent auditors and Management to review the work of each and ensure that each is properly discharging its responsibilities. The independent auditors have free access to the Committee to discuss the results of their audit work and their evaluations of the adequacy of accounting systems and internal controls and the quality of financial reporting.

There are inherent limitations in the effectiveness of internal controls, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to reliability of financial statements and safeguarding of assets. Furthermore, because of changes in conditions, internal control effectiveness may vary over time.

The Company assessed its internal controls over financial reporting as of December 31, 1999, in relation to the criteria described in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company believes that as of December 31, 1999, in all material respects, the Company maintained effective internal controls over financial reporting.



Richard D. Fairbank
Chairman and Chief
Executive Officer



Nigel W. Morris
President and Chief
Operating Officer

David M. Willey
Senior Vice President, Corporate
Financial Management

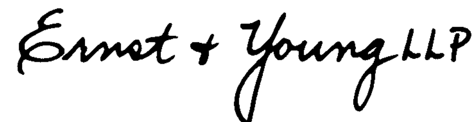
report of independent auditors

THE BOARD OF DIRECTORS AND STOCKHOLDERS
CAPITAL ONE FINANCIAL CORPORATION

We have audited the accompanying consolidated balance sheets of Capital One Financial Corporation as of December 31, 1999 and 1998, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 Capital One Financial Corporation at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.



McLean, Virginia
January 18, 2000

consolidated balance sheets

December 31 (Dollars in Thousands, Except Per Share Data)	**1999**	1998
Assets:		
Cash and due from banks	**$ 134,065**	$ 15,974
Federal funds sold and resale agreements		261,800
Interest-bearing deposits at other banks	**112,432**	22,393
Cash and cash equivalents	**246,497**	300,167
Securities available for sale	**1,856,421**	1,796,787
Consumer loans	**9,913,549**	6,157,111
Less: Allowance for loan losses	**(342,000)**	(231,000)
Net loans	**9,571,549**	5,926,111
Premises and equipment, net	**470,732**	242,147
Interest receivable	**64,637**	52,917
Accounts receivable from securitizations	**661,922**	833,143
Other	**464,685**	268,131
Total assets	**$ 13,336,443**	$ 9,419,403
Liabilities:		
Interest-bearing deposits	**$ 3,783,809**	$ 1,999,979
Other borrowings	**2,780,466**	1,742,200
Senior notes	**4,180,548**	3,739,393
Interest payable	**116,405**	91,637
Other	**959,608**	575,788
Total liabilities	**11,820,836**	8,148,997
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock, par value $.01 per share; authorized 50,000,000 shares, none issued or outstanding		
Common stock, par value $.01 per share; authorized 300,000,000 shares, 199,670,421 and 199,670,376 issued as of December 31, 1999 and 1998, respectively	**1,997**	1,997
Paid-in capital, net	**613,590**	598,167
Retained earnings	**1,022,296**	679,838
Cumulative other comprehensive income	**(31,262)**	60,655
Less: Treasury stock, at cost; 2,624,006 and 2,690,910 shares as of December 31, 1999 and 1998, respectively	**(91,014)**	(70,251)
Total stockholders' equity	**1,515,607**	1,270,406
Total liabilities and stockholders' equity	**$ 13,336,443**	$ 9,419,403

See Notes to Consolidated Financial Statements.

note a

SIGNIFICANT ACCOUNTING POLICIES

Organization and Basis of Presentation

The Consolidated Financial Statements include the accounts of Capital One Financial Corporation (the "Corporation") and its subsidiaries. The Corporation is a holding company whose subsidiaries provide a variety of products and services to consumers. The principal subsidiaries are Capital One Bank (the "Bank"), which offers credit card products, and Capital One, F.S.B. (the "Savings Bank"), which offers consumer lending products (including credit cards) and deposit products. The Corporation and its subsidiaries are collectively referred to as the "Company."

The accompanying Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles ("GAAP") that require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. All significant intercompany balances and transactions have been eliminated. Certain prior years' amounts have been reclassified to conform to the 1999 presentation.

On April 29, 1999, the Company's Board of Directors approved a three-for-one split of the common stock of the Corporation. The stock split was effected through a 200 percent stock distribution on June 1, 1999 to stockholders of record on May 20, 1999. For periods prior to the effective date of the stock split, outstanding shares and per share data contained in this report have been restated to reflect the impact of the stock split.

The following is a summary of the significant accounting policies used in preparation of the accompanying Consolidated Financial Statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, federal funds sold and resale agreements and interest-bearing deposits at other banks. Cash paid for interest for the years ended December 31, 1999, 1998 and 1997, was $516,114, $401,095 and $353,763, respectively. Cash paid for income taxes for the years ended December 31, 1999, 1998 and 1997, was $216,438, $202,112 and $131,052, respectively.

Securities Available for Sale

Debt securities for which the Company does not have the positive intent and ability to hold to maturity are classified as securities available for sale. These securities are stated at fair value, with the unrealized gains and losses, net of tax, reported as a component of cumulative other comprehensive income. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization or accretion is included in other interest income.

Consumer Loans

The Company recognizes finance charges and fee income on loans according to the contractual provisions of the credit agreements. When, based on historic performance of the portfolio, payment in full of finance charge and fee income is not expected, the estimated uncollectible portion of previously accrued amounts are reversed against current period income. Annual membership fees and direct loan origination costs are deferred and amortized over one year on a straight-line basis. Deferred fees (net of deferred costs) were $243,172 and $140,242 as of December 31, 1999 and 1998, respectively. The Company charges off credit card loans (net of any collateral) at 180 days past due. Bankrupt consumers' accounts are generally charged off within thirty days of receipt of the bankruptcy petition.

Allowance for Loan Losses

The allowance for loan losses is maintained at the amount estimated to be sufficient to absorb probable future losses, net of recoveries (including recovery of collateral), inherent in the existing reported portfolio. The provision for loan losses is the periodic cost of maintaining an adequate allowance. The amount of allowance necessary is determined primarily based on a migration analysis of delinquent and current accounts. In evaluating the sufficiency of the allowance for loan losses, management also takes into consideration the following factors: recent trends in delinquencies and charge-offs including bankrupt, deceased and recovered amounts; historical trends in loan volume; forecasting uncertainties and size of credit risks; the degree of risk inherent in the composition of the loan portfolio; economic conditions; credit evaluations and underwriting policies.

Securitizations

The Company records gains or losses on the securitization of consumer loan receivables on the date of sale based on the estimated fair value of assets sold and retained and liabilities incurred in the sale. Gains represent the present value of estimated cash flows the Company has retained over the estimated outstanding period of the receivables. This excess cash flow essentially represents an "interest only"("I/O") strip, consisting of the excess of finance charges and past-due fees over the sum of the return paid to certificateholders, estimated contractual servicing fees and credit losses. The I/O strip is carried at fair value in accounts receivable from securitizations, with changes in the fair value reported as a component of cumulative other comprehensive income. Certain estimates inherent in the determination of the fair value of the I/O strip are influenced by factors outside the Company's control, and as a result, such estimates could materially change in the near term. The gains on securitizations are included in servicing and securitizations income.

Off-Balance Sheet Financial Instruments

The nature and composition of the Company's assets and liabilities and off-balance sheet items expose the Company to interest rate risk. The Company's foreign currency denominated assets and liabilities expose it to foreign currency exchange rate risk. To mitigate these risks, the Company uses certain types of derivative financial instruments. The Company enters into interest rate swap agreements ("interest rate swaps") in the management of its interest rate exposure. All of the Company's interest rate swaps are designated and effective as hedges of specific existing or anticipated assets or liabilities. The Company enters into forward foreign currency exchange contracts ("f/x contracts") and currency swaps to reduce its sensitivity to changing foreign currency exchange rates. All of the Company's f/x contracts and currency swaps are designated and effective as hedges of specific assets or liabilities. The Company does not hold or issue derivative financial instruments for trading purposes.

Swap agreements involve the periodic exchange of payments over the life of the agreements. Amounts paid or received on interest rate and currency swaps are recorded on an accrual basis as an adjustment to the related income or expense of the item to which the agreements are designated. As of December 31, 1999 and 1998, the related amounts payable to counterparties were $4,748 and $2,463, respectively. Changes in the fair value of interest rate swaps are not reflected in the accompanying financial statements, where designated to existing or anticipated assets or liabilities and where swaps effectively modify or reduce interest rate sensitivity.

F/x contracts represent an agreement to exchange a specified notional amount of two different currencies at a specified exchange rate on a specified future date. Changes in the fair value of f/x contracts and currency swaps are recorded in the period in which they occur as foreign currency gains or losses in other non-interest income, effectively offsetting the related gains or losses on the items to which they are designated.

Realized and unrealized gains or losses at the time of termination, sale or repayment of a derivative contract are recorded in a manner consistent with its original designation. Amounts are deferred and amortized as an adjustment to the related income or expense over the original period of exposure, provided the designated asset or liability continues to exist, or in the case of anticipated transactions, is probable of occurring. Realized and unrealized changes in the fair value of swaps or f/x contracts, designated with items that no longer exist or are no longer probable of occurring, are recorded as a component of the gain or loss arising from the disposition of the designated item.

Interest rate and foreign currency exchange rate risk management contracts are generally expressed in notional principal or contract amounts that are much larger than the amounts potentially at risk for nonperformance by counterparties. In the event of nonperformance by the counterparties, the Company's credit exposure on derivative financial instruments is equal to the gross unrealized gains on the outstanding contracts. At December 31, 1999, the gross unrealized gains in the portfolio were $83,314. The Company actively monitors the credit ratings of its counterparties. Under the terms of certain swaps, each party may be required to pledge collateral if the market value of the swaps exceeds an amount set forth in the agreement or in the event of a change in its credit rating. At December 31, 1999, $58,717 of such collateral has been pledged to the Company.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expense are computed generally by the straight-line method over the estimated useful lives of the assets. Useful lives for premises and equipment are as follows: buildings and improvements — 5–39 years; furniture and equipment — 3–10 years; computers and software — 3 years.

Marketing

The Company expenses marketing costs as incurred.

Credit Card Fraud Losses

The Company experiences fraud losses from the unauthorized use of credit cards. Transactions suspected of being fraudulent are charged to non-interest expense after a sixty-day investigation period.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Comprehensive Income

As of December 31, 1999, cumulative other comprehensive income, net of tax, consisted of $32,608 in net unrealized losses on securities and $1,346 in foreign currency translation adjustments. As of December 31, 1998 and 1997, cumulative other comprehensive income, net of tax, consisted of $63,260 and $2,612 in net unrealized gains on securities and $(2,605) and $(73) in foreign currency translation adjustments, respectively. As of December 31, 1999, substantially all of the net unrealized loss on securities was comprised of gross unrealized losses.

Segments

The Company maintains three distinct business segments: lending, telecommunications and "other." The lending segment is comprised primarily of credit card lending activities. The telecommunications segment consists primarily of direct marketing wireless service. "Other" consists of various non-lending new business initiatives, none of which exceed the quantitative thresholds for reportable segments in Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131").

The accounting policies of these reportable segments are the same as those described above. Management measures the performance of its business segments on a managed basis and makes resource allocation decisions based upon several factors, including income before taxes, less indirect expenses. Lending is the Company's only reportable business segment, based on the definitions provided in SFAS 131. Substantially all of the Company's reported assets, revenues and income are derived from the lending segment in all periods presented.

All revenue is generated from external customers and is predominantly derived in the United States. Revenues and operating losses from international operations comprised less than 6% and 7% of total managed revenues and operating income, respectively, for the year ended December 31, 1999.

Recent Accounting Pronouncements

In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities — Deferral of the Effective Date of FASB Statement No. 133" ("SFAS 137"), which defers the effective date of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (together "SFAS 133 as amended") to all fiscal quarters of all fiscal years beginning after June 15, 2000. SFAS 133 as amended will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through earnings. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The adoption of SFAS 133 as amended is not expected to have a material effect on the results of the Company's operations.

note b

SECURITIES AVAILABLE FOR SALE

Securities available for sale as of December 31, 1999, 1998 and 1997 were as follows:

	Maturity Schedule					
	1 Year or Less	1–5 Years	5–10 Years	Over 10 Years	Market Value Totals	Amortized Cost Totals
December 31, 1999						
Commercial paper	**$ 24,927**				**$ 24,927**	**$ 24,927**
U.S. Treasury and other U.S. government agency obligations	**437,697**	**$ 1,014,335**			**1,452,032**	**1,471,783**
Collateralized mortgage obligations			**$ 37,421**	**$ 299,846**	**337,267**	**345,619**
Mortgage backed securities		**5,293**	**13,828**		**19,121**	**19,426**
Other	**19,443**	**1,361**	**441**	**1,829**	**23,074**	**23,254**
Total	**$ 482,067**	**$ 1,020,989**	**$ 51,690**	**$ 301,675**	**$ 1,856,421**	**$ 1,885,009**
December 31, 1998						
Commercial paper	$ 117,395				$ 117,395	$ 117,395
U.S. Treasury and other U.S. government agency obligations	125,831	$ 1,072,109	$ 17,051		1,214,991	1,196,313
Collateralized mortgage obligations			25,877	$ 401,443	427,320	426,485
Mortgage backed securities		8,337		7,265	15,602	15,210
Other	76	1,360	589	19,454	21,479	21,356
Total	$ 243,302	$ 1,081,806	$ 43,517	$ 428,162	$ 1,796,787	$ 1,776,759
December 31, 1997						
Commercial paper	$ 187,145				$ 187,145	$ 187,145
U.S. Treasury and other U.S. government agency obligations	400,929	$ 589,899	$ 2,506		993,334	989,707
Collateralized mortgage obligations				$ 18,969	18,969	18,629
Mortgage backed securities		13,278		9,960	23,238	22,966
Other		330	526	19,128	19,984	20,008
Total	$ 588,074	$ 603,507	$ 3,032	$ 48,057	$ 1,242,670	$ 1,238,455

	Weighted Average Yields			
	1 Year or Less	1–5 Years	5–10 Years	Over 10 Years
December 31, 1999				
Commercial paper	**6.19%**			
U.S. Treasury and other U.S. government agency obligations	**5.77**	**5.69%**		
Collateralized mortgage obligations			**6.18%**	**5.98%**
Mortgage backed securities		**5.05**	**6.62**	
Other	**6.32**	**3.87**	**6.45**	**6.89**
Total	**5.81%**	**5.69%**	**6.30%**	**5.99%**

Weighted average yields were determined based on amortized cost.

note c

ALLOWANCE FOR LOAN LOSSES

The following is a summary of changes in the allowance for loan losses:

Year Ended December 31,	1999	1998	1997
Balance at beginning of year	**$ 231,000**	$ 183,000	$ 118,500
Provision for loan losses	**382,948**	267,028	262,837
Acquisitions/other	**3,522**	7,503	(2,770)
Charge-offs	**(400,143)**	(294,295)	(223,029)
Recoveries	**124,673**	67,764	27,462
Net charge-offs	**(275,470)**	(226,531)	(195,567)
Balance at end of year	**$ 342,000**	$ 231,000	$ 183,000

note d

PREMISES AND EQUIPMENT

Premises and equipment as of December 31, 1999 and 1998 were as follows:

December 31,	1999	1998
Land	**$ 10,168**	$ 10,168
Buildings and improvements	**197,434**	126,205
Furniture and equipment	**448,742**	254,070
Computer software	**86,626**	41,084
In process	**54,874**	23,325
	797,844	454,852
Less: Accumulated depreciation and amortization	**(327,112)**	(212,705)
Total premises and equipment, net	**$ 470,732**	$ 242,147

Depreciation and amortization expense was $122,778, $75,005 and $63,537, for the years ended December 31, 1999, 1998 and 1997, respectively.

note e

BORROWINGS

Borrowings as of December 31, 1999 and 1998 were as follows:

	1999		1998	
	Outstanding	Weighted Average Rate	Outstanding	Weighted Average Rate
Interest-bearing Deposits	**$ 3,783,809**	**5.34%**	$ 1,999,979	4.77%
Other borrowings				
Secured borrowings	**$ 1,344,790**	**6.65%**		
Junior subordinated capital income securities	**98,178**	**7.76**	$ 97,921	6.77%
Federal funds purchased and resale agreements	**1,240,000**	**5.84**	1,227,000	5.53
Other short-term borrowings	**97,498**	**3.97**	417,279	6.58
Total	**$ 2,780,466**		$ 1,742,200	
Senior Notes				
Bank — fixed rate	**$ 3,409,652**	**6.71%**	$ 3,268,182	6.29%
Bank — variable rate	**221,999**	**6.74**	146,998	5.89
Corporation	**548,897**	**7.20**	324,213	7.17
Total	**$ 4,180,548**		$ 3,739,393	

Interest-bearing Deposits

As of December 31, 1999, the aggregate amount of interest-bearing deposits with accounts equal to or exceeding $100 was $1,076,076.

Secured Borrowings

In November 1999, the Bank entered into an agreement to transfer a pool of consumer loans totaling up to $500,000. Proceeds from the transfer were recorded as a secured borrowing. The facility accrues interest based on commercial paper rates and matures in 2000; however, it may be extended for additional one-year periods through 2008. The outstanding balance on the secured borrowing at December 31, 1999, was $245,625.

In October 1999, the Bank entered into a £750,000 revolving credit facility collateralized by a security interest in certain consumer loans of the Company. Interest on the facility is based on commercial paper rates or London InterBank Offering Rates ("LIBOR"). The facility matures in 2000. At December 31, 1999, £500,000 ($809,100 equivalent) was outstanding under the facility.

In May 1999, Summit Acceptance Corporation, a subsidiary of the Company, entered into an agreement to transfer a pool of consumer loans totaling $350,000. Proceeds from the transfer were recorded as a secured borrowing. Principal payments on the borrowing are based on principal collections net of losses on the transferred consumer loans. The borrowing accrues interest based on commercial paper rates and matures on June 15, 2006 or earlier depending upon the repayment of the underlying consumer loans. At December 31, 1999, $290,065 of the secured borrowing was outstanding.

Junior Subordinated Capital Income Securities

In January 1997, Capital One Capital I, a subsidiary of the Bank created as a Delaware statutory business trust, issued $100,000 aggregate amount of Floating Rate Junior Subordinated Capital Income Securities that mature on February 1, 2027. The securities represent a preferred beneficial interest in the assets of the trust.

Other Short-Term Borrowings

In May 1999, the Company entered into a four-year, $1,200,000 unsecured revolving credit arrangement (the "Credit Facility"). The Credit Facility is comprised of two tranches: a $810,000 Tranche A facility available to the Bank and the Savings Bank, including an option for up to $250,000 in multicurrency availability, and a $390,000 Tranche B facility available to the Corporation, the Bank and the Savings Bank, including an option for up to $150,000 in multicurrency availability. Each tranche under the facility is structured as a four-year commitment and is available for general corporate purposes. All borrowings under the Credit Facility are based on varying terms of LIBOR. The Bank has irrevocably undertaken to honor any demand by the lenders to repay any borrowings which are due and payable by the Savings Bank but have not been paid. Any borrowings under the Credit Facility will mature on May 24, 2003; however, the final maturity of each tranche may be extended for three additional one-year periods with the lenders' consent. As of December 31, 1999 and 1998, the Company had no outstandings under the Credit Facility or its predecessor facility.

In August 1997, the Company entered into a three-year, $350,000 equivalent unsecured revolving credit arrangement (the "UK/Canada Facility"), which is being used to finance the Company's expansion in the United Kingdom and Canada. The UK/Canada Facility is comprised of two tranches: a Tranche A facility in the amount of £156,458 ($249,800 equivalent based on the exchange rate at closing) and a Tranche B facility in the amount of C$139,609 ($100,200 equivalent based on the exchange rate at closing). An amount of £34,574 or C$76,910 ($55,200 equivalent based on the exchange rates at closing) may be transferred between the Tranche A facility and the Tranche B facility, respectively, upon the request of the Company. In the second quarter of 1998, the Company requested the transfer of the £34,574 from the Tranche A facility to the Tranche B facility. Each tranche under the facility is structured as a three-year commitment. All borrowings under the UK/Canada Facility are based on varying terms of LIBOR. The Corporation serves as the guarantor of all borrowings under the UK/Canada Facility. There were no outstandings under the UK/Canada Facility as of December 31, 1999. As of December 31, 1998, the Company had a total of $166,345 outstanding under the UK/Canada Facility ($66,400 under Tranche A and $99,945 under Tranche B).

Bank Notes

Under the Company's bank note program, the Bank from time to time may issue senior bank notes at fixed or variable rates tied to LIBOR with maturities from 30 days to 30 years. The aggregate principal amount available for issuance under the program is $8,000,000 (of which, up to $200,000 may be subordinated bank notes). There were no subordinated bank notes issued or outstanding as of December 31, 1999 and 1998.

The Bank has established a program for the issuance of debt instruments to be offered outside of the United States. Under this program, the Bank from time to time may issue instruments in the aggregate principal amount of $1,000,000 equivalent outstanding at any one time ($5,000 outstanding as of December 31, 1999 and 1998). Instruments under this program may be denominated in any currency or currencies.

The Corporation has three shelf registration statements under which the Corporation from time to time may offer and sell (i) senior or subordinated debt securities, consisting of debentures, notes and/or other unsecured evidences, (ii) preferred stock, which may be issued in the form of depository shares evidenced by depository receipts and (iii) common stock.

The amount of securities registered is limited to a $1,550,000 aggregate public offering price or its equivalent (based on the applicable exchange rate at the time of sale) in one or more foreign currencies, currency units or composite currencies as shall be designated by the Corporation. At December 31, 1999, the Corporation had existing unsecured senior debt outstanding under the shelf registrations of $550,000 including $125,000 maturing in 2003, $225,000 maturing in 2006, and $200,000 maturing in 2008.

Interest-bearing deposits, other borrowings and senior notes as of December 31, 1999, mature as follows:

	Interest-bearing Deposits	Other Borrowings	Senior Notes	Total
2000	$ 2,122,572	$ 2,317,706	$ 765,716	$ 5,205,994
2001	574,853	263,021	899,136	1,737,010
2002	283,163	56,151	565,000	904,314
2003	266,803	46,459	949,874	1,263,136
2004	473,345		295,000	768,345
Thereafter	63,073	97,129	705,822	866,024
Total	$ 3,783,809	$ 2,780,466	$ 4,180,548	$ 10,744,823

note f

ASSOCIATE BENEFIT AND STOCK PLANS

The Company sponsors a contributory Associate Savings Plan in which substantially all full-time and certain part-time associates are eligible to participate. The Company makes contributions to each eligible employee's account, matches a portion of associate contributions and makes discretionary contributions based upon the Company meeting a certain earnings per share target. The Company's contributions to this plan were $27,157, $16,357 and $10,264 for the years ended December 31, 1999, 1998 and 1997, respectively.

The Company has five stock-based compensation plans. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for its stock-based compensation plans. In accordance with APB 25, no compensation cost has been recognized for the Company's fixed stock options, since the exercise price of all options equals or exceeds the market price of the underlying stock on the date of grant, nor for the Associate Stock Purchase Plan (the "Purchase Plan"), which is considered to be noncompensatory. For the performance-based option grants discussed below, compensation cost is measured as the difference between the exercise price and the target stock price required for vesting and is recognized over the estimated vesting period. The Company recognized $44,542, $70,038 and $24,772 of compensation cost relating to its associate stock plans for the years ended December 31, 1999, 1998 and 1997, respectively.

On April 29, 1999, the Company's Board of Directors approved a three-for-one stock split of the common stock of the Corporation. The stock split was effected through a 200 percent stock distribution on June 1, 1999, to the stockholders of record on May 20, 1999. Consistent with the terms of the Company's stock-based compensation plans, the number of shares subject to the plans and the respective exercise prices have been adjusted accordingly and are reflected herein for all periods presented.

SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") requires, for companies electing to continue to follow the recognition provisions of APB 25, pro forma information regarding net income and earnings per share, as if the recognition provisions of SFAS 123 were adopted for stock options granted subsequent to December 31, 1994. For purposes of pro forma disclosure, the fair value of the options was estimated at the date of grant using a Black-Scholes option-pricing model with the weighted average assumptions described below and is amortized to expense over the options' vesting period.

Year Ended December 31,	**1999**	1998	1997
Assumptions			
Dividend yield	**.24%**	.32%	.82%
Volatility factors of expected market price of stock	**45%**	40%	40%
Risk-free interest rate	**5.29%**	5.44%	6.27%
Expected option lives (in years)	**5.4**	5.2	4.5
Pro Forma Information			
Net income	**$ 325,701**	$ 287,637	$ 186,003
Basic earnings per share	**$ 1.65**	$ 1.46	$ 0.94
Diluted earnings per share	**$ 1.55**	$ 1.38	$ 0.92

Under the 1994 Stock Incentive Plan, the Company has reserved 43,112,640 common shares as of December 31, 1999, for issuance in the form of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock and incentive stock. The exercise price of each stock option issued to

date equals or exceeds the market price of the Company's stock on the date of grant. Each option's maximum term is ten years. The number of shares available for future grants was 2,191,884, 2,178,669 and 293,442 as of December 31, 1999, 1998 and 1997, respectively. Other than the performance-based options discussed below, options generally vest annually over three to five years and expire beginning November 2004.

In April 1999, the Company established the 1999 Stock Incentive Plan. Under the plan, the Company has reserved 600,000 common shares for issuance in the form of nonstatutory stock options. The exercise price of each stock option equals or exceeds the market price of the Company's stock on the date of grant. The maximum term of each option is ten years. The number of shares available for future grant was 283,800 as of December 31, 1999. All options granted under the plan to date were granted on April 29, 1999 and expire on April 29, 2009. These options vested immediately upon the optionee's execution of an intellectual property protection agreement with the Company.

In April 1999, the Company's Board of Directors approved a stock option grant to senior management ("EntrepreneurGrant IV"). This grant was composed of 7,636,107 options to certain key managers (including 1,884,435 options to the Company's Chief Executive Officer ["CEO"] and Chief Operating Officer ["COO"]) with an exercise price equal to the fair market value on the date of grant. The CEO and COO gave up their salaries for the year 2001 and their annual cash incentives, annual option grants and Senior Executive Retirement Plan contributions for the years 2000 and 2001 in exchange for their EntrepreneurGrant IV options. Other members of senior management gave up all potential annual stock option grants for 1999 and 2000 in exchange for this one-time grant. All options under this grant will vest on April 29, 2008, or earlier if the common stock's fair market value is at or above $100 per share for at least ten trading days in any thirty consecutive calendar day period on or before June 15, 2002, or upon a change of control of the Company. These options will expire on April 29, 2009.

In April 1998, upon stockholder approval, a 1997 stock option grant to senior management ("EntrepreneurGrant II") became effective at the December 18, 1997 market price of $16.25 per share. This grant included 3,429,663 performance-based options granted to certain key managers (including 2,057,265 options to the Company's CEO and COO), which vested in April 1998 when the market price of the Company's stock remained at or above $28.00 for at least ten trading days in a thirty consecutive calendar day period. The grant also included 671,700 options which vest in full, regardless of the stock price, on December 18, 2000, or immediately upon a change in control of the Company.

In April 1999 and 1998, the Company granted 1,045,362 and 1,335,252 options, respectively, to all associates not granted options in the EntrepreneurGrant II or EntrepreneurGrant IV. Certain associates were granted options in exchange for giving up future compensation. Other associates were granted a set number of options. These options were granted at the then market price of $56.46 and $31.71 per share, respectively, and vest, in full, on April 29, 2002 and April 30, 2001, respectively, or immediately upon a change in control of the Company.

In June 1998, the Company's Board of Directors approved a grant to executive officers ("EntrepreneurGrant III"). This grant consisted of 2,611,896 performance-based options granted to certain key managers (including 2,000,040 options to the Company's CEO and COO), which were approved by the stockholders in April 1999, at the then market price of $33.77 per share. The Company's CEO and COO gave up 300,000 and 200,010 vested options (valued at $8,760 in total), respectively, in exchange for their EntrepreneurGrant III options. Other executive officers gave up future cash compensation for each of the next three years in exchange for the options. All options made under this grant will vest if the Company's stock reaches $58.33 per share for at least ten trading days in a thirty consecutive calendar day period by June 11, 2001, or immediately upon a change in control of the Company.

In April 1996, upon stockholder approval, a 1995 stock option grant to the Company's CEO and COO became effective. This grant was for performance-based options to purchase 7,500,000 common shares at the September 15, 1995, market price of $9.73 per share. Vesting of the options was dependent on the fair market value of the common stock remaining at or above specified levels for at least ten trading days in any thirty consecutive calendar day period. Fifty percent of the options vested in January 1997 when the Company's stock reached $12.50 per share; 25% vested in October 1997 when the stock reached $14.58 per share; and the remaining 25% vested in January 1998 when the stock reached $16.67 per share.

The Company maintains two non-associate directors stock incentive plans, the 1995 Non-Employee Directors Stock Incentive Plan and the 1999 Non-Employee Directors Stock Incentive Plan. The 1995 plan originally authorized 1,500,000 shares of the Company's common stock for the automatic grant of restricted stock and stock options to eligible members of the Company's Board of Directors. However, in April 1999, the Company terminated the 1995 plan. The options vest after one year and their maximum term is ten years. The exercise price of each option equals the market price of the Company's stock on the date of grant. As of December 31, 1999, there was no outstanding restricted stock under this plan.

In April 1999, the Company established the 1999 Non-Employee Directors Stock Incentive Plan. The plan authorizes a maximum of 525,000 shares of the Company's common stock for the grant of nonstatutory stock options to eligible members of the Company's Board of Directors. In April 1999, all non-employee directors of the Company were given the option to receive performance-based options under this plan in lieu of their annual cash retainer and their time-vesting options for each of 1999, 2000 and 2001. As a result, 497,490 performance-based options were granted to certain non-employee directors of the Company. The options vest in full if, on or before June 15, 2002, the market value of the Company's stock equals or exceeds $100 per share for ten trading days in a thirty consecutive calendar day period. All options vest immediately upon a change of control of the Company. As of December 31, 1999, 27,510 shares were available for grant under this plan. All options under this plan have a maximum term of ten years. The exercise price of each option equals or exceeds the market price of the Company's stock on the date of grant.

A summary of the status of the Company's options as of December 31, 1999, 1998 and 1997, and changes for the years then ended is presented below:

	1999		1998		1997	
	Options (000s)	**Weighted-Average Exercise Price Per Share**	Options (000s)	Weighted-Average Exercise Price Per Share	Options (000s)	Weighted-Average Exercise Price Per Share
Outstanding at beginning of year	**29,139**	**$ 15.99**	21,375	$ 9.22	17,682	$ 7.97
Granted	**10,541**	**55.71**	10,350	27.97	4,770	13.63
Exercised	**(2,111)**	**11.44**	(2,226)	6.76	(645)	6.92
Canceled	**(511)**	**38.17**	(360)	17.32	(432)	10.05
Outstanding at end of year	**37,058**	**$ 27.24**	29,139	$ 15.99	21,375	$ 9.22
Exercisable at end of year	**19,635**	**$ 12.16**	17,898	$ 10.16	11,445	$ 8.14
Weighted-average fair value of options granted during the year		**$ 25.92**		$ 11.82		$ 5.34

The following table summarizes information about options outstanding as of December 31, 1999:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices	**Number Outstanding (000s)**	**Weighted-Average Remaining Contractual Life**	**Weighted-Average Exercise Price Per Share**	**Number Exercisable (000s)**	**Weighted-Average Exercise Price Per Share**
$4.31–$6.46	**4,639**	**4.89 years**	**$ 5.39**	**4,639**	**$ 5.39**
$6.47–$9.70	**416**	**6.09**	**8.17**	**416**	**8.17**
$9.71–$14.56	**11,001**	**6.11**	**10.50**	**9,958**	**10.23**
$14.57–$21.85	**4,321**	**7.96**	**16.07**	**3,276**	**16.10**
$21.86–$32.79	**1,331**	**8.39**	**31.66**	**174**	**31.47**
$32.80–$49.20	**5,816**	**8.84**	**37.17**	**813**	**36.84**
$49.21–$60.00	**9,534**	**9.35**	**56.41**	**359**	**56.42**

Under the Company's Purchase Plan, associates of the Company are eligible to purchase common stock through monthly salary deductions of a maximum of 15% and a minimum of 1% of monthly base pay. To date, the amounts deducted are applied to the purchase of unissued common or treasury stock of the Company at 85% of the current market price. Shares may also be acquired on the market. An aggregate of 3,000,000 common shares has been authorized for issuance under the Purchase Plan, of which 1,379,037 shares were available for issuance as of December 31, 1999.

On November 16, 1995, the Board of Directors of the Company declared a dividend distribution of one Right for each outstanding share of common stock. As amended, each Right entitles a registered holder to purchase from the Company one three-hundredth of a share of the Company's authorized Cumulative Participating Junior Preferred Stock (the "Junior Preferred Shares") at a price of $200 per one three-hundredth of a share, subject to adjustment. The Company has reserved 1,000,000 shares of its authorized preferred stock for the Junior Preferred Shares. Because of the nature of the Junior Preferred Shares' dividend and liquidation rights, the value of the one three-hundredth interest in a Junior Preferred Share purchasable upon exercise of each Right should approximate the value of one share of common stock. Initially, the Rights are not exercisable and trade automatically with the common stock. However, the Rights generally become exercisable and separate certificates representing the Rights will be distributed, if any person or group acquires 15% or more of the Company's outstanding common stock or a tender offer or exchange offer is announced for the Company's common stock. Upon such event, provisions would also be made so that each holder of a Right, other than the acquiring person or group, may exercise the Right and buy common stock with a market value of twice the $200 exercise price. The Rights expire on November 29, 2005, unless earlier redeemed by the Company at $0.01 per Right prior to the time any person or group acquires 15% of the outstanding common stock. Until the Rights become exercisable, the Rights have no dilutive effect on earnings per share.

In July 1997, the Company's Board of Directors voted to repurchase up to six million shares of the Company's common stock to mitigate the dilutive impact of shares issuable under its benefit plans, including its Purchase Plan, dividend reinvestment plan and stock incentive plans. In July 1998, the Company's Board of Directors voted to increase this amount by an additional 4.5 million shares of the Company's common stock. For the years ended December 31, 1999, 1998 and 1997, the Company repurchased 2,250,000, 2,687,400 and 3,955,923 shares, respectively, under this program. Certain treasury shares have been reissued in connection with the Company's benefit plans.

note g

OTHER NON-INTEREST EXPENSE

Year Ended December 31,	**1999**	1998	1997
Professional services	**$ 145,398**	$ 66,591	$ 47,671
Collections	**101,000**	59,503	23,216
Bankcard association assessments	**33,301**	23,163	16,074
Fraud losses	**22,476**	10,278	16,749
Other	**131,928**	74,740	40,568
Total	**$ 434,103**	$ 234,275	$ 144,278

note h

INCOME TAXES

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 components of the Company's deferred tax assets and liabilities as of December 31, 1999 and 1998, were as follows:

December 31,	**1999**	1998
Deferred tax assets:		
Allowance for loan losses	**$ 117,375**	$ 75,738
Finance charge, fee and other income receivables	**111,599**	57,913
Stock incentive plan	**51,680**	35,949
State taxes, net of federal benefit	**15,131**	7,310
Other	**43,495**	24,770
Subtotal	**339,280**	201,680
Valuation allowance	**(20,763)**	(14,168)
Total deferred tax assets	**318,517**	187,512
Deferred tax liabilities:		
Securitizations	**44,557**	29,728
Deferred revenue	**97,397**	10,255
Other	**17,110**	7,814
Total deferred tax liabilities	**159,064**	47,797
Net deferred tax assets before unrealized losses (gains) on securities	**159,453**	139,715
Unrealized losses (gains) on securities	**13,369**	(38,772)
Net deferred tax assets	**$ 172,822**	$ 100,943

During 1999, the Company increased its valuation allowance by $11,935 for certain state and international loss carryforwards generated during the year. This increase in the valuation allowance was partially offset by a decrease of $5,340 resulting from a change in tax regulations that will allow for the recognition of the benefits of certain acquired net operating losses.

Significant components of the provision for income taxes attributable to continuing operations were as follows:

Year Ended December 31,	**1999**	1998	1997
Federal taxes	**$ 232,910**	$ 244,536	$ 138,877
State taxes	**754**	471	393
Deferred income taxes	**(19,738)**	(76,317)	(23,198)
Income taxes	**$ 213,926**	$ 168,690	$ 116,072

The reconciliation of income tax attributable to continuing operations computed at the U.S. federal statutory tax rate to income tax expense was:

Year Ended December 31,	**1999**	1998	1997
Income tax at statutory federal tax rate	**35.00%**	35.00%	35.00%
Other	**2.07**	3.00	3.00
Income taxes	**37.07%**	38.00%	38.00%

note i

EARNINGS PER SHARE

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

Year Ended December 31, (Shares in Thousands)	**1999**	1998	1997
Numerator:			
Net income	**$ 363,091**	$ 275,231	$ 189,381
Denominator:			
Denominator for basic earnings per share — Weighted-average shares	**197,594**	196,769	198,210
Effect of dilutive securities:			
Stock options	**13,089**	11,990	4,734
Restricted stock		6	9
Dilutive potential common shares	**13,089**	11,996	4,743
Denominator for diluted earnings per share — Adjusted weighted-average shares	**210,683**	208,765	202,953
Basic earnings per share	**$ 1.84**	$ 1.40	$ 0.96
Diluted earnings per share	**$ 1.72**	$ 1.32	$ 0.93

Options to purchase approximately 5,200,000, 6,436,000 and 2,848,000 shares of common stock during 1999, 1998 and 1997, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, their inclusion would be antidilutive.

note j

REGULATORY MATTERS

The Bank and the Savings Bank are subject to capital adequacy guidelines adopted by the Federal Reserve Board (the "Federal Reserve") and the Office of Thrift Supervision (the "OTS") (collectively, the "regulators"), respectively. The capital adequacy guidelines and the regulatory framework for prompt corrective action require the Bank and the Savings Bank to maintain specific capital levels based upon quantitative measures of their assets, liabilities and off-balance sheet items. The inability to meet and maintain minimum capital adequacy levels could result in the regulators taking actions that could have a material effect on the Company's consolidated financial statements. Additionally, the regulators have broad discretion in applying higher capital requirements. Regulators consider a range of factors in determining capital adequacy, such as an institution's size, quality and stability of earnings, interest rate risk exposure, risk diversification, management expertise, asset quality, liquidity and internal controls.

The most recent notifications received from the regulators categorized the Bank and the Savings Bank as "well-capitalized." To be categorized as "well-capitalized," the Bank and the Savings Bank must maintain minimum capital ratios as set forth in the following table. As of December 31, 1999, there were no conditions or events since the notifications discussed above that management believes would have changed either the Bank or the Savings Bank's capital category.

	Ratios	Minimum For Capital Adequacy Purposes	To Be "Well-Capitalized" Under Prompt Corrective Action Provisions
December 31, 1999			
Capital One Bank			
Tier 1 Capital	**10.64%**	**4.00%**	**6.00%**
Total Capital	**13.11**	**8.00**	**10.00**
Tier 1 Leverage	**11.13**	**4.00**	**5.00**
Capital One, F.S.B.			
Tier 1 Capital	**9.06%**	**4.00%**	**6.00%**
Total Capital	**10.69**	**8.00**	**10.00**
Tier 1 Leverage	**8.08**	**4.00**	**5.00**
December 31, 1998			
Capital One Bank			
Tier 1 Capital	11.38%	4.00%	6.00%
Total Capital	13.88	8.00	10.00
Tier 1 Leverage	10.24	4.00	5.00
Capital One, F.S.B.			
Tier 1 Capital	11.28%	4.00%	6.00%
Total Capital	13.87	12.00	10.00
Tier 1 Leverage	9.46	8.00	5.00

During 1996, the Bank received regulatory approval and established a branch office in the United Kingdom. In connection with such approval, the Company committed to the Federal Reserve that, for so long as the Bank maintains a branch in the United Kingdom, the Company will maintain a minimum Tier 1 Leverage ratio of 3.0%. As of December 31, 1999 and 1998, the Company's Tier 1 Leverage ratio was 12.79% and 13.49%, respectively.

Additionally, certain regulatory restrictions exist that limit the ability of the Bank and the Savings Bank to transfer funds to the Corporation. As of December 31, 1999, retained earnings of the Bank and the Savings Bank of $281,500 and $61,900, respectively, were available for payment of dividends to the Corporation without prior approval by the regulators. The Savings Bank, however, is required to give the OTS at least thirty days advance notice of any proposed dividend and the OTS, in its discretion, may object to such dividend.

note k

COMMITMENTS AND CONTINGENCIES

As of December 31, 1999, the Company had outstanding lines of credit of approximately $55,500,000 committed to its customers. Of that total commitment, approximately $35,300,000 was unused. While this amount represented the total available lines of credit to customers, the Company has not experienced, and does not anticipate, that all of its customers will exercise their entire available line at any given point in time. The Company generally has the right to increase, reduce, cancel, alter or amend the terms of these available lines of credit at any time.

Certain premises and equipment are leased under agreements that expire at various dates through 2008, without taking into consideration available renewal options. Many of these leases provide for payment by the lessee of property taxes, insurance premiums, cost of maintenance and other costs. In some cases, rentals are subject to increase in relation to a cost of living index. Total rental expense amounted to $37,685, $18,242 and $13,644 for the years ended December 31, 1999, 1998 and 1997, respectively.

Future minimum rental commitments as of December 31, 1999, for all non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

2000	$ 39,379
2001	39,232
2002	36,564
2003	33,508
2004	23,787
Thereafter	112,321
Total	$ 284,791

In 1998, the Company entered into a five-year lease of five facilities in Tampa, Florida and Richmond, Virginia. Monthly rent on the facilities is based on a fixed rate of 6.87% per annum applied to the cost of the buildings included in the lease of $86.8 million. The Company has two one-year renewal options under the terms of the lease. If, at the end of the lease term, the Company does not purchase all of the properties, the Company would guarantee a residual value to the lessor of up to approximately 84% of the cost of the buildings.

In 1999, the Company entered into two three-year agreements for the lease of four facilities located in Tampa, Florida and Federal Way, Washington. Monthly rent commences upon completion of each of the buildings and is based on LIBOR rates applied to the funded cost of the facilities. At December 31, 1999, one of the facilities had been completed and rent payments had commenced. The Company has a one-year renewal option under the terms of the leases. If, at the end of each lease term, the Company does not purchase all of the properties under each of the leases, the Company would guarantee a residual value to the lessor of up to approximately 85% of the cost of the buildings in that lease agreement. The total funded amount under both agreements was $55,201 at December 31, 1999, with an aggregate commitment of up to $120 million.

In connection with the transfer of substantially all of Signet Bank's credit card business to the Bank in November 1994, the Company and the Bank agreed to indemnify Signet Bank (which was acquired by First Union on November 30, 1997) for certain liabilities incurred in litigation arising from that business, which may include liabilities, if any, incurred in the purported class action case described below.

During 1995, the Company and the Bank became involved in a purported class action suit relating to certain collection practices engaged in by Signet Bank and, subsequently, by the Bank. The complaint in this case alleges that Signet Bank and/or the Bank violated a variety of California state statutes and constitutional and common law duties by filing collection lawsuits, obtaining judgements and pursuing garnishment proceedings in the Virginia state courts against defaulted credit card customers who were not residents of Virginia. This case was filed in the Superior Court of California in the County of Alameda, Southern Division, on behalf of a class of California residents. The complaint in this case seeks unspecified statutory damages, compensatory damages, punitive damages, restitution, attorneys' fees and costs, a permanent injunction and other equitable relief.

In early 1997, the California court entered judgement in favor of the Bank on all of the plaintiffs' claims. The plaintiffs appealed the ruling to the California Court of Appeals First Appellate District Division 4. In early 1999, the Court of Appeals affirmed the trial court's ruling in favor of the Bank on six counts, but reversed the trial court's ruling on two counts of the plaintiffs' complaint. The California Supreme Court rejected the Bank's Petition for Review of the remaining two counts and remitted them to the trial court for further proceedings. In August 1999, the trial court denied without prejudice plaintiffs' motion to certify a class on the one remaining common law claim. In November 1999, the United States Supreme Court denied the

Bank's writ of certiorari on the remaining two counts, declining to exercise its discretionary power to review these issues.

Because no specific measure of damages is demanded in the complaint of the California case and the trial court entered judgement in favor of the Bank before the parties completed any significant discovery, an informed assessment of the ultimate outcome of this case cannot be made at this time. Management believes, however, that there are meritorious defenses to this lawsuit and intends to defend it vigorously.

The Company is commonly subject to various other pending and threatened legal actions arising from the conduct of its normal business activities. In the opinion of management, the ultimate aggregate liability, if any, arising out of any pending or threatened action will not have a material adverse effect on the consolidated financial condition of the Company. At the present time, however, management is not in a position to determine whether the resolution of pending or threatened litigation will have a material effect on the Company's results of operations in any future reporting period.

note l

RELATED PARTY TRANSACTIONS

In the ordinary course of business, executive officers and directors of the Company may have consumer loans issued by the Company. Pursuant to the Company's policy, such loans are issued on the same terms as those prevailing at the time for comparable loans to unrelated persons and do not involve more than the normal risk of collectibility.

note m

SECURITIZATIONS

The Company securitized in transactions accounted for as sales $2,586,517 ($47,642 international), $4,616,972 ($245,752 international) and $2,114,695 of consumer loan receivables for the years ended December 31, 1999, 1998 and 1997, respectively. As of December 31, 1999, receivables under securitizations outstanding consisted of $2,482,246 of retained ("seller's") interests and $10,319,400 of investors' undivided interests, maturing from 2000 to 2008.

The terms of securitizations require the Company to maintain a certain level of assets, retained by the trust, as credit support for the securitization. These amounts are included in accounts receivable from securitizations and were $262,819 and $263,426 as of December 31, 1999 and 1998, respectively.

note n

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Company has entered into interest rate swaps to effectively convert certain interest rates on bank notes from variable to fixed. The pay-fixed, receive-variable swaps, which had a notional amount totaling $157,000 as of December 31, 1999, will mature from 2001 to 2007 to coincide with maturities of the variable bank notes to which they are designated. The Company has also entered into amortizing notional interest rate swaps to effectively convert certain interest rates on fixed rate consumer loans from fixed to variable, thereby reducing the interest rate sensitivity of loan securitizations. These pay-fixed, receive-variable interest rate swaps, which had an amortizing notional amount totaling $2,789,000 as of December 31, 1999, will fully amortize between 2004 and 2006 to coincide with the estimated attrition of the fixed rate consumer loans to which they are designated. The Company also had a pay-fixed, receive-variable interest rate swap with an amortizing notional amount of C$208,000, which will amortize through 2003 to coincide with the estimated attrition of the fixed rate Canadian dollar consumer loans to which it is designated.

The Company has also entered into currency swaps that effectively convert fixed rate pound sterling interest receipts to fixed rate U.S. dollar interest receipts on pound sterling denominated assets. These currency swaps had notional amounts totaling $260,000 as of December 31, 1999, and mature from 2001 to 2005, coinciding with the repayment of the assets to which they are designated.

The Company has entered into f/x contracts to reduce the Company's sensitivity to foreign currency exchange rate changes on its foreign currency denominated assets and liabilities. As of December 31, 1999, the Company had f/x contracts with notional amounts totaling $1,058,000 that mature in 2000 to coincide with the repayment of the assets to which they are designated.

note o

SIGNIFICANT CONCENTRATION OF CREDIT RISK

The Company is active in originating consumer loans, primarily in the United States. The Company reviews each potential customer's credit application and evaluates the applicant's financial history and ability and willingness to repay. Loans are made primarily on an unsecured basis; however, certain loans require collateral in the form of cash deposits. International consumer loans are originated primarily in Canada and the United Kingdom. The geographic distribution of the Company's consumer loans was as follows:

December 31,	1999		1998	
Geographic Region:	Loans	Percentage of Total	Loans	Percentage of Total
South	$ 6,751,599	33.36%	$ 5,868,386	33.74%
West	4,037,714	19.95	3,609,952	20.75
Northeast	3,362,044	16.62	3,032,061	17.43
Midwest	3,644,444	18.01	2,992,334	17.20
International	2,440,787	12.06	1,892,393	10.88
	20,236,588	100.00%	17,395,126	100.00%
Less securitized balances	(10,323,039)		(11,238,015)	
Total	$ 9,913,549		$ 6,157,111	

note p

DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following discloses the fair value of financial instruments as of December 31, 1999 and 1998, whether or not recognized in the balance sheets. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. As required under GAAP, these disclosures exclude certain financial instruments and all non-financial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments as of December 31, 1999 and 1998:

Cash and Cash Equivalents

The carrying amounts of cash and due from banks, federal funds sold and resale agreements and interest-bearing deposits at other banks approximated fair value.

Securities Available for Sale

The fair value of securities available for sale was determined using current market prices. See Note B for fair values by type of security.

Consumer Loans

The net carrying amount of consumer loans, including the Company's seller's interest in securitized consumer loan receivables, approximated fair value due to the relatively short average life and variable interest rates on a substantial number of these loans. This amount excluded any value related to account relationships.

Interest Receivable

The carrying amount approximated fair value.

Accounts Receivable from Securitizations

The carrying amount approximated fair value.

Borrowings

The book value of interest-bearing deposits, secured borrowings, federal funds purchased and resale agreements, and other short-term borrowings approximates fair value. The fair value of the junior subordinated capital income securities was $84,199 and $77,672 at December 31, 1999 and 1998, respectively, and is determined based on quoted market prices. The fair value of senior notes was $4,075,825 and $3,769,000 as of December 31, 1999 and 1998, respectively, and is determined based on quoted market prices.

Interest Payable

The carrying amount approximated fair value.

Off-Balance Sheet Financial Instruments

The fair value was the estimated net amount that the Company would have (paid)/received to terminate the interest rate swaps, currency swaps and f/x contracts at the respective dates, taking into account the forward yield curve on the swaps and the forward rates on the currency swaps and f/x contracts. As of December 31, 1999 and 1998, the estimated fair value was $80,566 and ($64,713), respectively.

note q

CAPITAL ONE FINANCIAL CORPORATION (PARENT COMPANY ONLY) CONDENSED FINANCIAL INFORMATION

Balance Sheets at December 31,	**1999**	1998
Assets:		
Cash and cash equivalents	**$ 5,846**	$ 10,887
Investment in subsidiaries	**1,428,754**	1,211,255
Loans to subsidiaries[1]	**609,176**	375,396
Other	**81,169**	62,316
Total assets	**$ 2,124,945**	$ 1,659,854
Liabilities:		
Senior notes	**$ 548,897**	$ 324,213
Borrowings from subsidiaries	**46,802**	54,200
Other	**13,639**	11,035
Total liabilities	**609,338**	389,448
Stockholders' equity	**1,515,607**	1,270,406
Total liabilities and stockholders' equity	**$ 2,124,945**	$ 1,659,854

(1) As of December 31, 1999 and 1998, includes $11,350 and $108,400, respectively, of cash invested at the Bank instead of the open market.

Statements of Income for the Year Ended December 31,	**1999**	1998	1997
Interest from temporary investments	**$ 32,191**	$ 12,485	$ 11,352
Interest expense	**(41,011)**	(18,212)	(11,067)
Dividends, principally from bank subsidiaries	**220,001**	260,000	228,000
Non-interest income	**39**	893	56
Non-interest expense	**(6,274)**	(2,700)	(409)
Income before income taxes and equity in undistributed earnings of subsidiaries	**204,946**	252,466	227,932
Income tax benefit	**5,721**	2,863	25
Equity in undistributed earnings (loss) of subsidiaries	**152,424**	19,902	(38,576)
Net income	**$ 363,091**	$ 275,231	$ 189,381

Statements of Cash Flows for the Year Ended December 31,	**1999**	1998	1997
Operating Activities:			
Net income	**$ 363,091**	$ 275,231	$ 189,381
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed (earnings) loss of subsidiaries	**(152,424)**	(19,902)	38,576
Decrease (increase) in other assets	**4,236**	(56,682)	(2,183)
Increase in other liabilities	**2,604**	1,365	3,290
Net cash provided by operating activities	**217,507**	200,012	229,064
Investing Activities:			
Purchases of securities available for sale	**(26,836)**		
Proceeds from maturities of securities available for sale	**11,658**		
Increase in investment in subsidiaries	**(115,233)**	(172,119)	(83,366)
Increase in loans to subsidiaries	**(233,780)**	(167,889)	(102,507)
Net cash used for investing activities	**(364,191)**	(340,008)	(185,873)
Financing Activities:			
Increase in borrowings from subsidiaries	**(7,398)**	50,900	3,300
Issuance of senior notes	**224,684**	199,213	
Dividends paid	**(20,653)**	(20,533)	(20,638)
Purchases of treasury stock	**(107,104)**	(91,672)	(52,314)
Net proceeds from issuances of common stock	**14,028**	12,143	6,509
Proceeds from exercise of stock options	**38,086**	629	4,082
Net cash provided by (used for) financing activities	**141,643**	150,680	(59,061)
Increase (decrease) in cash and cash equivalents	**(5,041)**	10,684	(15,870)
Cash and cash equivalents at beginning of year	**10,887**	203	16,073
Cash and cash equivalents at end of year	**$ 5,846**	$ 10,887	$ 203

directors and officers

CAPITAL ONE FINANCIAL CORPORATION BOARD OF DIRECTORS

Richard D. Fairbank
Chairman and Chief Executive Officer
Capital One Financial Corporation

Nigel W. Morris
President and Chief Operating Officer
Capital One Financial Corporation

W. Ronald Dietz*
Managing Partner
Customer Contact Solutions, LLC

James A. Flick, Jr.*
President and Chief Executive Officer
Dome Corporation

Patrick W. Gross*
Founder and Chairman, Executive Committee
American Management Systems, Inc.

James V. Kimsey**
Founding CEO and Chairman Emeritus
America Online, Inc.

Stanley I. Westreich**
President
Westfield Realty, Inc.

*Audit Committee
**Compensation Committee

CAPITAL ONE FINANCIAL CORPORATION EXECUTIVE OFFICERS

Richard D. Fairbank
Chairman and Chief Executive Officer

Nigel W. Morris
President and Chief Operating Officer

Marjorie M. Connelly
Sr. Vice President, Credit Card Operations

Matthew J. Cooper
Sr. Vice President, Marketing and Analysis

John G. Finneran, Jr.
Sr. Vice President, General Counsel and Corporate Secretary

Dennis H. Liberson
Sr. Vice President, Human Resources

William J. McDonald
Sr. Vice President, Brand Management

Peter A. Schnall
Sr. Vice President, Marketing and Analysis

Michael Shrader
Sr. Vice President, Sales

David M. Willey
Sr. Vice President, Corporate Financial Management

consolidated statements of income

Year Ended December 31 (In Thousands, Except Per Share Data)	**1999**	1998	1997
Interest Income:			
Consumer loans, including fees	**$ 1,482,371**	$ 1,003,122	$ 619,785
Securities available for sale	**105,438**	94,436	78,542
Other	**5,675**	13,978	19,658
Total interest income	**1,593,484**	1,111,536	717,985
Interest Expense:			
Deposits	**137,792**	67,479	41,932
Other borrowings	**100,392**	96,130	46,068
Senior and deposit notes	**302,698**	260,675	253,849
Total interest expense	**540,882**	424,284	341,849
Net interest income	**1,052,602**	687,252	376,136
Provision for loan losses	**382,948**	267,028	262,837
Net interest income after provision for loan losses	**669,654**	420,224	113,299
Non-Interest Income:			
Servicing and securitizations	**1,187,098**	789,844	682,345
Service charges and other fees	**1,040,944**	611,958	337,755
Interchange	**144,317**	86,481	49,030
Total non-interest income	**2,372,359**	1,488,283	1,069,130
Non-Interest Expense:			
Salaries and associate benefits	**780,160**	476,389	289,322
Marketing	**731,898**	446,264	224,819
Communications and data processing	**264,897**	150,220	98,135
Supplies and equipment	**181,663**	112,101	82,874
Occupancy	**72,275**	45,337	37,548
Other	**434,103**	234,275	144,278
Total non-interest expense	**2,464,996**	1,464,586	876,976
Income before income taxes	**577,017**	443,921	305,453
Income taxes	**213,926**	168,690	116,072
Net income	**$ 363,091**	$ 275,231	$ 189,381
Basic earnings per share	**$ 1.84**	$ 1.40	$ 0.96
Diluted earnings per share	**$ 1.72**	$ 1.32	$ 0.93
Dividends paid per share	**$ 0.11**	$ 0.11	$ 0.11

See Notes to Consolidated Financial Statements.

consolidated statements of changes in stockholders' equity

(Dollars in Thousands, Except Per Share Data)	Common Stock Shares	Common Stock Amount	Paid-In Capital, Net	Retained Earnings	Cumulative Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1996	198,975,783	$ 1,990	$ 480,056	$ 256,397	$ 1,948		$ 740,391
Comprehensive income:							
Net income				189,381			189,381
Other comprehensive income, net of income tax:							
Unrealized gains on securities, net of income taxes of $481					532		532
Foreign currency translation adjustments					59		59
Other comprehensive income					591		591
Comprehensive income							189,972
Cash dividends — $.11 per share				(20,638)			(20,638)
Purchases of treasury stock						$ (52,314)	(52,314)
Issuances of common stock	305,400	3	2,753			2,201	4,957
Exercise of stock options	390,870	4	2,612			1,466	4,082
Common stock issuable under incentive plan			24,772				24,772
Other items, net	(363)		2,037				2,037
Balance, December 31, 1997	199,671,690	1,997	512,230	425,140	2,539	(48,647)	893,259
Comprehensive income:							
Net income				275,231			275,231
Other comprehensive income, net of income tax:							
Unrealized gains on securities, net of income taxes of $37,170					60,648		60,648
Foreign currency translation adjustments					(2,532)		(2,532)
Other comprehensive income					58,116		58,116
Comprehensive income							333,347
Cash dividends — $.11 per share				(20,533)			(20,533)
Purchases of treasury stock						(91,672)	(91,672)
Issuances of common stock			35,381			26,745	62,126
Exercise of stock options	4,500		(23,683)			43,323	19,640
Common stock issuable under incentive plan			70,038				70,038
Other items, net	(5,814)		4,201				4,201
Balance, December 31, 1998	199,670,376	1,997	598,167	679,838	60,655	(70,251)	1,270,406
Comprehensive income:							
Net income				**363,091**			**363,091**
Other comprehensive income, net of income tax:							
Unrealized losses on securities, net of income tax benefit of $58,759					**(95,868)**		**(95,868)**
Foreign currency translation adjustments					**3,951**		**3,951**
Other comprehensive income					**(91,917)**		**(91,917)**
Comprehensive income							**271,174**
Cash dividends — $.11 per share				**(20,653)**			**(20,653)**
Purchases of treasury stock						**(107,104)**	**(107,104)**
Issuances of common stock			**(1,628)**			**9,833**	**8,205**
Exercise of stock options			**(38,422)**			**76,508**	**38,086**
Common stock issuable under incentive plan			**49,236**				**49,236**
Other items, net	**45**		**6,237**	**20**			**6,257**
Balance, December 31, 1999	**199,670,421**	**$ 1,997**	**$ 613,590**	**$ 1,022,296**	**$ (31,262)**	**$ (91,014)**	**$ 1,515,607**

See Notes to Consolidated Financial Statements.

consolidated statements of cash flows

Year Ended December 31 (In Thousands)	**1999**	1998	1997
Operating Activities:			
Net income	**$ 363,091**	$ 275,231	$ 189,381
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for loan losses	**382,948**	267,028	262,837
Depreciation and amortization, net	**172,623**	108,173	72,674
Stock compensation plans	**49,236**	70,056	24,878
(Increase) decrease in interest receivable	**(11,720)**	(141)	26,707
Decrease (increase) in accounts receivable from securitizations	**65,208**	(133,771)	(86,261)
Increase in other assets	**(157,685)**	(121,951)	(49,964)
Increase (decrease) in interest payable	**24,768**	22,667	(11,914)
Increase in other liabilities	**383,820**	293,266	97,914
Net cash provided by operating activities	**1,272,289**	780,558	526,252
Investing Activities:			
Purchases of securities available for sale	**(871,355)**	(1,251,713)	(1,275,900)
Proceeds from sales of securities available for sale	**719,161**	112,277	483,592
Proceeds from maturities of securities available for sale	**42,995**	606,532	450,787
Proceeds from securitizations of consumer loans	**2,586,517**	4,616,972	2,114,695
Net increase in consumer loans	**(6,763,580)**	(6,144,640)	(2,875,908)
Recoveries of loans previously charged off	**124,673**	67,764	27,462
Additions of premises and equipment, net	**(350,987)**	(153,024)	(51,602)
Net cash used for investing activities	**(4,512,576)**	(2,145,832)	(1,126,874)
Financing Activities:			
Net increase in interest-bearing deposits	**1,783,830**	686,325	370,632
Net increase in other borrowings	**1,038,010**	735,288	362,557
Issuances of senior and deposit notes	**1,453,059**	1,323,700	529,977
Maturities of senior and deposit notes	**(1,012,639)**	(1,218,162)	(891,436)
Dividends paid	**(20,653)**	(20,533)	(20,638)
Purchases of treasury stock	**(107,104)**	(91,672)	(52,314)
Net proceeds from issuances of common stock	**14,028**	12,143	6,509
Proceeds from exercise of stock options	**38,086**	629	4,082
Net cash provided by financing activities	**3,186,617**	1,427,718	309,369
(Decrease) increase in cash and cash equivalents	**(53,670)**	62,444	(291,253)
Cash and cash equivalents at beginning of year	**300,167**	237,723	528,976
Cash and cash equivalents at end of year	**$ 246,497**	$ 300,167	$ 237,723

See Notes to Consolidated Financial Statements.

corporate information

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Annual Meeting
Thursday, April 27, 2000, 10:00 a.m. Eastern Time
Fairview Park Marriott Hotel
3111 Fairview Park Drive
Falls Church, VA 22042

Principal Financial Contact
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Capital One Financial Corporation
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Copies of Form 10-K filed with the Securities and Exchange Commission are available without charge, upon written request to Paul Paquin at the above address.

Common Stock
Listed on New York Stock Exchange
Stock Symbol COF
Member of S&P 500

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Independent Auditors
Ernst & Young LLP

last year,

we helped our customers complete more than 392,458,011 transactions.

(Including the skateboard that soon-to-be-10-year-old Jimmy Fowler saw his Mom sneak into the back seat with the rest of the groceries.)