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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 1998

OR

[   ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to _________.

Commission file number 1-13300

CAPITAL ONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	54-1719854
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2980 Fairview Park Drive, Suite 1300, Falls Church, Virginia	22042-4525
(Address of principal executive offices)	(Zip Code)

(703) 205-1000

(Registrant's telephone number, including area code)

(Not Applicable)

(Former name, former address and former fiscal year, if changed since last report)

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

As of October 31, 1998, there were 65,593,584 shares of the registrant's Common Stock, par value $.01 per share, outstanding.

CAPITAL ONE FINANCIAL CORPORATION
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September 30, 1998

Item 1.

CAPITAL ONE FINANCIAL CORPORATION
Condensed Consolidated Balance Sheets
(dollars in thousands, except per share data) (unaudited)

	September 30 1998	December 31 1997
Assets:		
Cash and due from banks	$ 14,974	$ 5,039
Federal funds sold and resale agreements	365,000	173,500
Interest-bearing deposits at other banks	32,993	59,184
Cash and cash equivalents	412,967	237,723
Securities available for sale	1,296,959	1,242,670
Consumer loans	5,666,998	4,861,687
Less: Allowance for loan losses	(231,000)	(183,000)
Net loans	5,435,998	4,678,687
Premises and equipment, net	228,550	162,726
Interest receivable	49,934	51,883
Accounts receivable from securitizations	921,602	588,781
Other	234,766	115,809
Total assets	$ 8,580,776	$ 7,078,279
Liabilities:		
Interest-bearing deposits	$ 1,598,335	$ 1,313,654
Other borrowings	1,439,690	796,112
Senior notes	3,729,234	3,332,778
Deposit notes		299,996
Interest payable	80,373	68,448
Other	466,160	276,368
Total liabilities	7,313,792	6,087,356
Guaranteed Preferred Beneficial Interests In Capital One Bank's Floating Rate Junior Subordinated Capital Income Securities:	97,856	97,664
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, 66,558,730 and 66,557,230 issued as of September 30, 1998 and December 31, 1997, respectively	666	666
Paid-in capital, net	599,536	513,561
Retained earnings	612,331	425,140
Cumulative other comprehensive income	31,524	2,539
Less: Treasury stock, at cost; 987,339 and 1,188,134 shares as of September 30, 1998 and December 31, 1997, respectively	(74,929)	(48,647)
Total stockholders' equity	1,169,128	893,259
Total liabilities and stockholders' equity	$ 8,580,776	$ 7,078,279

See notes to the condensed consolidated financial statements.

CAPITAL ONE FINANCIAL CORPORATION
Condensed Consolidated Statements of Income
(in thousands, except per share data) (unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	1998	1997	1998	1997
Interest Income:				
Consumer loans, including fees	$ 259,339	$ 153,377	$ 734,106	$ 443,374
Federal funds sold and resale agreements	957	3,753	8,175	12,030
Other	22,813	21,840	70,308	59,030
Total interest income	283,109	178,970	812,589	514,434
Interest Expense:				
Deposits	15,805	9,052	43,578	28,124
Other borrowings	24,752	9,168	61,180	26,145
Senior and deposit notes	65,498	63,596	196,231	191,555
Total interest expense	106,055	81,816	300,989	245,824
Net interest income	177,054	97,154	511,600	268,610
Provision for loan losses	67,569	72,518	212,448	168,481
Net interest income after provision for loan losses	109,485	24,636	299,152	100,129
Non-Interest Income:				
Servicing and securitizations	217,094	180,348	541,161	498,943
Service charges and other fees	146,648	87,979	432,263	220,763
Interchange	23,213	12,606	58,383	33,326
Total non-interest income	386,955	280,933	1,031,807	753,032
Non-Interest Expense:				
Salaries and associate benefits	116,107	73,214	337,488	213,137
Marketing	126,481	60,781	287,292	159,827
Communications and data processing	38,415	25,935	102,618	72,045
Supplies and equipment	27,416	21,721	82,399	58,200
Occupancy	11,115	8,198	32,849	23,387
Other	63,993	36,154	161,600	115,009
Total non-interest expense	383,527	226,003	1,004,246	641,605
Income before income taxes	112,913	79,566	326,713	211,556
Income taxes	42,907	30,236	124,151	80,392
Net income	$ 70,006	$ 49,330	$ 202,562	$ 131,164
Basic earnings per share	$ 1.07	$ 0.75	$ 3.09	$ 1.98
Diluted earnings per share	$ 1.00	$ 0.73	$ 2.92	$ 1.94
Dividends paid per share	$ 0.08	$ 0.08	$ 0.24	$ 0.24

See notes to the condensed consolidated financial statements.

CAPITAL ONE FINANCIAL CORPORATION
Condensed Consolidated Statements of Changes in Stockholders' Equity
(dollars in thousands, except per share data) (unaudited)

	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	66,325,261	$663	$ 481,383	$256,396	$ 1,949		$ 740,391
Comprehensive income:							
Net income				131,164			131,164
Other comprehensive income, net of income tax:							
Unrealized gains on securities net of income taxes of $177, net of loss reclassification adjustment of $192, net of income tax benefit of $118					36		36
Foreign currency translation adjustments					(112)		(112)
Other comprehensive income					(76)		(76)
Comprehensive income							131,088
Cash dividends - $.24 per share				(15,512)			(15,512)
Purchases of treasury stock			1,552			$ (37,467)	(35,915)
Issuances of common stock	112,949	1	3,208			469	3,678
Exercise of stock options	129,890	2	2,611			308	2,921
Tax benefit from stock awards			298				298
Restricted stock, net	(121)		80				80
Common stock issuable under incentive plan			15,035				15,035
Balance, September 30, 1997	66,567,979	$666	$ 504,167	$372,048	$ 1,873	$ (36,690)	$ 842,064
Balance, December 31, 1997	66,557,230	$666	$ 513,561	$425,140	$ 2,539	$ (48,647)	893,259
Comprehensive income:							
Net income				202,562			202,562
Other comprehensive income, net of income tax:							
Unrealized gains on securities net of income taxes of $20,686					3,751		33,751
Foreign currency translation adjustments					(4,766)		(4,766)
Other comprehensive income					28,985		28,985
Comprehensive income							231,547
Cash dividends - $.24 per share				(15,371)			(15,371)
Purchases of treasury stock			1,708			(71,360)	(69,652)
Issuances of common stock			36,526			22,790	59,316
Exercise of stock options	1,500		(15,716)			22,288	6,572
Tax benefit from stock awards			422				422
Restricted stock, net			18				18
Common stock issuable under incentive plan			63,017				63,017
Balance, September 30, 1998	66,558,730	$666	$ 599,536	$612,331	$ 31,524	$ (74,929)	$1,169,128

See notes to the condensed consolidated financial statements.

CAPITAL ONE FINANCIAL CORPORATION
Condensed Consolidated Statements of Cash Flows
(in thousands) (unaudited)

	Nine Months Ended September 30	
	1998	1997
Operating Activities:		
Net income	$ 202,562	$ 131,164
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	212,448	168,481
Depreciation and amortization, net	69,774	27,188
Stock compensation plans	63,035	15,115
Decrease in interest receivable	2,842	43,051
Increase in accounts receivable from securitizations	(275,885)	(37,405)
Increase in other assets	(80,916)	(30,443)
Increase (decrease) in interest payable	11,403	(14,564)
Increase in other liabilities	183,638	148,582
Net cash provided by operating activities	388,901	451,169
Investing Activities:		
Purchases of securities available for sale	(761,670)	(914,194)
Proceeds from maturities of securities available for sale	626,749	250,667
Proceeds from sales of securities available for sale	112,279	523,867
Proceeds from securitizations of consumer loans	3,322,892	1,733,669
Net increase in consumer loans	(4,281,127)	(1,878,797)
Recoveries of loans previously charged off	47,567	19,250
Additions of premises and equipment, net	(118,545)	(45,629)
Net cash used for investing activities	(1,051,855)	(311,167)
Financing Activities:		
Net increase in interest-bearing deposits	284,681	106,992
Net increase (decrease) in other borrowings	530,699	(209,520)
Issuances of senior notes	1,258,700	480,000
Maturities of senior and deposit notes	(1,163,162)	(866,436)
Issuances of preferred beneficial interests		97,428
Dividends paid	(15,371)	(15,512)
Purchases of treasury stock	(69,652)	(35,915)
Net proceeds from issuances of common stock	5,731	3,678
Proceeds from exercise of stock options	6,572	2,921
Net cash provided by (used for) financing activities	838,198	(436,364)
Increase (decrease) in cash and cash equivalents	175,244	(296,362)
Cash and cash equivalents at beginning of period	237,723	528,976
Cash and cash equivalents at end of period	$ 412,967	$ 232,614

See notes to the condensed consolidated financial statements.

CAPITAL ONE FINANCIAL CORPORATION
Notes to the Condensed Consolidated Financial Statements
September 30, 1998
(in thousands, except per share data) (unaudited)

Note A: 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 provides certain consumer lending and deposit services. The Corporation and its subsidiaries are collectively referred to as the "Company."

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with GAAP requires 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. Operating results for the three and nine months ended September 30, 1998 are not necessarily indicative of the results for the year ending December 31, 1998. The notes to the consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 1997 should be read in conjunction with these condensed consolidated financial statements. All significant intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the 1998 presentation.

Note B: Significant Accounting Policies

Cash and Cash Equivalents

Cash paid for interest for the nine months ended September 30, 1998 and 1997 was $289,064 and $260,388, respectively. Cash paid for income taxes for the nine months ended September 30, 1998 and 1997 was $170,806 and $94,295, respectively.

Consumer Loans

In the fourth quarter of 1997, the Company recognized the estimated uncollectible portion of finance charge and fee income receivables. In addition, in the fourth quarter of 1997, the Company modified its methodology for charging off credit card loans (net of any collateral) to 180 days past-due, from the prior practice of charging off loans during the next billing cycle after becoming 180 days past-due.

Earnings Per Share

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share" ("SFAS 128") which became effective for periods ending after December 15, 1997, including interim periods. SFAS 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share is based only on the weighted average number of common shares outstanding, excluding any dilutive effects of options and restricted stock. Diluted earnings per share is similar to the previously reported fully diluted earnings per share and is based on the weighted average number of common and common equivalent shares, including dilutive stock options and restricted stock outstanding during the year. Earnings per share amounts for all prior periods have been restated to conform to SFAS 128 requirements.

Comprehensive Income

As of January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income" ("SFAS 130"), which establishes new rules for the reporting and display of comprehensive income and its components. SFAS 130 requires unrealized gains or losses on available-for-sale securities and foreign currency translation adjustments, which prior to adoption were reported separately in stockholders' equity, to be included in other comprehensive income. The adoption of SFAS 130 had no impact on the Company's net income or stockholders' equity. Prior year amounts have been reclassified to conform to SFAS 130 requirements.

Note C: Borrowings

In July 1998, the Corporation filed a Shelf Registration Statement on Form S-3 with the Securities and Exchange Commission for the issuance of up to $425,000 aggregate principal amount of senior and subordinated debt, preferred stock and common stock, which was declared effective on July 14, 1998. In July 1998, the Corporation issued $200,000 of 10 year unsecured senior notes under this shelf registration. Existing unsecured senior debt outstanding of the Corporation under a prior shelf registration of $200,000 totals $125,000 maturing in 2003.

Note D: Comprehensive Income

Comprehensive income for the three months ended September 30, 1998 and 1997 was as follows:

	Three Months Ended September 30	
	1998	1997
Comprehensive Income:		
Net income	$ 70,006	$ 49,330
Other comprehensive income	28,103	1,422
Total comprehensive income	$ 98,109	$ 50,752

Note E: Stock Repurchase

In July 1998, the Company's Board of Directors voted to repurchase up to an additional 1.5 million shares of the Company's common stock over the next two years, pursuant to the repurchase program initially adopted in July 1997, in order to mitigate the dilutive impact of shares issuable under its benefits plans, including its Associate Stock Purchase Plan, dividend reinvestment plan, stock incentive plans and other benefit plans.

Note F: Earnings Per Share

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

(shares in thousands)	Three Months Ended September 30 1998	Three Months Ended September 30 1997	Nine Months Ended September 30 1998	Nine Months Ended September 30 1997
Numerator:				
Net income	$ 70,006	$ 49,330	$ 202,562	$ 131,164
Denominator:				
Denominator for basic earnings per share - Weighted-average shares	65,726	66,185	65,565	66,315
Effect of dilutive securities:				
Stock options	4,286	1,385	3,739	1,353
Restricted stock		3	2	4
Dilutive potential common shares	4,286	1,388	3,741	1,357
Denominator for diluted earnings per share - Adjusted weighted-average shares	70,012	67,573	69,306	67,672
Basic earnings per share	$ 1.07	$ 0.75	$ 3.09	$ 1.98
Diluted earnings per share	$ 1.00	$ 0.73	$ 2.92	$ 1.94

Note G: Purchase of Summit Acceptance Corporation

In July 1998, the Company acquired Summit Acceptance Corporation ("Summit"), based in Dallas, Texas. Summit is a subprime automobile finance lender with approximately 180 employees and serviced loans of approximately $263,000 as of the purchase date. The acquisition price for Summit was $53,585 which was paid through the issuance of the Company's stock on July 31, 1998. The acquisition was accounted for as a purchase business combination and goodwill of approximately $68,000 will be amortized over 15 years.

Note H: Commitments and Contingencies

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 has since been acquired by First Union Bank 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 February 1997, the California court entered judgement in favor of the Bank on all of the plaintiffs' claims. The plaintiffs have appealed the ruling to the California Court of Appeal First Appellate District Division 4, and the appeal is pending.

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 continue 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 I: Recent Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which is required to be adopted in years beginning after June 15, 1999. SFAS 133 permits early adoption as of the beginning of any fiscal quarter after its issuance. SFAS 133 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 income. 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 Company has not yet determined what the effect of SFAS 133 will be on the earnings and financial position of the Company.

Item 2.

CAPITAL ONE FINANCIAL CORPORATION
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. The principal subsidiaries are Capital One Bank (the "Bank"), which offers credit card products, and Capital One, F.S.B. (the "Savings Bank"), which provides certain consumer lending and deposit services. The Corporation and its subsidiaries are collectively referred to as the "Company." As of September 30, 1998, the Company had 14.9 million customers and $16.3 billion in managed consumer loans outstanding and was one of the largest providers of MasterCard and Visa credit cards in the world. The Corporation's common stock trades on the New York Stock Exchange under the symbol "COF" and is included in the S&P 500 Index. 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.

Earnings Summary

Net income for the three months ended September 30, 1998 of $70.0 million, or $1.00 per share, compares to net income of $49.3 million, or $.73 per share, for the same period in 1997. All earnings per share amounts are reported on a diluted basis.

The increase in net income is primarily a result of an increase in asset and account volumes and rates. Net interest income increased $79.9 million, or 82%, as the net interest margin increased to 9.77% from 7.02% and average earning assets increased by 31%. The provision for loan losses decreased $4.9 million, or 7% as the reported net charge-off rate decreased to 4.04% from 4.57%. Non-interest income increased $106.0 million, or 38%, primarily as a result of the increase in average managed accounts of 40%. Marketing expense increased $65.7 million, or 108%, to $126.5 million as the Company continues to invest in new product opportunities. Increases in salaries and associate benefits expense of $42.9 million, or 59%, and other non-interest expense (excluding marketing) of $48.9 million, or 53%, primarily reflected the cost of operations to manage the growth in accounts and the change in product mix. Each component is discussed in further detail in subsequent sections of this analysis.

Net income for the nine months ended September 30, 1998 was $202.6 million, or $2.92 per share, compared to net income of $131.2 million, or $1.94 per share, for the same period in 1997. This 54% increase primarily reflected the increases in asset and account volumes accompanied by an increase in net interest margin as discussed above. Each component is discussed in further detail in subsequent sections of this analysis.

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 on-balance sheet loans and loans held for securitization (collectively, "reported loans"), and off-balance sheet loans. Securitized loans are not assets of the Company and, therefore, are not shown on the balance sheet.

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

TABLE 1 - MANAGED CONSUMER LOAN PORTFOLIO

	Three Months Ended September 30	
(in thousands)	1998	1997
Period-End Balances:		
On-balance sheet consumer loans	$ 5,666,998	$ 4,329,799
Off-balance sheet consumer loans	10,670,791	9,142,796
Total managed consumer loan portfolio	$ 16,337,789	$ 13,472,595
Average Balances:		
On-balance sheet consumer loans	$ 5,623,012	$ 3,847,150
Off-balance sheet consumer loans	10,123,079	9,070,817
Total average managed consumer loan portfolio	$ 15,746,091	$ 12,917,967

	Nine Months Ended September 30	
(in thousands)	1998	1997
Average Balances:		
Consumer loans held for securitization		$ 132,146
On-balance sheet consumer loans	$ 5,210,649	3,834,547
Off-balance sheet consumer loans	9,548,182	8,765,192
Total average managed consumer loan portfolio	$ 14,758,831	$ 12,731,885

Since 1990, the Company has actively engaged in consumer loan securitization transactions. In accordance with SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"), the Company records gains or losses on the securitization of consumer loan receivables 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 net 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 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 excess cash flows. 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.

Table 2 indicates the impact of off-balance sheet consumer loans 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

	Three Months Ended September 30		Nine Months Ended September 30	
(dollars in thousands)	1998	1997	1998	1997
Reported:				
Average earning assets	$ 7,249,179	$ 5,537,280	$ 6,998,626	$ 5,558,685
Net interest margin(1)	9.77%	7.02%	9.75%	6.44%
Loan yield	18.45	15.95	18.78	14.90
Managed:				
Average earning assets	$ 17,372,258	$ 14,608,097	$ 16,546,808	$ 14,323,877
Net interest margin(1)	10.15%	9.05%	10.13%	8.73%
Loan yield	17.06	16.06	17.11	15.56

(1) Net interest margin is equal to net interest income divided by average earning assets.

Risk Adjusted Revenue and Margin

In originating its consumer loan portfolio, the Company has and continues to pursue a low introductory interest rate strategy with accounts repricing to higher rates after six to 18 months from the date of origination. The amount of repricing is actively managed in an effort to maximize return at the consumer level, reflecting the risk and expected performance of the account. Separately, accounts also may be repriced upwards or downwards based on individual consumer performance. Recently, the Company has marketed low non-introductory rate cards to customers with the best established credit profiles. These low introductory rate and low non-introductory rate products typically have a balance transfer feature under which consumers can transfer balances to the Company from their other obligations. The Company's historic managed loan growth has been principally the result of this balance transfer feature. Industry competitors have continuously solicited the Company's customers with similar interest rate strategies. Management believes that the competition has put, and will continue to put, additional pressure on interest rate strategies.

By applying its information-based strategies ("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 the immediate impact on managed loan balances of the balance transfer products but 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 delinquency and consequently higher past-due and overlimit fees as a percentage of loan receivables outstanding than the balance transfer products.

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 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 percentage 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.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(dollars in thousands)	1998	1997	1998	1997
Managed Income Statement:				
Net interest income	$ 440,760	$ 330,670	$ 1,256,976	$ 937,691
Non-interest income	264,592	202,490(1)	738,519	529,124(1)
Net charge-offs	(198,069)	(215,041)	(623,792)	(601,074)
Risk adjusted revenue	$ 507,283	$ 318,119	$ 1,371,703	$ 865,741
Ratios(2):				
Net interest margin	10.15%	9.05%	10.13%	8.73%
Non-interest income	6.09	5.54	5.95	4.93
Net charge-offs	(4.56)	(5.88)	(5.03)	(5.60)
Risk adjusted margin	11.68%	8.71%	11.05%	8.06%

(1) Excludes the $16 million incremental impact on credit card securitization income resulting from the implementation of SFAS 125.
(2) 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 includes interest-bearing deposits, other borrowings and borrowings from senior and deposit notes.

Reported net interest income for the three months ended September 30, 1998 was $177.1 million, compared to $97.2 million for the same period in the prior year, representing an increase of $79.9 million, or 82%. For the nine months ended September 30, 1998, net interest income was $511.6 million compared to $268.6 million for the same period in 1997, representing an increase of $243.0 million, or 90%. Average earning assets increased 31% and 26% for the three and nine months ended September 30, 1998, respectively, versus the same periods in 1997. The yield on earning assets increased 269 and 314 basis points for the three and nine months ended September 30, 1998, respectively, to 15.62% from 12.93% and to 15.48% from 12.34% as compared to the same periods in the prior year. The increase was primarily attributable to a 250 and 388 basis point increase in the yield on consumer loans for the three and nine months ended September 30, 1998, respectively, to 18.45% from 15.95% and to 18.78% from 14.90%, respectively, as compared to the same periods in the prior year. The yield on consumer loans increased due to an increase in the amount and frequency of past-due fees charged as compared to the same period in the prior year and the Company's continued shift to higher yielding products, especially in the reported loan portfolio, during the comparable periods.

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 the three and nine months ended September 30, 1998 and 1997.

TABLE 4 - STATEMENTS OF AVERAGE BALANCES, INCOME AND EXPENSE, YIELDS AND RATES

	Three Months Ended September 30					
	1998			1997		
(dollars in thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets:						
Earning assets						
Consumer loans(1)	$5,623,012	$259,339	18.45%	$3,847,150	$153,377	15.95%
Federal funds sold and resale agreements	69,293	957	5.52	255,594	3,753	5.87
Other	1,556,874	22,813	5.86	1,434,536	21,840	6.09
Total earning assets	7,249,179	$283,109	15.62%	5,537,280	$178,970	12.93%
Cash and due from banks	2,182			114,882		
Allowance for loan losses	(216,000)			(123,250)		
Premises and equipment, net	202,887			184,272		
Other assets	1,268,047			843,326		
Total assets	$8,506,295			$6,556,510		
Liabilities and Equity:						
Interest-bearing liabilities						
Deposits	$1,368,833	$ 15,805	4.62%	$ 851,916	$ 9,052	4.25%
Other borrowings	1,495,731	24,752	6.62	594,519	9,168	6.17
Senior and deposit notes	3,819,061	65,498	6.86	3,686,416	63,596	6.90
Total interest-bearing liabilities	6,683,625	$106,055	6.35%	5,132,851	$ 81,816	6.38%
Other liabilities	575,510			485,218		
Total liabilities	7,259,135			5,618,069		
Preferred beneficial interests	97,825			97,568		
Equity	1,149,335			840,873		
Total liabilities and equity	$8,506,295			$6,556,510		
Net interest spread			9.27%			6.55%
Interest income to average earning assets			15.62%			12.93%
Interest expense to average earning assets			5.85			5.91
Net interest margin			9.77%			7.02%

(1) Interest income includes past-due fees on loans of approximately $73,198 and $39,123 for the three months ended September 30, 1998 and 1997, respectively.

	Nine Months Ended September 30					
	1998			1997		
(dollars in thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets:						
Earning assets						
Consumer loans(1)	$5,210,649	$ 734,106	18.78%	$3,966,693	$443,374	14.90%
Federal funds sold and resale agreements	193,341	8,175	5.64	289,363	12,030	5.54
Other	1,594,636	70,308	5.88	1,302,629	59,030	6.04
Total earning assets	6,998,626	$812,589	15.48%	5,558,685	$514,434	12.34%
Cash and due from banks	11,414			104,136		
Allowance for loan losses	(208,778)			(120,637)		
Premises and equipment, net	186,271			182,265		
Other assets	1,064,351			778,536		
Total assets	$8,051,884			$6,502,985		
Liabilities and Equity:						
Interest-bearing liabilities						
Deposits	$1,276,512	$ 43,578	4.55%	$ 887,019	$ 28,124	4.23%
Other borrowings	1,298,768	61,180	6.28	567,425	26,145	6.14
Senior and deposit notes	3,803,117	196,231	6.88	3,754,264	191,555	6.80
Total interest-bearing liabilities	6,378,397	$ 300,989	6.29%	5,208,708	$ 245,824	6.29%
Other liabilities	529,398			406,167		
Total liabilities	6,907,795			5,614,875		
Preferred beneficial interests	97,761			86,798		
Equity	1,046,328			801,312		
Total liabilities and equity	$8,051,884			$6,502,985		
Net interest spread			9.19%			6.05%
Interest income to average earning assets			15.48%			12.34%
Interest expense to average earning assets			5.73			5.90
Net interest margin			9.75%			6.44%

(1) Interest income includes past-due fees on loans of approximately $221,849 and $89,336 for the nine months ended September 30, 1998 and 1997, respectively.

Managed net interest income increased $110.1 million, or 33%, and $319.3 million, or 34%, for the three and nine months ended September 30, 1998, respectively, compared to the same periods in the prior year. The increases in managed net interest income were the result of managed average earning assets increasing 19% and 16% and the managed net interest margin increasing 110 basis points and 140 basis points to 10.15% and 10.13% for the three and nine months ended September 30, 1998, respectively. The increase in managed net interest margin principally reflects increases in the amount and frequency of past-due fees and growth in higher yielding loans.

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

	Three Months Ended September 30, 1998 vs 1997			Nine Months Ended September 30, 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	$ 105,962	$ 79,088	$26,874	$ 290,732	$ 158,825	$ 131,907
Federal funds sold and resale agreements	(2,796)	(2,585)	(211)	(3,855)	(4,187)	332
Other	973	5,229	(4,256)	11,278	13,863	(2,585)
Total interest income	104,139	62,216	41,923	298,155	150,371	147,784
Interest Expense:						
Deposits	6,753	5,909	844	15,454	13,156	2,298
Other borrowings	15,584	14,867	717	35,035	34,438	597
Senior and deposit notes	1,902	4,201	(2,299)	4,676	2,508	2,168
Total interest expense	24,239	26,788	(2,549)	55,165	55,217	(52)
Net interest income(1)	$ 79,900	$ 35,228	$44,672	$ 242,990	$ 81,557	$161,433

(1) The change in interest due to both volume and 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

Servicing and securitizations income increased $36.7 million and $42.2 million, or 20% and 8%, for the three and nine months ended September 30, 1998, respectively, from the same periods in the prior year due to average securitized loans increasing 12% and 9% over the same periods, coupled with decreasing losses in the off-balance sheet portfolio for the three months ended September 30, 1998, which resulted in increasing estimated future spreads. Also impacting servicing and securitizations income in the first nine months of 1998 was the current recognition of estimated uncollectible finance charge and fee income receivables implemented in the fourth quarter of 1997.

Other Non-Interest Income

Other reported non-interest income including service charges and other fees and interchange, increased to $169.9 million and $490.6 million, or 69% and 93%, for the three and nine months ended September 30, 1998, respectively, compared to $100.6 million and $254.1 million for the same periods in the prior year. The increase in other non-interest income was due to an increase in the average number of accounts of 40% and 39% for the three and nine months ended September 30, 1998, respectively, compared to the same periods in the prior year and the Company's continued shift to more fee-based accounts, especially in the reported loan portfolio during the comparable periods.

Managed non-interest income increased to $264.6 million and $738.5 million, or 31% and 40%, for the three and nine months ended September 30, 1998, respectively, due to the increase in the average number of accounts and increases in the amount and frequencies of fees (including annual membership, interchange and overlimit) assessed on accounts.

Non-Interest Expense

Non-interest expense for the three months ended September 30, 1998 was $383.5 million, an increase of $157.5 million, or 70%, over $226.0 million for the same period in the prior year. Contributing to the increase was marketing expense which increased $65.7 million, or 108%, to $126.5 million for the three months ended September 30, 1998 from $60.8 million for the same period in the prior year, as the Company continued to invest in new product opportunities, including a $23.1 million investment in the Company's marketing of telecommunications services, as described under "Business Outlook." Salaries and associate benefits increased $42.9 million, or 59%, to $116.1 million for the three months ended September 30, 1998 from $73.2 million for the same period in the prior year. All other non-interest expense increased $48.9 million, or 53%, to $140.9 million from $92.0 million for the same period in the prior year. The increase in other non-interest expense, as well as, the increase in salaries and benefits expense, was primarily the result of a 40% increase in the average number of accounts for the three months ended September 30, 1998, and a continued shift in product mix to more service-intensive accounts, which resulted in an increase in infrastructure and other operational costs.

Non-interest expense for the nine months ended September 30, 1998 was $1.0 billion, an increase of $362.6 million, or 57%, over $641.6 million for the same period in the prior year. Contributing to the increase was marketing expense which increased $127.5 million, or 80%, to $287.3 million for the nine months ended September 30, 1998 from $159.8 million for the same period in the prior year, as the Company continued to invest in new product opportunities. Salaries and associate benefits increased $124.4 million, or 58%, to $337.5 million for the nine months ended September 30, 1998 from $213.1 million for the same period in the prior year. This increase reflects an additional $48.0 million in compensation expense associated with the Company's associate stock plans as compared to the same period in the prior year. All other non-interest expense increased $110.8 million, or 41%, to $379.5 million for the nine months ended September 30, 1998 from $268.6 million for the same period in the prior year. The increase in other non-interest expense, as well as, the increase in salaries and benefits expense not attributed to options, was primarily the result of a 39% increase in the average number of accounts for the nine months ended September 30, 1998.

Income Taxes

The Company's income tax rate was 38% for the three and nine months ended September 30, 1998 and 1997 and 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, seasoning of the accounts, levels of competition, account management activities and demographic concentration, as well as general economic conditions. The seasoning of the accounts is also an important indicator of the delinquency and loss levels of the portfolio. Generally, accounts tend to exhibit a rising trend of delinquency and credit losses as they season.

Delinquencies

Table 6 shows the Company's consumer loan delinquency trends for the periods presented as reported for financial statement purposes and on a managed basis. The entire balance of an account is contractually delinquent if the minimum payment is not received by the payment due date. However, the Company generally continues to accrue interest until the loan is charged off.

TABLE 6 - DELINQUENCIES

	September 30			
	1998		1997	
(dollars in thousands)	Loans	% of Total Loans	Loans	% of Total Loans
Reported:				
Loans outstanding	$ 5,666,998	100.00%	$ 4,329,799	100.00%
Loans delinquent:				
30-59 days	118,384	2.09	81,929	1.89
60-89 days	64,980	1.14	49,686	1.15
90 or more days	103,084	1.82	99,572	2.30
Total	$ 286,448	5.05%	$ 231,187	5.34%
Managed:				
Loans outstanding	$16,337,789	100.00%	$13,472,595	100.00%
Loans delinquent:				
30-59 days	313,443	1.92	286,194	2.12
60-89 days	178,883	1.09	177,434	1.32
90 or more days	308,285	1.89	393,070	2.92
Total	$ 800,611	4.90%	$ 856,698	6.36%

In the fourth quarter of 1997, the Company modified its methodology for charging off credit card loans (net of any collateral) to 180 days past-due from the prior practice of charging off loans during the next billing cycle after becoming 180 days past-due. In addition, in the fourth quarter of 1997, the Company recognized the estimated uncollectible portion of finance charge and fee income receivables. The delinquency rate for reported loans was 5.05% as of September 30, 1998, down from 5.34% as of September 30, 1997 and up from 5.03% as of June 30, 1998. The delinquency rate for the managed consumer loan portfolio was 4.90% as of September 30, 1998, down from 6.36% as of September 30, 1997 and down from 5.14% as of June 30, 1998. During the three months ended September 30, 1998, the Company's reported portfolio experienced an increase in higher yielding accounts and more seasoned accounts as newer loans were securitized. Both the managed and reported portfolio's delinquency rate decrease as of September 30, 1998, as compared to September 30, 1997, reflected seasonality and improvements in consumer credit performance, as well as the impact from previous modifications in charge-off policy and finance charge and fee income recognition.

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. Table 7 shows the Company's net charge-offs for the periods presented on a reported and managed basis.

TABLE 7 - NET CHARGE-OFFS (1)

	Three Months Ended September 30		Nine Months Ended September 30	
(dollars in thousands)	1998	1997	1998	1997
Reported:				
Average loans outstanding	$ 5,623,012	$ 3,847,150	$ 5,210,649	$ 3,966,693
Net charge-offs	56,726	43,967	171,704	139,901
Net charge-offs as a percentage of average loans outstanding	4.04%	4.57%	4.39%	4.70%
Managed:				
Average loans outstanding	$15,746,091	$12,917,967	$14,758,831	$12,731,885
Net charge-offs	198,069	215,041	623,792	601,074
Net charge-offs as a percentage of average loans outstanding	5.03%	6.66%	5.64%	6.29%

(1) Includes consumer loans held for securitization.

The managed net charge-off rate decreased 163 basis points and 65 basis points to 5.03% and 5.64% for the three and nine months ended September 30, 1998, respectively from 6.66% and 6.29% for the comparable periods in the prior year. The reported net charge-off rate decreased 53 basis points and 31 basis points to 4.04% and 4.39% for the three and nine months ended September 30, 1998, respectively, from 4.57% and 4.70% for the comparable periods in the prior year. The decreases in managed and reported net charge-off rates were the result of improved general economic trends in consumer credit performance compared to the same periods in the prior year, with less of an impact on the reported charge-offs due to the increased level of seasoned and higher yielding products included in the on-balance sheet portfolio.

Provision and Allowance for Loan Losses

The provision for loan losses is the periodic expense of maintaining an adequate allowance at the amount estimated to be sufficient to absorb possible future losses, net of recoveries (including recovery of collateral), inherent in the existing on-balance sheet loan portfolio. In evaluating the adequacy of the allowance for loan losses, the Company takes into consideration several factors including economic trends and conditions, overall asset quality, loan seasoning and trends in delinquencies and expected charge-offs. The Company's primary guideline is a calculation which uses current delinquency levels and other measures of asset quality to estimate net charge-offs. Consumer loans are typically charged off (net of any collateral) at 180 days past-due, although earlier charge-offs may occur on accounts of bankrupt or deceased consumers. Bankrupt consumers' accounts are generally charged off within 30 days after receipt of the bankruptcy petition. Once a loan is charged off, it is the Company's policy to continue to pursue the collection of principal, interest and fees for non-bankrupt accounts.

Management believes that the allowance for loan losses is adequate to cover anticipated losses in the on-balance sheet 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 on-balance sheet consumer loan portfolio.

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

	Three Months Ended September 30	Nine Months Ended September 30

(dollars in thousands)	1998	1997	1998	1997
Balance at beginning of period	$ 213,000	$ 118,500	$ 183,000	$ 118,500
Provision for loan losses	67,569	72,518	212,448	168,481
Transfer to loans held for securitization				(2,625)
Increase from Summit acquisition	6,720		6,720	
Other	437	(51)	536	(80)
Charge-offs	(74,885)	(52,697)	(219,271)	(156,526)
Recoveries	18,159	8,730	47,567	19,250
Net charge-offs(1)	(56,726)	(43,967)	(171,704)	(137,276)
Balance at end of period	$ 231,000	$147,000	$ 231,000	$ 147,000
Allowance for loan losses to loans at period-end	4.08%	3.40%	4.08%	3.40%

(1) Excludes consumer loans held for securitization.

For the three months ended September 30, 1998, the provision for loan losses decreased 7% to $67.6 million from $72.5 million for the same period in the prior year as the reported net charge-off rate decreased to 4.04% from 4.57%, offset by the increase in average reported loans of 46%. For the nine months ended September 30, 1998, the provision for loan losses increased 26% to $212.4 million from $168.5 million for the comparable period in the prior year, as average reported loans increased by 31%. The allowance for loan losses as a percentage of on-balance sheet consumer loans increased to 4.08% as of September 30, 1998, from 3.40% as of September 30, 1997 due to the change in mix of its reported loan portfolio. The increase in the allowance for loan losses also reflects the increase in on-balance sheet loans to $5.7 billion as of September 30, 1998, an increase of 31% from September 30, 1997.

Liquidity and Funding

Liquidity refers to the Company's ability to meet its cash needs. The Company meets its cash requirements by securitizing assets and by debt funding. 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 1998 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 for the participants in the securitization 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.

Additionally, the Company maintains a portfolio of high-quality securities such as U.S. Treasuries, U.S. Government Agency and mortgage-backed securities, 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 September 30, 1998, the Company held $1.7 billion in such securities.

Table 9 shows the maturation of certificates of deposit in denominations of $100,000 or greater ("large denomination CDs") as of September 30, 1998.

TABLE 9 - MATURITIES OF LARGE DENOMINATION CERTIFICATES-$100,000 OR MORE

	September 30, 1998	
(dollars in thousands)	Balance	Percent
3 months or less	$ 90,350	30.01%
Over 3 through 6 months	38,832	12.90
Over 6 through 12 months	23,083	7.67
Over 1 through 5 years	148,801	49.42
Total	$ 301,066	100.00%

The Company's other borrowings portfolio consists of $1.4 billion in borrowings maturing within one year and $26.1 million in borrowings maturing after one year.

Table 10 shows the Company's unsecured funding availability and outstandings as of September 30, 1998.

TABLE 10 - FUNDING AVAILABILITY

	September 30, 1998			
(dollars or dollar equivalents in millions)	Effective/ Issue Date	Availability(1)	Outstanding, Net	Final Maturity
Domestic revolving credit facility	11/96	$ 1,700		11/00
UK/Canada revolving credit facility	8/97	350	$ 146	8/00
Senior bank note program(2)	4/97	8,000	3,400	-
Non-U.S. bank note program	10/97	1,000	5	-
Corporation Shelf Registration	7/98	625	324	-
Deposit note program	4/96	2,000		-
Floating rate junior subordinated capital income securities(3)	1/97	100	98	2/27

(1) All funding sources are revolving except for the Corporation Shelf Registration and the floating rate junior subordinated capital income securities. Funding availability under the credit facilities is subject to compliance with certain representations, warranties and covenants. Funding availability under all other sources is subject to market conditions.
(2) Includes availability to issue up to $200 million of subordinated bank notes, none outstanding as of September 30, 1998.
(3) Qualifies as Tier 1 capital at the Corporation and Tier 2 capital at the Bank.

The domestic revolving credit facility is comprised of two tranches: a $1.375 billion Tranche A facility available to the Bank and the Savings Bank, including an option for up to $225 million in multi-currency availability, and a $325 million Tranche B facility available to the Corporation, the Bank and the Savings Bank, including an option for up to $100 million in multi-currency availability. The borrowings of the Savings Bank are limited to $750 million. The final maturity of each tranche may be extended for two additional one-year periods.

The UK/Canada revolving credit facility is used to finance the Company's expansion in the United Kingdom and Canada. The facility is comprised of two tranches: a Tranche A facility in the amount of (pound)156.5 million ($249.8 million equivalent based on the exchange rate at closing) and a Tranche B facility in the amount of C$139.6 million ($100.2 million equivalent based on the exchange rate at closing). An amount of (pound)34.6 million or C$76.9 million ($55.2 million 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. The Corporation serves as the guarantor of all borrowings by its subsidiaries under the UK/Canada revolving facility.

Under the Corporation's shelf registration statements, filed with the Securities and Exchange Commission, 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. In July 1998, the Corporation filed a Shelf Registration Statement on Form S-3 with the Securities and Exchange Commission for the issuance of up to $425 million aggregate principal amount of senior and subordinated debt, preferred stock and common stock, which was declared effective on July 14, 1998. In July 1998, the Corporation issued $200 million of 10 year unsecured senior notes under this shelf registration. Existing unsecured senior debt outstanding of the Corporation under the a prior shelf registration of $200 million totals $125 million maturing in 2003.

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 as calculated under Regulatory Accounting Principles. The inability to meet and maintain minimum capital adequacy levels could result in 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 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 September 30, 1998, 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.

As of September 30, 1998, the Bank and the Savings Bank's ratios of capital to managed assets were 5.40% and 8.01%, respectively.

TABLE 11 - REGULATORY CAPITAL RATIOS

	Ratios	Minimum for Capital Adequacy Purposes	To Be "Well-Capitalized" Under Prompt Corrective Action Provisions
September 30, 1998			
Capital One Bank			
Tier 1 Capital	12.12%	4.00%	6.00%
Total Capital	14.70	8.00	10.00
Tier 1 Leverage	10.89	4.00	5.00
Capital One, F.S.B.(1)			
Tangible Capital	12.88%	1.50%	6.00%
Total Capital	19.28	12.00	10.00
Core Capital	12.88	8.00	5.00
September 30, 1997			
Capital One Bank			
Tier 1 Capital	10.70%	4.00%	6.00%
Total Capital	13.58	8.00	10.00
Tier 1 Leverage	11.01	4.00	5.00
Capital One, F.S.B.(1)			
Tangible Capital	10.70%	1.50%	6.00%
Total Capital	16.52	12.00	10.00
Core Capital	10.70	8.00	5.00

(1) Until June 30, 1999, the Savings Bank is subject to capital requirements that exceed minimum capital adequacy requirements, including the requirement to maintain a minimum Core Capital ratio of 8% and a Total Capital ratio of 12%.

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 such branch in the United Kingdom, the Company will maintain a minimum Tier 1 leverage ratio of 3.0%. As of September 30, 1998, the Company's Tier 1 leverage ratio was 13.67%.

Additionally, certain regulatory restrictions exist which limit the ability of the Bank and the Savings Bank to transfer funds to the Corporation. As of September 30, 1998, retained earnings of the Bank and the Savings Bank of $122.5 million and $44.0 million, 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 30 days' advance notice of any proposed dividend and the OTS, in its discretion, may object to such dividend.

Off-Balance Sheet Risk

The Company is subject to off-balance sheet risk in the normal course of business including commitments to extend credit, excess servicing income from securitization transactions, interest rate swap agreements ("swaps") and forward foreign exchange rate agreements ("FRAs"). In order to reduce the interest rate sensitivity and to match asset and liability repricings, the Company has entered into swaps which involve elements of credit or interest rate risk in excess of the amount recognized on the balance sheet. In order to reduce the exchange rate sensitivity on foreign currency denominated assets, the Company has entered into FRAs which involve elements of credit or exchange rate risk in excess of the amount recognized on the balance sheet. Swaps and FRAs present the Company with certain credit, market, legal and operational risks. The Company has established credit policies for off-balance sheet instruments as it does for on-balance sheet instruments.

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 a 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 September 30, 1998, the Company was in compliance with the policy; more than 95% of the outcomes generated by the model produce a managed net interest income of no more than 1.1% below the mean outcome.

Business Outlook

Earnings, Goals and Strategies

This business outlook section summarizes the Company's expectations for earnings for the year ending December 31, 1998 and, to a limited extent, for the year ending December 31, 1999 and its primary goals and strategies for continued growth. The statements contained in this section are based on management's current expectations. Certain of the statements are forward looking statements 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, 1997 (Part I, Item 1, Cautionary Statements).

The Company has set an earnings target, dependent on the factors set forth below, for its diluted earnings per share for the year ending December 31, 1998 to increase by 40% over 1997 and for the year ending December 31, 1999 to increase approximately 30% over 1998. 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 credit card business as well as to other businesses, including selected non-card consumer lending products and telecommunication services. The Company will seek to identify new product opportunities and to make informed investment decisions regarding new and existing products. The Company's credit card and other financial and non-financial products are subject to competitive pressures, which management anticipates will increase as these markets mature.

Credit Cards

Credit card opportunities include, and are expected to continue to include, various low introductory and intermediate-rate balance transfer products, low non-introductory rate products, as well as other customized credit card products; such as secured cards, affinity and co-branded cards, student cards and other cards tailored for specific customer segments. The Company intends to continue to offer these customized products, which are distinguished by a varied range of credit lines, targeted borrowers and pricing structures. Certain of these cards, the low non-introductory rate products, are marketed to customers with the best established credit profiles and are characterized by higher credit lines and an expectation of lower delinquencies and credit losses than the Company's traditional low introductory-rate balance transfer products. Other customized card products are distinguished by several characteristics, including better response rates, less adverse selection, higher yields (including fees), lower credit lines, less attrition and a greater ability to reprice than the Company's traditional products. These other products involve higher operational costs and, in some cases, higher delinquencies and credit losses than the Company's traditional products. More importantly, all of these customized products continue to have less volatile returns than the traditional products in recent market conditions.

Automobile Finance

On July 31, 1998, the Company completed the acquisition of Summit Acceptance Corporation ("Summit"), a Texas corporation. Summit is a subprime automobile finance lender located in Dallas, Texas, with 180 employees and serviced loans of approximately $263 million as of July 31, 1998. Summit provides the Company with a platform to test and apply its IBS to the automobile loan market.

Telecommunications

The Company is increasing its efforts to market telecommunications services, through its subsidiary America One Communications, Inc. ("America One"). America One's initial business, the reselling of wireless services, has recently begun to experience growth in the number of customers and accounts. Significant marketing investment is being allocated to America One's telecommunications business.

International Expansion

The Company has expanded its existing operations outside of the United States, with an initial focus on the United Kingdom and Canada. The Company has experienced growth in the number of accounts and loan balances in its international business. To support its expansion in the United Kingdom and provide a platform into Europe, in July the Company opened a new operations center in Nottingham, England.

The Company will continue to apply its IBS in an effort to balance the mix of credit card products together 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 of the Company to internally build or to acquire the operational and organizational infrastructure necessary to engage in new businesses and to recruit experienced personnel to assist in the management and operations of these businesses and the availability of capital necessary to fund these new businesses. Although management believes that it has the personnel, financial resources and business strategy necessary for continued success, there can be no assurance that the Company's historical financial performance will necessarily reflect its results of operations and financial condition in the future.

Marketing Investment

The Company's 1998 marketing expenses are expected to exceed such expenses in 1997, as the Company continues to invest in its various credit card products and services, and other financial and non-financial products and services. 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 increase, additional growth 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 reduced productivity of marketing dollars invested in certain lines of business. In addition, the cost to acquire new accounts varies among product lines. With competition affecting the profitability of existing balance transfer 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. Additionally, the costs to acquire an America One wireless account include the cost of a free phone delivered to the customer, and consequently are 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 actual amount of marketing investment is subject to a variety of external and internal factors, such as competition in the consumer credit industry, general economic conditions affecting consumer credit performance, the asset quality of the Company's portfolio and the identification of market opportunities along product lines that exceed company targeted rates for return on investment.

Moreover, the amount of marketing expense allocated to various product segments will influence the characteristics of the Company's portfolio because the various product segments are characterized by different account growth, loan growth and asset quality characteristics. The Company currently expects that its growth in consumer accounts and in managed consumer loans will continue in the last quarter of 1998 and into 1999. 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-off Rates and Attrition

The Company's earnings are particularly sensitive to delinquencies and charge-offs on the Company's portfolio and on 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. Delinquency and net charge-off rates are not only impacted by general economic trends in consumer credit performance, including bankruptcies, but also by the continued seasoning of the Company's portfolio and the product mix.

The Company's expectations for 1998 and 1999 earnings are based on management's belief that consumer credit quality is stabilizing. Management expects that during the fourth quarter of 1998 charge-offs will remain stable, while delinquency rates may increase modestly due to seasonality and the seasoning of the customized card products. Management, however, 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. In addition, competition in the credit card industry, as measured by the volume of mail solicitations, remains very high. Increased 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.

Year 2000

The Year 2000 Issue and the Company's State of Readiness

The year 2000 problem is a result of computer systems using two digits rather than four digits to define an applicable year. The Company utilizes 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. To the extent the software applications of the Company or its vendors contain codes that are unable to appropriately interpret the year 2000 and beyond, some level of modification, or even possibly replacement of such applications, may be necessary.

In October 1996, the Company formed a year 2000 project office to identify software systems and computer-related devices that required modification for the year 2000. Shortly after its inception, the project office executed a five step program for the Company's information technology computer based systems. This strategy calls for awareness of the existence of information technology systems Company wide, assessment of those systems for year 2000 readiness, renovation of those systems and their date coding functions, validation of those renovations and implementation of all renovations made. This strategy is based in large part on the regulatory guidelines published by the Federal Financial Institutions Examination Counsel.

The Company identified approximately 70 distinct project areas to categorize its information technology systems. These project areas consist of not only typical information technology systems, like the cardholder, credit and customer service systems, but also certain other non-information technology systems such as the Company's air conditioning, telephone and elevator systems. The strategy requires prioritization of all project areas and assignment of individual implementation milestones. As of September 30, 1998, approximately seventy-nine percent of all of the Company's project areas have been renovated. More importantly, this includes the complete renovation of all of the Company's mission critical information technology systems, which renovations the Company is currently implementing and testing. The Company's start-up information technology systems in the U.K. and those in its newly acquired subsidiary, Summit Acceptance Corporation, are in the process of being evaluated for compliance. The Company expects to have all systems and applications in place and fully tested by the end of first quarter 1999, and will use the remaining time in 1999 for any system refinements that may be needed.

The Company is also addressing the effect of the year 2000 on other non-information technology systems not included as part of the project areas. These non-information systems primarily consist of desk top computer applications used by the Company's employees. The Company expects to renovate these applications using products prepared by outside vendors and the renovations are expected to be completed by the end of the first quarter of 1999.

In addition, the Company utilizes outside business vendors in its day-to-day operations. Consequently, the Company is assessing the year 2000 readiness of its external business vendors to project their viability into the year 2000. These vendors include credit bureaus, collection agencies, utilities and other related service providers, the U.S. postal service, telephone companies, technology vendors, banks that are creditors of the Company or which provide cash management, trustee, paying agent, stock transfer agent or other services. The Company has requested information from its vendors about their actions to become year 2000 compliant, placing extensive focus on its high priority vendors. At this point, management is unable to determine whether or to what extent the systems of its business vendors will, in fact, be timely remediated. The Company will continue to actively monitor the efforts of its vendors and take actions to mitigate exposure to year 2000 issues resulting from the failure of its vendors to be compliant.

The Costs to Address the Company's Year 2000 Issues

The costs incurred by the Company through the third quarter of fiscal 1998 to address year 2000 compliance for its information technology systems were approximately $4.7 million, of which $2.5 million was incurred during the first nine months of 1998. The Company estimates it expects to incur an additional $1.3 million in costs for a total of approximately $6 million in direct costs for remediation of its information technology systems. Total costs, including costs associated with non-information technology systems and vendor contingency planning, will not materially impact the Company's results.

The Company's Contingency Plan

The Company's Year 2000 Project Office is in the assessment stage of contingency planning. To date, the Company has established contingency planning work groups in each of its business units. These work groups are tasked with (i) identifying year 2000 risks, (ii) assessing the business impact of these risks and (iii) developing contingency plans to mitigate the risks. The Company expects to complete the contingency planning assessment stage by the end of 1998. The Company will then document and test individual contingency plans through the first quarter of 1999.

The Risks of the Company's Year 2000 Issues

Although the Company expects to have all of its system modifications complete by the end of the first quarter of 1999, allowing a sufficient amount of time to further test systems in 1999, unforeseen problems could arise in the year 2000 giving rise to delays and malfunctions which may impact the Company's business and financial results. In addition, the failure of third parties to provide the Company with products, services or systems that meet year 2000 requirements could impact the Company's business and operations. For example, failure of the U.S. postal service or the Company's local and long distance carriers to be year 2000 compliant could cause disruption or delay in the Company's ability to solicit new customers and service the accounts of its existing customers.

The estimated year 2000 costs and the Company's expectations that its systems, and those of its third-party partners and vendors, will be year 2000 compliant are forward-looking statements. These statements are based on management's reasonable estimates and assumptions about future events and are subject to risks and uncertainties. Although the Company believes that its has taken the necessary precautionary measures to assure that the year 2000 will not adversely affect its business, there is no guarantee that the Company's year 2000 expectations will be achieved and actual results could differ materially.

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 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; 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; 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; the ability of the Company and its suppliers to successfully address Year 2000 compliance issues; 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, 1997 (Part I, Item 1, Cautionary Statements).

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

None

(b) Reports on Form 8-K:

The Company filed on August 21, 1998 a Current Report on Form 8-K, dated July 16, 1998, Commission File No. 1-13300, enclosing its press release dated July 16, 1998.

The Company filed on July 23, 1998 a Current Report on Form 8-K, dated July 22, 1998, Commission File No. 1-13300, enclosing its Underwriting Agreement with J.P. Morgan Securities Inc. dated July 22, 1998.

The Company filed on August 20, 1998 a Current Report on Form 8-K, dated July 30, 1998, Commission File No. 1-13300, enclosing its press release dated July 30, 1998.

SIGNATURES

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

CAPITAL ONE FINANCIAL CORPORATION

(Registrant)

Date: November 13, 1998

/s/James M. Zinn

James M. Zinn
Senior Vice President,
Chief Financial Officer
(Chief Accounting Officer
and duly authorized officer
of the Registrant)

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