

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 1999

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, 1999, there were 197,180,208 shares of the registrant's Common  
Stock, par value \$.01 per share, outstanding.

CAPITAL ONE FINANCIAL CORPORATION  
FORM 10-Q

INDEX

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September 30, 1999

PART I.	FINANCIAL INFORMATION	Page
Item 1.	Financial Statements (unaudited):	
	Condensed Consolidated Balance Sheets.....	3
	Condensed Consolidated Statements of Income.....	4
	Condensed Consolidated Statements of Changes in Stockholders' Equity.....	5
	Condensed Consolidated Statements of Cash Flows.....	6
	Notes to Condensed Consolidated Financial Statements.....	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	11
PART II.	OTHER INFORMATION	
Item 6.	Exhibits and Reports on Form 8-K.....	31



## Item 1.

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

	September 30 1999	December 31 1998
<hr/>		
Assets:		
Cash and due from banks	\$ 59,934	\$ 15,974
Federal funds sold and resale agreements		261,800
Interest-bearing deposits at other banks	53,493	22,393
<hr/>		
Cash and cash equivalents	113,427	300,167
Securities available for sale	1,708,609	1,796,787
Consumer loans	8,286,210	6,157,111
Less: Allowance for loan losses	(306,000)	(231,000)
<hr/>		
Net loans	7,980,210	5,926,111
Premises and equipment, net	429,504	242,147
Interest receivable	65,350	52,917
Accounts receivable from securitizations	614,962	833,143
Other	460,847	268,131
<hr/>		
Total assets	\$ 11,372,909	\$ 9,419,403
<hr/>		
Liabilities:		
Interest-bearing deposits	\$ 3,576,400	\$ 1,999,979
Other borrowings	1,016,868	1,644,279
Senior notes	4,328,237	3,739,393
Interest payable	87,688	91,637
Other	828,422	575,788
<hr/>		
Total liabilities	9,837,615	8,051,076
Capital Securities	98,113	97,921
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 September 30, 1999 and December 31, 1998, respectively	1,997	1,997
Paid-in capital, net	625,771	598,167
Retained earnings	929,585	679,838
Cumulative other comprehensive income (loss)	(32,232)	60,655
Less: Treasury stock, at cost; 2,557,263 and 2,690,910 shares as of September 30, 1999 and December 31, 1998, respectively	(87,940)	(70,251)
<hr/>		
Total stockholders' equity	1,437,181	1,270,406
<hr/>		
Total liabilities and stockholders' equity	\$ 11,372,909	\$ 9,419,403
<hr/>		

See Notes to 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	
	1999	1998	1999	1998
<b>Interest Income:</b>				
Consumer loans, including fees	\$ 386,727	\$ 259,339	\$ 1,064,987	\$ 734,106
Federal funds sold and resale agreements	638	957	2,889	8,175
Other	24,671	22,813	75,004	70,308
Total interest income	412,036	283,109	1,142,880	812,589
<b>Interest Expense:</b>				
Deposits	38,003	15,805	88,383	43,578
Other borrowings	19,030	24,752	62,351	61,180
Senior and deposit notes	76,980	65,498	230,129	196,231
Total interest expense	134,013	106,055	380,863	300,989
Net interest income	278,023	177,054	762,017	511,600
Provision for loan losses	114,061	67,569	262,948	212,448
Net interest income after provision for loan losses	163,962	109,485	499,069	299,152
<b>Non-Interest Income:</b>				
Servicing and securitizations	311,217	217,094	876,777	541,161
Service charges and other fees	275,900	146,648	743,227	432,263
Interchange	33,946	23,213	97,732	58,383
Total non-interest income	621,063	386,955	1,717,736	1,031,807
<b>Non-Interest Expense:</b>				
Salaries and associate benefits	199,048	116,107	572,703	337,488
Marketing	175,163	126,481	529,493	287,292
Communications and data processing	68,755	38,415	189,305	102,618
Supplies and equipment	48,076	27,416	127,083	82,399
Occupancy	19,117	11,115	49,412	32,849
Other	121,056	63,993	321,036	161,600
Total non-interest expense	631,215	383,527	1,789,032	1,004,246
Income before income taxes	153,810	112,913	427,773	326,713
Income taxes	58,448	42,907	162,554	124,151
Net income	\$ 95,362	\$ 70,006	\$ 265,219	\$ 202,562
Basic earnings per share	\$ 0.48	\$ 0.36	\$ 1.34	\$ 1.03
Diluted earnings per share	\$ 0.45	\$ 0.33	\$ 1.26	\$ 0.97
Dividends paid per share	\$ 0.03	\$ 0.03	\$ 0.08	\$ 0.08

See Notes to 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 Shares	Stock Amount	Paid-In Capital, Net	Retained Earnings	Comprehensive Income (Loss)	Cumulative Other Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1997	199,671,690	\$ 1,997	\$ 512,230	\$ 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					33,751		33,751
Foreign currency translation adjustments					(4,766)		(4,766)
Other comprehensive income					28,985		28,985
Comprehensive income							231,547
Cash dividends - \$.08 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	4,500		(15,716)			22,288	6,572
Common stock issuable under incentive plan			63,017				63,017
Other items, net			440				440
Balance, September 30, 1998	199,676,190	\$ 1,997	\$ 598,205	\$ 612,331	\$ 31,524	\$ (74,929)	\$ 1,169,128
Balance, December 31, 1998	199,670,376	\$ 1,997	\$ 598,167	\$ 679,838	\$ 60,655	\$ (70,251)	\$ 1,270,406
Comprehensive income:							
Net income				265,219			265,219
Other comprehensive income (loss), net of income tax							
Unrealized losses on securities, net of income tax benefit of \$58,019					(94,662)		(94,662)
Foreign currency translation adjustments					1,775		1,775
Other comprehensive loss					(92,887)		(92,887)
Comprehensive income							172,332
Cash dividends - \$.08 per share				(15,492)			(15,492)
Purchases of treasury stock						(80,004)	(80,004)
Issuances of common stock	45		(740)	20		8,228	7,508
Exercise of stock options			(22,614)			54,087	31,473
Common stock issuable under incentive plan			47,221				47,221
Other items, net			3,737				3,737
Balance, September 30, 1999	199,670,421	\$ 1,997	\$ 625,771	\$ 929,585	\$ (32,232)	\$ (87,940)	\$ 1,437,181

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30	
	1999	1998
Operating Activities:		
Net income	\$ 265,219	\$ 202,562
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	262,948	212,448
Depreciation and amortization, net	122,518	77,836
Stock compensation plans	47,221	63,035
(Increase) decrease in interest receivable	(12,433)	2,842
Decrease (increase) in accounts receivable from securitizations	101,577	(275,885)
Increase in other assets	(150,303)	(88,978)
(Decrease) increase in interest payable	(3,949)	11,403
Increase in other liabilities	252,634	183,638
Net cash provided by operating activities	885,432	388,901
Investing Activities:		
Purchases of securities available for sale	(649,863)	(761,670)
Proceeds from maturities of securities available for sale	178,884	626,749
Proceeds from sales of securities available for sale	522,357	112,279
Proceeds from securitizations of consumer loans	1,714,514	3,322,892
Net increase in consumer loans	(4,136,573)	(4,281,127)
Recoveries of loans previously charged off	87,676	47,567
Additions of premises and equipment, net	(273,532)	(118,545)
Net cash used for investing activities	(2,556,537)	(1,051,855)
Financing Activities:		
Net increase in interest-bearing deposits	1,576,421	284,681
Net (decrease) increase in other borrowings	(627,411)	530,699
Issuances of senior notes	1,453,059	1,258,700
Maturities of senior and deposit notes	(864,779)	(1,163,162)
Dividends paid	(15,492)	(15,371)
Purchases of treasury stock	(80,004)	(69,652)
Net proceeds from issuances of common stock	11,098	5,731
Proceeds from exercise of stock options	31,473	6,572
Net cash provided by financing activities	1,484,365	838,198
(Decrease) increase in cash and cash equivalents	(186,740)	175,244
Cash and cash equivalents at beginning of period	300,167	237,723
Cash and cash equivalents at end of period	\$ 113,427	\$ 412,967

See Notes to Condensed Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION  
Notes to Condensed Consolidated Financial Statements  
September 30, 1999  
(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 offers consumer lending (including credit cards) and deposit products. The Corporation and its subsidiaries are collectively referred to as the "Company."

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 accompanying unaudited condensed 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, 1999 are not necessarily indicative of the results for the year ending December 31, 1999. The notes to the consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 1998 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 1999 presentation.

Note B: Significant Accounting Policies

Cash and Cash Equivalents

Cash paid for interest for the nine months ended September 30, 1999 and 1998 was \$384,812 and \$289,064, respectively. Cash paid for income taxes for the nine months ended September 30, 1999 and 1998 was \$205,515 and \$170,806, respectively.

Note C: Business Segment Information

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 No. 131, "Disclosures about Segments of an Enterprise and Related Information."

The accounting policies of these reportable segments are the same as those described in the summary of significant accounting policies. The consolidation adjustments (included in "other" due to immateriality) reflect certain eliminations of intersegment revenue and expense. Management measures the performance of its business segments and makes resource allocation decisions based upon several factors, including income before taxes, less indirect expenses ("Operating profit (loss)" in table below). Indirect expenses not allocated to segments are included in the "indirect expenses" reconciling item below.

The following table presents income statement information by business segment:

	Three Months Ended September 30		Nine Months Ended September 30	
	1999	1998	1999	1998
Income Statement Data				
Revenues:				
Lending	\$ 931,197	\$ 593,764	\$ 2,605,799	\$ 1,635,178
Telecommunications	42,282	15,974	109,330	39,982
Operating profit (loss):				
Lending	286,854	217,044	876,961	637,866
Telecommunications	(9,289)	(22,116)	(66,252)	(36,986)
Other	(8,855)	(6,380)	(25,891)	(21,751)
Total operating profit (loss)	268,710	188,548	784,818	579,129
Indirect expenses	114,900	75,635	357,045	252,416
Income before taxes	\$ 153,810	\$ 112,913	\$ 427,773	\$ 326,713

All segment revenue is generated from external customers. Substantially all of the Company's reported assets are derived from the lending segment in all periods presented.

#### Note D: Borrowings

In May 1999, the Company's domestic revolving credit facility was amended and is now comprised of two tranches as follows: a Tranche A facility in the amount of \$810,000 available to the Bank and the Savings Bank, including an option for up to \$250,000 in multi-currency availability, and a Tranche B facility in the amount of \$390,000 available to the Corporation, the Bank and the Savings Bank, including an option for up to \$150,000 in multi-currency availability. The facility terminates on May 24, 2003; however, it may be extended for an additional one-year period.

In August 1999, the Corporation filed a Shelf Registration Statement on Form S-3 with the Securities and Exchange Commission for the issuance of up to \$925,000 aggregate principal amount of senior and subordinated debt, preferred stock and common stock. The registration statement was declared effective on August 25, 1999. Existing unsecured senior debt outstanding of the Corporation under prior shelf registrations totaling \$625,000 are \$125,000 maturing in 2003, \$200,000 maturing in 2008 and \$225,000 maturing in 2006, resulting in a total remaining availability of \$1,000,000.

#### Note E: Comprehensive Income

Comprehensive income for the three months ended September 30, 1999 and 1998 was as follows:

	Three Months Ended September 30	
	1999	1998
Comprehensive Income:		
Net income	\$ 95,362	\$ 70,006
Other comprehensive income (loss)	(44,950)	28,103
Total comprehensive income	\$ 50,412	\$ 98,109

#### Note F: Recent Accounting Pronouncements

In January 1999, the Company adopted Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). In accordance with SOP 98-1, the Company capitalizes certain internal use software costs which would have previously been expensed. The effect of this new accounting standard on net income was not material for the nine months ended September 30, 1999.

# Note G: Associate Stock Plans

In April 1999, the Company's Board of Directors approved stock option grants to senior management. In July 1999, 635,652 options were granted to recently hired or promoted senior executives not granted options in the April 1999 grant. The options were granted at the fair market value on the date of the April grant which was higher than the fair market value on the July grant date. Grantees gave up all potential annual stock option grants for the next two years in exchange for this one-time grant. All options under this grant will vest (i) if the stock's fair market value is at or above \$100 per share for at least ten trading days in any thirty calendar-day period on or before June 15, 2002, (ii) on April 29, 2008, or (iii) upon a change of control of the Company.

# Note H: Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares outstanding, excluding any dilutive effects of options and restricted stock. Diluted earnings per share is based on the weighted average number of common and common equivalent shares, dilutive stock options or other dilutive securities outstanding during the year.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(shares in thousands)	1999	1998	1999	1998
Numerator:				
Net income	\$ 95,362	\$ 70,006	\$ 265,219	\$ 202,562
Denominator:				
Denominator for basic earnings per share - Weighted-average shares	197,424	197,178	197,562	196,695
Effect of dilutive securities:				
Stock options	12,718	12,858	13,108	11,217
Restricted stock				6
Dilutive potential common shares	12,718	12,858	13,108	11,223
Denominator for diluted earnings per share - Adjusted weighted-average shares	210,142	210,036	210,670	207,918
Basic earnings per share	\$ 0.48	\$ 0.36	\$ 1.34	\$ 1.03
Diluted earnings per share	\$ 0.45	\$ 0.33	\$ 1.26	\$ 0.97

# Note I: 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 judgments 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 Appeal 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 Plaintiff's 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 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.

## 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 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 (including credit cards) and deposit products. The Corporation and its subsidiaries are collectively referred to as the "Company." As of September 30, 1999, the Company had 20.8 million customers and \$18.5 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.

## Earnings Summary

Net income for the three months ended September 30, 1999 of \$95.4 million, or \$.45 per share, compares to net income of \$70.0 million, or \$.33 per share, for the same period in 1998.

The increase in net income is primarily a result of an increase in asset and account volumes and rates as well as improved credit quality. Net interest income increased \$101.0 million, or 57%, as the net interest margin increased to 11.48% from 9.77% and average earning assets increased by 34%. The provision for loan losses increased \$46.5 million, or 69%, and average reported loans increased 39%. Non-interest income increased \$234.1 million, or 61%, primarily as a result of an increase in average accounts of 40%, increases in the amounts and frequency of certain fees charged and improvements in the performance of the off-balance sheet portfolio. Marketing expense increased \$48.7 million, or 38%, to \$175.2 million as the Company continues to invest in new product opportunities. Increases in salaries and associate benefits expense of \$82.9 million, or 71% and other non-interest expense (excluding marketing) of \$116.1 million, or 82%, primarily reflected increased staff and cost of operations, and the building of infrastructure to manage the growth in accounts and new product opportunities. Each component is discussed in further detail in subsequent sections of this analysis.

Net income for the nine months ended September 30, 1999 was \$265.2 million, or \$1.26 per share, compared to net income of \$202.6 million, or \$.97 per share, for the same period in 1998. This 31% 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. 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 Extinguishment 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

	Three Months Ended September 30	
(in thousands)	1999	1998
Period-End Balances:		
Reported consumer loans	\$ 8,286,210	\$ 5,666,998
Off-balance sheet consumer loans	10,231,201	10,670,791
Total managed consumer loan portfolio	\$ 18,517,411	\$ 16,337,789
Average Balances:		
Reported consumer loans	\$ 7,790,933	\$ 5,623,012
Off-balance sheet consumer loans	10,371,042	10,123,079
Total average managed consumer loan portfolio	\$ 18,161,975	\$ 15,746,091
	Nine Months Ended September 30	
(in thousands)	1999	1998
Average Balances:		
Reported consumer loans	\$ 7,346,484	\$ 5,210,649
Off-balance sheet consumer loans	10,387,868	9,548,182
Total average managed consumer loan portfolio	\$ 17,734,352	\$ 14,758,831

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 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 for doing so.

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

Three Months Ended September 30	Nine Months Ended September 30
------------------------------------	-----------------------------------

(dollars in thousands)	1999	1998	1999	1998
Reported:				
Average earning assets	\$ 9,688,556	\$ 7,249,179	\$ 9,262,944	\$ 6,998,626
Net interest margin(1)	11.48%	9.77%	10.97%	9.75%
Loan yield	19.86	18.45	19.33	18.78
Managed:				
Average earning assets	\$ 20,059,598	\$ 17,372,258	\$ 19,650,812	\$ 16,546,808
Net interest margin(1)	11.18%	10.15%	10.89%	10.13%
Loan yield	17.92	17.06	17.49	17.11

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

#### 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 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.

The Company markets its card products to specific consumer segments. 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 segment. 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 loans 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

	Three Months Ended September 30		Nine Months Ended September 30	
(dollars in thousands)	1999	1998	1999	1998
Managed Income Statement:				
Net interest income	\$ 560,683	\$ 440,760	\$ 1,605,147	\$ 1,256,976
Non-interest income	422,404(1)	264,592	1,168,163(1)	738,519
Net charge-offs	(176,019)	(198,069)	(511,152)	(623,792)
Risk adjusted revenue	\$ 807,068	\$ 507,283	\$ 2,262,158	\$ 1,371,703
Ratios(2):				
Net interest margin	11.18%	10.15%	10.89%	10.13%
Non-interest income	8.42	6.09	7.93	5.95
Net charge-offs	(3.51)	(4.56)	(3.47)	(5.03)
Risk adjusted margin	16.09%	11.68%	15.35%	11.05%

(1) Excludes the impact on securitization income related to SFAS 125 of \$16.2 million and \$26.6 million for the three and nine months ended September 30, 1999, respectively.

(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, 1999 was \$278.0 million, compared to \$177.1 million for the same period in the prior year, representing an increase of \$101.0 million, or 57%. For the nine months ended September 30, 1999, net interest income was \$762.0 million compared to \$511.6 million for the same period in 1998, representing an increase of \$250.4 million, or 49%. Net interest margin increased 171 and 122 basis points for the three and nine months ended September 30, 1999, respectively, compared to the same periods in the prior years. These increases were primarily a result of the increases in the yield on earning assets of 139 and 97 basis points for the three and nine months ended September 30, 1999, respectively, to 17.01% from 15.62% and to 16.45% from 15.48% as compared to the same periods in the prior year. The increase was primarily attributable to a 141 and 55 basis point increase in the yield on consumer loans for the three and nine months ended September 30, 1999, respectively, to 19.86% from 18.45% and to 19.33% from 18.78%, 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 continued growth in the Company's portfolio of higher yielding products, especially in the reported loan portfolio, during the comparable periods. The increased yield was a result of repricings of low introductory rate loans during late 1998 and early 1999.

Managed net interest income increased \$119.9 million, or 27%, and \$348.2 million, or 28%, for the three and nine months ended September 30, 1999, 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 15% and 19% and the managed net interest margin increasing 103 basis points and 76 basis points to 11.18% and 10.89% for the three and nine months ended September 30, 1999, 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.

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, 1999 and 1998.

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

Three Months Ended September 30						
(dollars in thousands)	1999			1998		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
<b>Assets:</b>						
<b>Earning assets</b>						
Consumer loans(1)	\$ 7,790,933	\$ 386,727	19.86%	\$ 5,623,012	\$ 259,339	18.45%
Federal funds sold and resale agreements	54,375	638	4.69	69,293	957	5.52
Other	1,843,248	24,671	5.35	1,556,874	22,813	5.86
Total earning assets	9,688,556	\$ 412,036	17.01%	7,249,179	\$ 283,109	15.62%
Cash and due from banks	44,732			2,182		
Allowance for loan losses	(272,667)			(216,000)		
Premises and equipment, net	399,289			202,887		
Other	1,359,173			1,268,047		
Total assets	\$ 11,219,083			\$ 8,506,295		
<b>Liabilities and Equity:</b>						
<b>Interest-bearing liabilities</b>						
Deposits	\$ 3,001,711	\$ 38,003	5.06%	\$ 1,368,833	\$ 15,805	4.62%
Other borrowings	1,235,352	19,030	6.16	1,495,731	24,752	6.62
Senior and deposit notes	4,494,440	76,980	6.85	3,819,061	65,498	6.86
Total interest-bearing liabilities	8,731,503	\$ 134,013	6.14%	6,683,625	\$ 106,055	6.35%
Other	928,919			575,510		
Total liabilities	9,660,422			7,259,135		
Preferred beneficial interests	98,082			97,825		
Equity	1,460,579			1,149,335		
Total liabilities and equity	\$ 11,219,083			\$ 8,506,295		
Net interest spread			10.87%			9.27%
Interest income to average earning assets			17.01%			15.62%
Interest expense to average earning assets			5.53			5.85
Net interest margin			11.48%			9.77%

(1) Interest income includes past-due fees on loans of approximately \$122,409 and \$73,198 for the three months ended September 30, 1999 and 1998, respectively.

Nine Months Ended September 30

	1999			1998		
(dollars in thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets:						
Earning assets						
Consumer loans(1)	\$ 7,346,484	\$ 1,064,987	19.33%	\$ 5,210,649	\$ 734,106	18.78%
Federal funds sold and resale agreements	81,218	2,889	4.74	193,341	8,175	5.64
Other	1,835,242	75,004	5.44	1,594,636	70,308	5.88
Total earning assets	9,262,944	\$ 1,142,880	16.45%	6,998,626	\$ 812,589	15.48%
Cash and due from banks	18,133			11,414		
Allowance for loan losses	(255,167)			(208,778)		
Premises and equipment, net	331,584			186,271		
Other	1,303,482			1,064,351		
Total assets	\$ 10,660,976			\$ 8,051,884		
Liabilities and Equity:						
Interest-bearing liabilities						
Deposits	\$ 2,461,154	\$ 88,383	4.79%	\$ 1,276,512	\$ 43,578	4.55%
Other borrowings	1,470,817	62,351	5.65	1,298,768	61,180	6.28
Senior and deposit notes	4,436,182	230,129	6.92	3,803,117	196,231	6.88
Total interest-bearing liabilities	8,368,153	\$ 380,863	6.07%	6,378,397	\$ 300,989	6.29%
Other	815,606			529,398		
Total liabilities	9,183,759			6,907,795		
Preferred beneficial interests	98,018			97,761		
Equity	1,379,199			1,046,328		
Total liabilities and equity	\$ 10,660,976			\$ 8,051,884		
Net interest spread			10.38%			9.19%
Interest income to average earning assets			16.45%			15.48%
Interest expense to average earning assets			5.48			5.73
Net interest margin			10.97%			9.75%

(1) Interest income includes past-due fees on loans of approximately \$341,470 and \$221,849 for the nine months ended September 30, 1999 and 1998, 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

(in thousands)	Three Months Ended September 30, 1999 vs 1998			Nine Months Ended September 30, 1999 vs 1998		
	Increase (Decrease)	Change due to(1) Volume	Yield/Rate	Increase (Decrease)	Change due to(1) Volume	Yield/Rate
<b>Interest Income:</b>						
Consumer loans	\$127,388	\$106,352	\$ 21,036	\$330,881	\$ 309,047	\$21,834
Federal funds sold and resale agreements	(319)	(188)	(131)	(5,286)	(4,150)	(1,136)
Other	1,858	12,007	(10,149)	4,696	12,394	(7,698)
<b>Total interest income</b>	<b>128,927</b>	<b>101,970</b>	<b>26,957</b>	<b>330,291</b>	<b>276,703</b>	<b>53,588</b>
<b>Interest Expense:</b>						
Deposits	22,198	20,537	1,661	44,805	42,431	2,374
Other borrowings	(5,722)	(4,096)	(1,626)	1,171	9,968	(8,797)
Senior and deposit notes	11,482	12,079	(597)	33,898	32,835	1,063
<b>Total interest expense</b>	<b>27,955</b>	<b>50,361</b>	<b>(22,403)</b>	<b>79,874</b>	<b>97,298</b>	<b>(17,424)</b>
<b>Net interest income(1)</b>	<b>\$100,969</b>	<b>\$ 66,436</b>	<b>\$ 34,533</b>	<b>\$250,417</b>	<b>\$ 180,478</b>	<b>\$ 69,939</b>

(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

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 receivable 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 for the three months ended September 30, 1999 increased \$94.1 million, or 43%, to \$311.2 million from \$217.1 million in the same period in the prior year. Servicing and securitizations income for the nine months ended September 30, 1999 increased \$335.6 million, or 62%, to \$876.8 million from \$541.2 million in the same period in the prior year. These increases were primarily due to a decrease in net charge-offs as a result of improved general economic trends in consumer credit, increased purchase volume, membership and overlit fees, as well as a slight increase in the average off-balance sheet consumer loan portfolio.

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 46% and 67%, to \$33.9 million and \$97.7 million, for the three and nine months ended September 30, 1999, respectively, compared to \$23.2 million and \$58.4 million for the same periods in the prior year. These increases are primarily attributable to increased purchase volume, new account growth and an increase in interchange rates received by the Company. Service charges and other fees increased 88% and 72% to \$275.9 million and \$743.2 million, for the three and nine months ended September 30, 1999, respectively, compared to \$146.6 million and \$432.3 million for the same periods in the prior year. These increases were composed primarily of increases in overlit and annual membership fees, as well as increased telecommunications and cross-selling revenue, resulting from the increase in average accounts of 40% and 42% for the three and nine months ended September 30, 1999, respectively, and a shift in the Company's portfolio to more fee-intensive

products.

Telecommunications revenue includes service revenues, which consist primarily of charges for airtime usage and monthly network access derived from providing mobile wireless services. Telecommunications revenue increased \$26.3 million to \$42.3 million from \$16.0 million for the three months ended September 30, 1999 and 1998, respectively. Telecommunications revenue increased \$69.3 million to \$109.3 million from \$40.0 million for the nine months ended September 30, 1999 and 1998, respectively. These increases are composed primarily of increases in airtime charges, including peak, non-peak and roaming usage, and monthly network access charges. These increases are a direct result of the increased number of subscriber accounts as well as increased usage by existing subscriber accounts.

#### Non-Interest Expense

Non-interest expense for the three and nine months ended September 30, 1999 was \$631.2 million and \$1.8 billion, respectively, an increase of 65% and 78% over \$383.5 million and \$1.0 billion, respectively, for the same periods in the prior year. Contributing to the increase in non-interest expense for the three and nine months ended September 30, 1999 was salaries and associate benefits expense which increased \$82.9 million, or 71%, and \$235.2 million, or 70%, respectively. This was primarily a result of adding over 5,700 full time equivalents to our staffing levels since September 30, 1998. Marketing expense increased \$48.7 million and \$242.2 million, or 38% and 84%, to \$175.2 million and \$529.5 million for the three and nine months ended September 30, 1999, respectively, compared to the same periods in the prior year as the Company continued to invest in new product opportunities. All other non-interest expenses increased \$116.1 million and \$307.4 million, or 82% and 81%, to \$257.0 million and \$686.8 million for the three and nine months ended September 30, 1999, respectively, from \$140.9 million and \$379.5 million for the same periods in the prior year. The increase in all other non-interest expenses primarily consists of increased telecommunications costs of revenue, professional service costs, costs of collections, fraud losses and increased associate recruitment efforts. These increases were primarily a result of the 40% and 42% increases in the average number of accounts for the three and nine months ended September 30, 1999, respectively, as compared to the same periods in the prior year, as well as the Company's continued expansion into new product and geographic markets, which resulted in a corresponding increase in all operational costs.

Non-interest expense includes telecommunications operating expenses, which primarily include salaries and associate benefits expense, marketing, telecommunications costs of revenue and other operational costs. Marketing consists of the costs to acquire a wireless account, which includes the cost of providing a phone to the customer. Telecommunications costs of revenue consists primarily of the cost of airtime purchased for resale to customers and the cost of monthly network access used in providing mobile wireless services. Telecommunications operating expenses increased \$13.5 and \$98.6 million to \$51.6 and \$175.6 million for the three and nine months ended September 30, 1999, respectively, compared to the same periods for the prior year. These increases are primarily a result of increased staffing levels, marketing expense and costs of airtime and monthly network access related to growing the wireless services subscriber accounts base. Telecommunications operating expenses in the third quarter declined from the second quarter of 1999 as the Company began reducing activities in certain product categories of its telecommunications business.

#### Income Taxes

The Company's income tax rate was 38% for the three and nine months ended September 30, 1999 and 1998 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 factor in the delinquency and loss levels of the portfolio. 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 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.

TABLE 6 - DELINQUENCIES				
September 30				
(dollars in thousands)	1999		1998	
	Loans	Percent of Total Loans	Loans	Percent of Total Loans
Reported:				
Loans outstanding	\$ 8,286,210	100.00%	\$ 5,666,998	100.00%
Loans delinquent:				
30-59 days	193,051	2.33	118,384	2.09
60-89 days	106,666	1.29	64,980	1.14
90 or more days	167,812	2.02	103,084	1.82
Total	\$ 467,529	5.64%	286,448	5.05%
Managed:				
Loans outstanding	\$18,517,411	100.00%	\$16,337,789	100.00%
Loans delinquent:				
30-59 days	379,764	2.05	313,443	1.92
60-89 days	211,022	1.14	178,883	1.09
90 or more days	345,630	1.87	308,285	1.89
Total	\$ 936,416	5.06%	\$ 800,611	4.90%

The 30-plus day delinquency rate for the reported consumer loan portfolio was 5.64% as of September 30, 1999, up 59 basis points from 5.05% as of September 30, 1998 and up 29 basis points from 5.35% as of June 30, 1999. The delinquency rate for the managed consumer loan portfolio was 5.06% as of September 30, 1999, up 16 basis points from 4.90% as of September 30, 1998 and up 34 basis points from 4.72% as of June 30, 1999.

## 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				
	Three Months Ended September 30		Nine Months Ended September 30	
(dollars in thousands)	1999	1998	1999	1998
Reported:				
Average loans outstanding	\$ 7,790,933	\$ 5,623,012	\$ 7,346,484	\$ 5,210,649
Net charge-offs	75,737	56,726	190,792	171,704
Net charge-offs as a percentage of average loans outstanding	3.89%	4.04%	3.46%	4.39%
Managed:				
Average loans outstanding	\$18,161,975	\$15,746,091	\$17,734,352	\$14,758,831
Net charge-offs	176,019	198,069	511,152	623,792
Net charge-offs as a percentage of average loans outstanding	3.88%	5.03%	3.84%	5.64%

The managed net charge-off rate decreased 115 basis points and 180 basis points to 3.88% and 3.84% for the three and nine months ended September 30, 1999, respectively from 5.03% and 5.64% for the comparable periods in the prior year. The reported net charge-off rate decreased 15 basis points and 93 basis points to 3.89% and 3.46% for the three and nine months ended September 30, 1999, respectively, from 4.04% and 4.39% for the comparable periods in the prior year. The decreases in managed net charge-off rates were the result of improved general economic trends in consumer credit performance as well as improved recovery efforts compared to the same periods in the prior year. The impact was less apparent in the reported portfolio due to changes in the composition of the reported portfolio compared to the off-balance sheet portfolio. Also, the managed net charge-off rate for the three months ended September 30, 1999 increased slightly from 3.73% for the three months ended June 30, 1999. This was the result of a slight deterioration in consumer credit performance from its historically low levels.

## 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 reported homogeneous consumer loan 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.

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

(dollars in thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	1999	1998	1999	1998
Balance at beginning of period	\$ 266,000	\$ 213,000	\$ 231,000	\$ 183,000
Provision for loan losses	114,061	67,569	262,948	212,448
Other	1,676	7,157	2,844	7,256
Charge-offs	(107,447)	(74,885)	(278,469)	(219,271)
Recoveries	31,710	18,159	87,677	47,567
Net charge-offs	(75,737)	(56,726)	(190,792)	(171,704)
Balance at end of period	\$ 306,000	\$ 231,000	\$ 306,000	\$ 231,000
Allowance for loan losses to loans at period-end	3.69%	4.08%	3.69%	4.08%

For the three and nine months ended September 30, 1999, the provision for loan losses increased 69% and 24%, respectively, to \$114.1 million and \$262.9 million from \$67.6 million and \$212.4 million for the comparable periods in the prior year, as average reported loans increased by 39% and 41% for the three and nine months ended September 30, 1999, respectively. The allowance for loan losses as a percentage of reported consumer loans decreased to 3.69% as of September 30, 1999, from 4.08% as of September 30, 1998.

#### Liquidity and 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 \$8.0 billion bank note program, of which \$3.8 billion was outstanding as of September 30, 1999, with original terms of one to ten years.

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.

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, as well as to develop customized account management programs. As of September 30, 1999, the Company had \$3.6 billion in interest-bearing deposits, with original maturities of up to ten years.

Table 9 shows the maturity distribution of certificates of deposit in denominations of \$100,000 or greater ("large denomination CDs") as of September 30, 1999.

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

(dollars in thousands)	September 30, 1999	
	Balance	Percent
3 months or less	\$ 115,858	11.87%
Over 3 through 6 months	113,764	11.65
Over 6 through 12 months	252,036	25.82
Thereafter	494,588	50.66
Total	\$ 976,246	100.00%

The Company's other borrowings portfolio consists of \$689.2 million in borrowings maturing within one year and \$327.7 million in borrowings maturing after one year.

Table 10 shows the Company's unsecured funding availability and outstandings as of September 30, 1999.

TABLE 10 - FUNDING AVAILABILITY

(dollars or dollar equivalents in millions)	September 30, 1999			
	Effective/ Issue Date	Availability(1)	Outstanding, Net	Final Maturity(4)
Domestic revolving credit facility	5/99	\$ 1,200		5/03
UK/Canada revolving credit facility	8/97	350		8/00
Senior bank note program(2)	4/97	8,000	\$ 3,774	-
Non-U.S. bank note program	10/97	1,000	5	-
Corporation Shelf Registration	8/99	1,550	549	-
Capital 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, 1999.

(3) Qualifies as Tier 1 capital at the Corporation and Tier 2 capital at the Bank.

(4) Maturity date refers to the date the facility terminates, where applicable.

The domestic revolving credit facility is comprised of two tranches as follows: a Tranche A facility in the amount of \$810 million available to the Bank and the Savings Bank, including an option for up to \$250 million in multi-currency availability, and a Tranche B facility in the amount of \$390 million available to the Corporation, the Bank and the Savings Bank, including an option for up to \$150 million in multi-currency availability. The facility terminates on May 24, 2003; however, it may be extended for an additional one-year period.

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 under the UK/Canada revolving facility. The commitment terminates on August 29, 2000; however, it may be extended for two additional one-year periods.

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 \$1.6 billion 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. The Corporation issued \$225 million of seven-year fixed rate senior notes in April 1999, \$200 million of ten-year fixed rate senior notes in July 1998 and \$125 million of seven-year fixed rate senior notes in December 1996. The remaining amount of securities available for issuance under the Corporation's shelf registrations is \$1.0 billion.

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 through 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 1999 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.

As such loans 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 September 30, 1999, the Company held \$1.7 billion in such securities.

#### 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." To be categorized as "well-capitalized," the Bank and the Savings Bank must maintain minimum capital ratios as set forth in Table 11. As of September 30, 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.

TABLE 11 - REGULATORY CAPITAL RATIOS

	Ratios	Minimum for Capital Adequacy Purposes	To Be "Well-Capitalized" Under Prompt Corrective Action Provisions
September 30, 1999			
Capital One Bank			
Tier 1 Capital	11.58%	4.00%	6.00%
Total Capital	14.31	8.00	10.00
Tier 1 Leverage	10.75	4.00	5.00
Capital One, F.S.B.(1)			
Tier 1 Capital	8.84%	4.00%	6.00%
Total Capital	10.51	8.00	10.00
Tier 1 Leverage	7.61	4.00	5.00
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)			
Tier 1 Capital	23.84%	4.00%	6.00%
Total Capital	19.28	12.00	10.00
Tier 1 Leverage	12.88	8.00	5.00

(1) Before June 30, 1999, the Savings Bank was 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 a branch in the United Kingdom, the Company will maintain a minimum Tier 1 leverage ratio of 3.0%. As of September 30, 1999, the Company's Tier 1 leverage ratio was 13.33%.

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, 1999, retained earnings of the Bank and the Savings Bank of \$186.3 million and \$51.8 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, 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.

#### 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 LIBOR, 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 September 30, 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 September 30, 1999, included scenarios in which short-term interest rates rose by nearly 400 basis points or fell by as much as 180 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.

## Business Outlook

### Earnings, Goals and Strategies

This business outlook section summarizes the Company's expectations for earnings 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 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, 1998 (Part I, Item 1, Risk Factors).

The Company has set targets, dependent on the factors set forth below, to increase its earnings per share in 1999 by approximately 30% over 1998 earnings per share and 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 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 segments. 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 recently announced that it expects to change the focus of its efforts to market 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 expects to decrease its marketing investment in these market segments and, over time, to increase its investment in other market segments that generally are not being served by the major wireless telecommunications competitors. As a result of this shift in marketing, the Company decreased its overall marketing investment in America One in the third quarter of 1999 and expects a further decrease in the fourth quarter of 1999. Management remains optimistic that, over time, its strategy can be successful in the wireless telecommunications industry.

**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 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 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 historical financial performance will necessarily reflect its results of operations and financial condition in the future.

### Marketing Investment

The Company expects its 1999 marketing expenses to exceed 1998's expense level significantly, as the Company continues to invest in its various credit card products and services, brand management 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 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. Additionally, the cost to acquire an America One wireless account 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. 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 the fourth quarter of 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-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 continued seasoning of the Company's portfolio and the product mix.

The Company experienced improving credit quality of its credit portfolio in the first half of 1999. As of September 30, 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 the first half of 2000 and that, as a result, charge-offs will begin to increase in the year 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, 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.

#### 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 services for its operations. To the extent the software applications of the Company or its vendors contain programmed code that is 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. The project office's strategy for the Company's information technology computer-based ("IT") systems is based, in large part, on the regulatory guidelines published by the Federal Financial Institutions Examination Counsel. This strategy calls for five milestones for each of the Company's 79 internal IT project areas:

- o awareness of the existence of information technology systems Company-wide;
- o assessment of those systems for year 2000 readiness;
- o renovation of those systems and their date coding functions;
- o validation (testing) of renovations; and
- o implementation of all renovations made.

All 79 of the Company's internally housed IT project areas have completed each of the five milestones and are functioning in a Y2K ready state. The Company has also completed several integrated tests for systems with cross functionality and completed an internal audit validation of its testing measures and results. The Company is conducting extensive audits to ensure that maintenance procedures, including regression testing, are in place. The Company will continue to monitor and test its internal IT systems, as necessary, throughout the remainder of 1999.

The Company has also addressed the effect of the year 2000 on its non-IT systems, which are not included as part of the IT project areas set forth above. These non-IT systems primarily consist of desktop computer applications and data used by the Company's employees. The Company has inventoried, assessed

and renovated these applications and data and will continue to monitor and test these systems, as necessary, throughout the remainder of 1999.

In addition, the Company relies on outside business vendors in its day-to-day operations. The Company continues to monitor the overall year 2000 readiness of its external business vendors and year 2000 compliance of specific vendor systems used in the Company's operations. These vendors include credit bureaus, collection agencies, utilities and other related service providers, third party processors, the U.S. postal service, telephone companies, technology vendors, and banks that are creditors of the Company or which provide cash management, trustee, paying agent, stock transfer agent or other services. These vendors also include third parties that the Company uses to outsource certain operations for America One, Summit and its business in the United Kingdom.

The Company is actively communicating with third parties through face-to-face meetings and correspondence to obtain test results and perform integrated testing with service providers. The Company, however, must rely on the actions of and the information provided by its vendors and cannot guarantee that vendor systems will, in fact, be compliant. For high priority vendors that the Company determines may not be taking appropriate and timely action or have failed to provide sufficient information, the Company has put contingency plans in place. The Company will continue to actively monitor the efforts of all of its vendors and to take actions to mitigate year 2000 issues resulting from any failure of its vendors to be year 2000 compliant.

#### The Company's Contingency Plans

The Company's business units have completed a contingency planning process to: (i) inventory and assess year 2000 risks; (ii) conduct business impact analyses; (iii) develop contingency plans to mitigate the risks; and (iv) test and validate these contingency plans. All of these stages have been successfully completed and the plans continue to be tested.

The Company has also developed a more comprehensive Enterprise-Wide Contingency Plan (the "Plan") to support and unite the detailed business unit plans. The Plan addresses risks to core business processes as well as certain global enterprise risks. The Company's core business processes include, but are not limited to, credit authorization, funding and securitizations, transaction processing, customer billing, customer statement processing, remittance processing and fraud detection. The Plan sets forth the overall communication, operations, and information technology strategies needed to enable rapid response and minimize impacts in the event of failure or interruption to these processes.

The Plan sets forth pre-event planning assessment, prioritization and communication of issues, and recovery of operations. Some of the strategies address reliance on back-up systems, on-site internal and external technical support, implementation of manual processes, shifting of workloads and moving to alternate service providers to continue operations. The Plan also addresses global enterprise risks such as interruptions of power supply, telecommunications supply, postal service and the Company's cardholder authorization system and sets forth plans to minimize negative impacts. The Company completed an independent review of the Plan and validation strategy for feasibility, and continues to test and validate the Plan.

In addition, the Company's Year 2000 Senior Governance Committee, which is composed of senior management, continues to develop solutions to broad business and economic issues related to mitigating the financial impact of the year 2000. It has also formed an Event Management Center, which is staffed with individuals from many of the Company's business units. This will be the nucleus for decision the millennium weekend.

#### The Costs to Address the Company's Year 2000 Issues

As of September 30, 1999, the Company had spent approximately \$12.7 million to remediate its internal systems. The Company estimates it will spend an additional \$2.3 million in the remainder of 1999. Costs for readiness activities not directly related to internal systems remediation, such as third party vendor assessment and business unit contingency planning, are not included and are not expected to be material.

#### The Risks of the Company's Year 2000 Issues

Although the Company expects to have all of its system modifications completed and tested extensively by the onset of the new millennium, unforeseen problems could arise from not being year 2000 compliant. The Company's business is heavily reliant on computer technologies and problems could arise resulting in delays and malfunctions that may impact the Company's operations, liquidity and financial results. In addition, the Company cannot guarantee that all of its vendors will have completed system renovations and be compliant by the year 2000. Although the Company has developed and continues to reassess contingency plans to mitigate the risks from third party vendors and systems, the failure of third parties to provide the Company with products, services or systems that meet year 2000 requirements could materially impact the Company's business and operations. A reasonably likely worst case scenario would involve a major failure of the U.S. Postal Service, the Company's local and long distance carriers, one or more of the primary financial switching networks, or its material third party processors to be year 2000 compliant. These failures 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 it has taken the necessary precautionary measures to assure 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 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; 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, 1998 (Part I, Item 1, Risk Factors).

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 a Current Report on Form 8-K, dated July 15, 1999, Commission File No. 1-13300, enclosing its press release dated July 15, 1999.

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 15, 1999

/s/David M. Willey  
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David M. Willey  
Senior Vice President,  
Corporate Financial Management  
(Chief Accounting Officer  
and duly authorized officer  
of the Registrant)

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Jul-01-1999  
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