



## Fourth quarter 2008 results

January 22, 2009

# Forward looking statements

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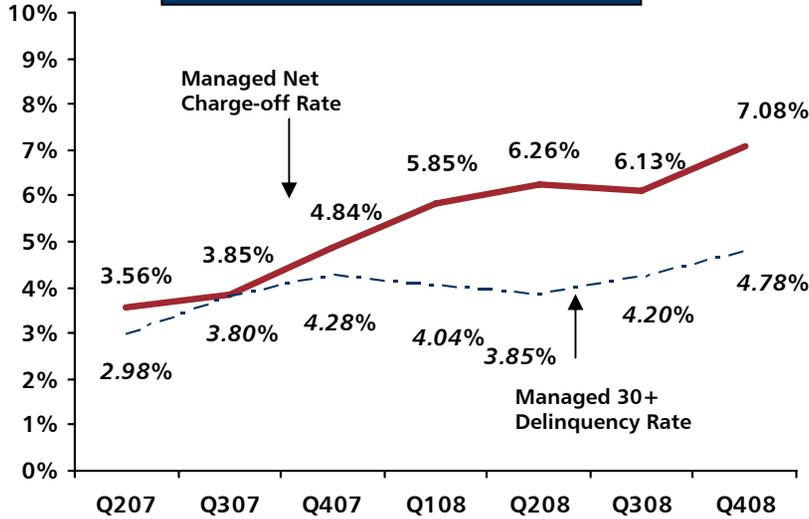
# Fourth Quarter 2008 Summary

	Q408		2008	
	\$MM	EPS	\$MM	EPS
Earnings from Continuing Ops (Excluding Goodwill Impairment)	\$ (585)	\$ (1.59)	895	\$ 2.28
Earnings from Continuing Ops (Including Goodwill Impairment)	(1,396)	\$ (3.67)	85	0.14
Total Company Earnings	(1,422)	\$ (3.74)	(46)	(0.21)

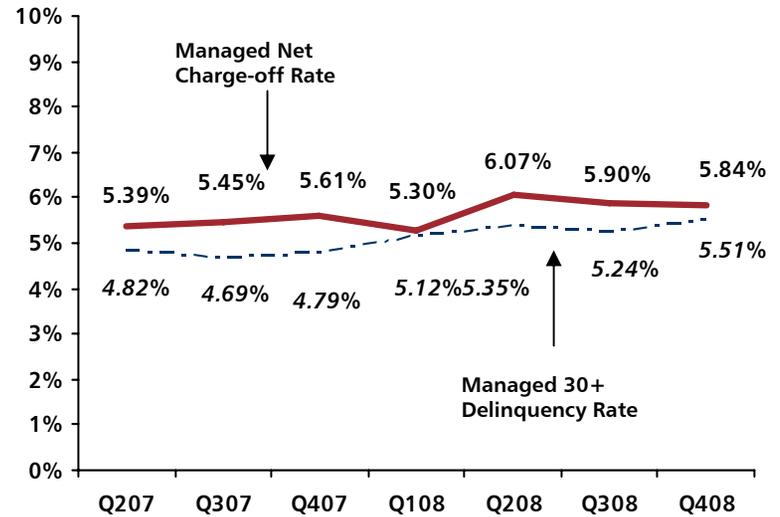
- Declines in EPS driven by:
  - Higher provision expense, including \$1.0B allowance build consistent with assumption that unemployment rate increases to 8.7% by year end 2009
  - Goodwill write down of \$811MM associated with smaller Auto Finance business
- Credit performance reflects the impact of significant economic deterioration across the loan portfolio
  - Managed charge-off rate up 68 basis points from Q308 to 4.98%
  - Managed 30+ delinquency rate up 50 basis points from Q308 to 4.49%
- Our strong and transparent balance sheet positions us to weather the storm
  - Significantly increased allowance coverage ratios
  - High quality investment portfolio
  - Readily available liquidity of \$40B, up \$8B from 9/30/08
  - Ending deposits of \$109B; strong deposit growth with disciplined pricing and stable margins
  - TCE ratio of 5.57%, including OCI

# The worsening economy drove rising delinquency and loss trends across our lending businesses

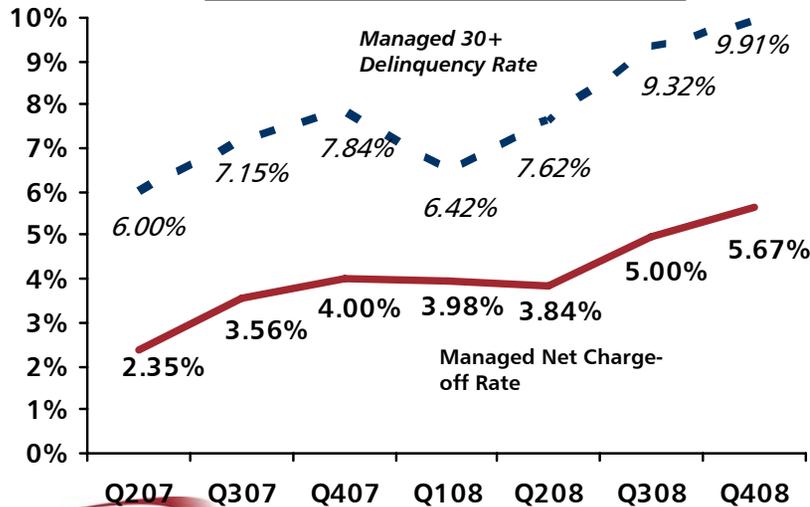
## US Card



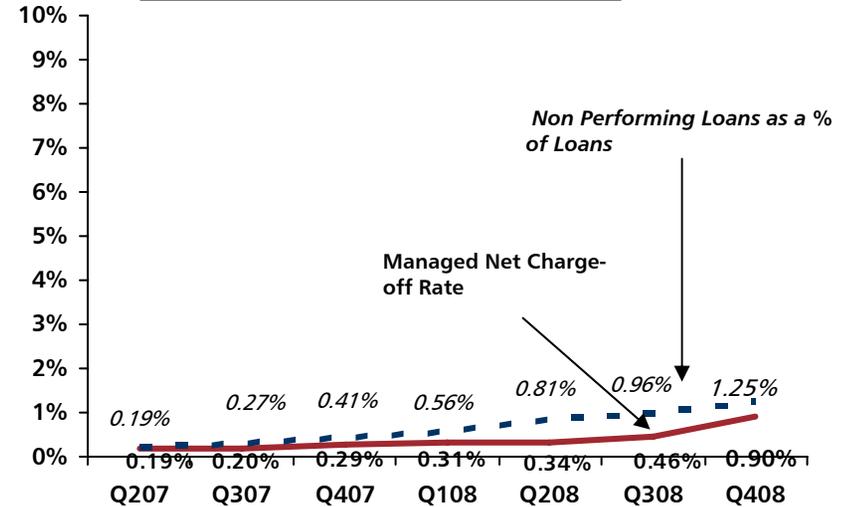
## International



## Auto Finance



## Local Banking



# Economic conditions deteriorated rapidly in Q4, driving our outlook for managed credit losses

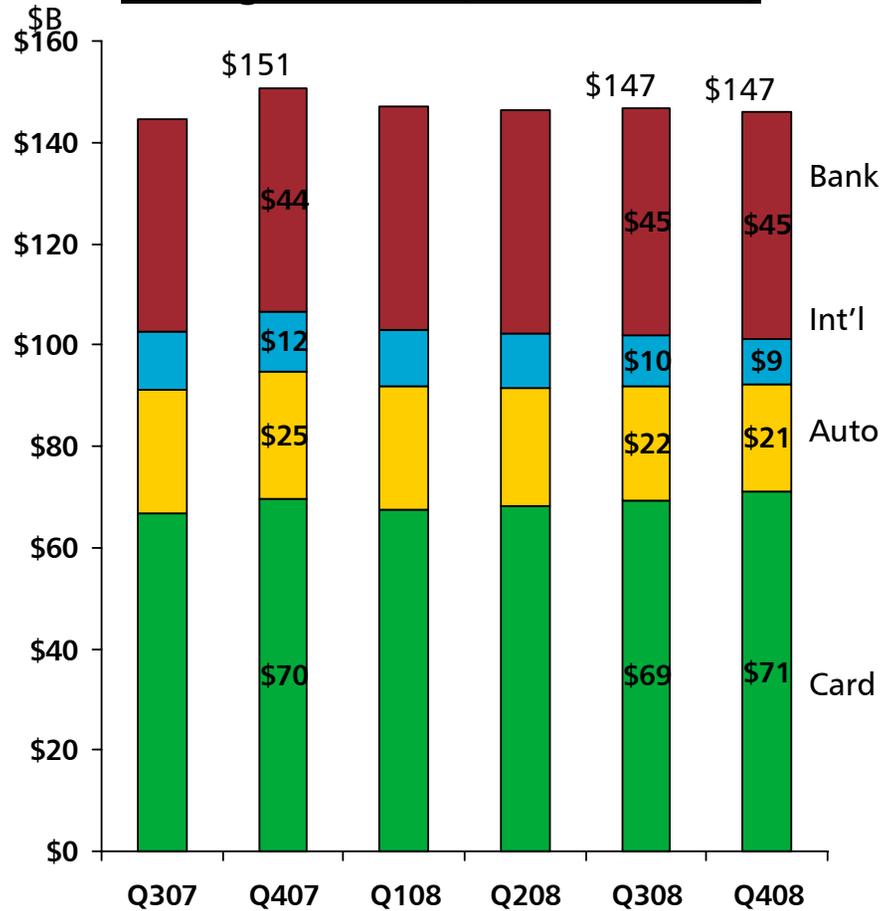
As of 9/30/08

As of 12/31/08

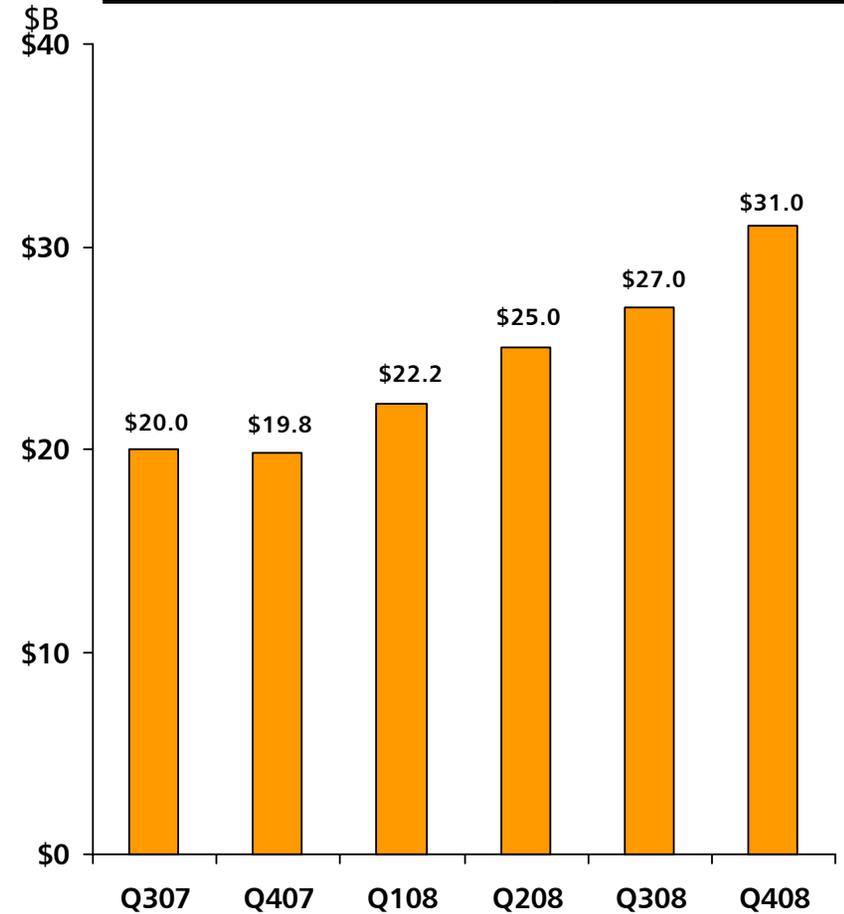
Next 12 Month Period	10/1/08-9/30/09	1/1/09-12/31/09
Unemployment Rate	6.5% as of 9/30/08	7.2% as of 12/31/08
Unemployment Rate Assumption	Around 7% by mid 2009	8.7% by end 2009
Home Price History	Case Schiller 20 city index down 21% from peak	Case Schiller 20 city index down ~25% from peak
Home Price Assumption	Additional 10 percentage point decline by mid 2009	Additional 10 percentage point decline by end 2009
Managed Credit Loss Outlook for next 12 months	\$7.2B	\$8.6B

# The mix of earning assets has shifted as multiple factors have resulted in flat loan growth

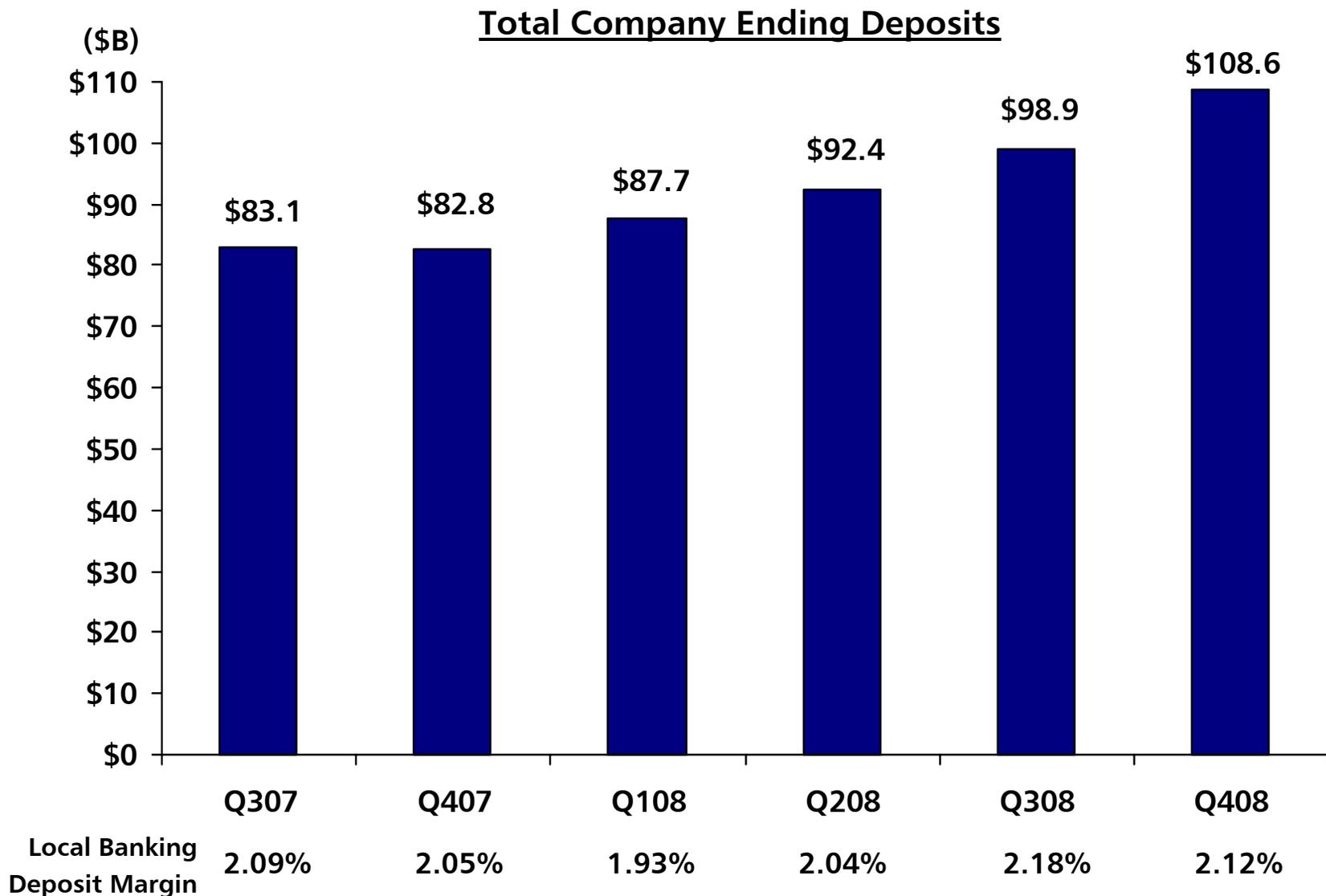
## Managed Loans (End of Period)



## Investment Portfolio<sup>1</sup> (End of Period)



# We achieved significant deposit growth with stable margins

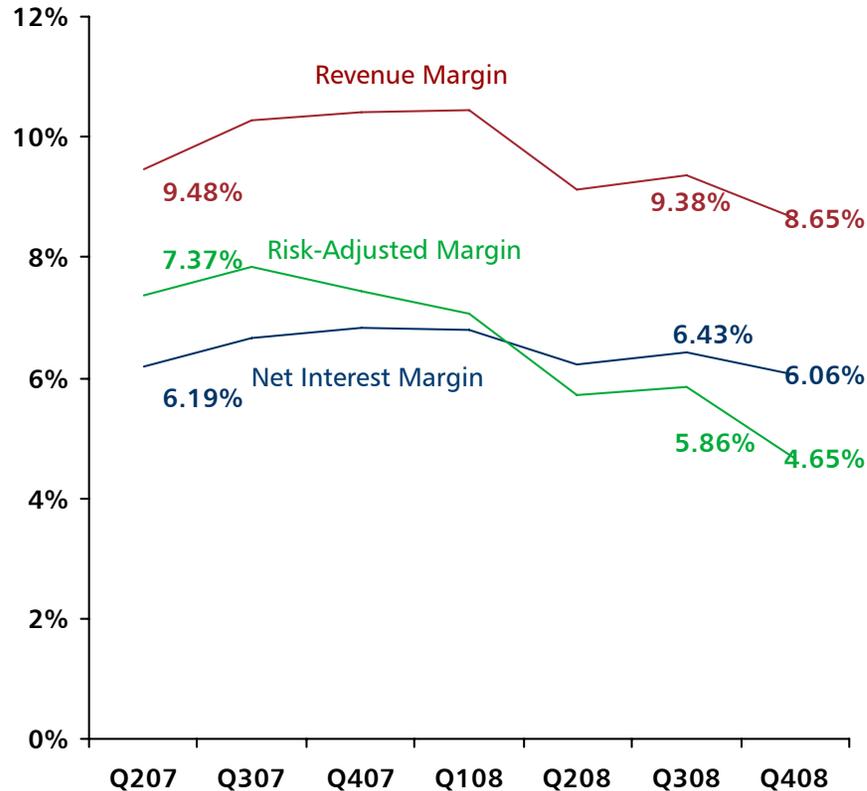


# Chevy Chase is a strategically and financially attractive acquisition

- A leading local banking franchise in one of the best local markets\*
  - \$11.6 billion in deposits
  - #1 branch share, #1 ATM share, #5 deposit share
  - Attractive market
    - 9<sup>th</sup> largest MSA by population, with above average population growth
    - Highest per capita income and lowest unemployment among the Top 20 MSAs
- Enhances our local banking business
  - Expands our portfolio of attractive local banking franchises
  - Further improves our core deposit funding base
  - Adds additional scale to our bank operations
  - Brings outstanding customer and technology platforms
- Financially attractive and low-risk transaction
  - Accretive to 2009 operating EPS (excluding restructuring charges) and to 2010 GAAP EPS
  - Credit risks mitigated by a \$1.75 billion net mark
  - Balance sheet and liquidity remain strong post-acquisition
  - Proximity to Capital One headquarters reduces integration risk and enables synergies
  - Small acquisition relative to the size of Capital One

# Margins declined as compared to both the sequential quarter and the prior year quarter

## Margins as % of Managed Assets



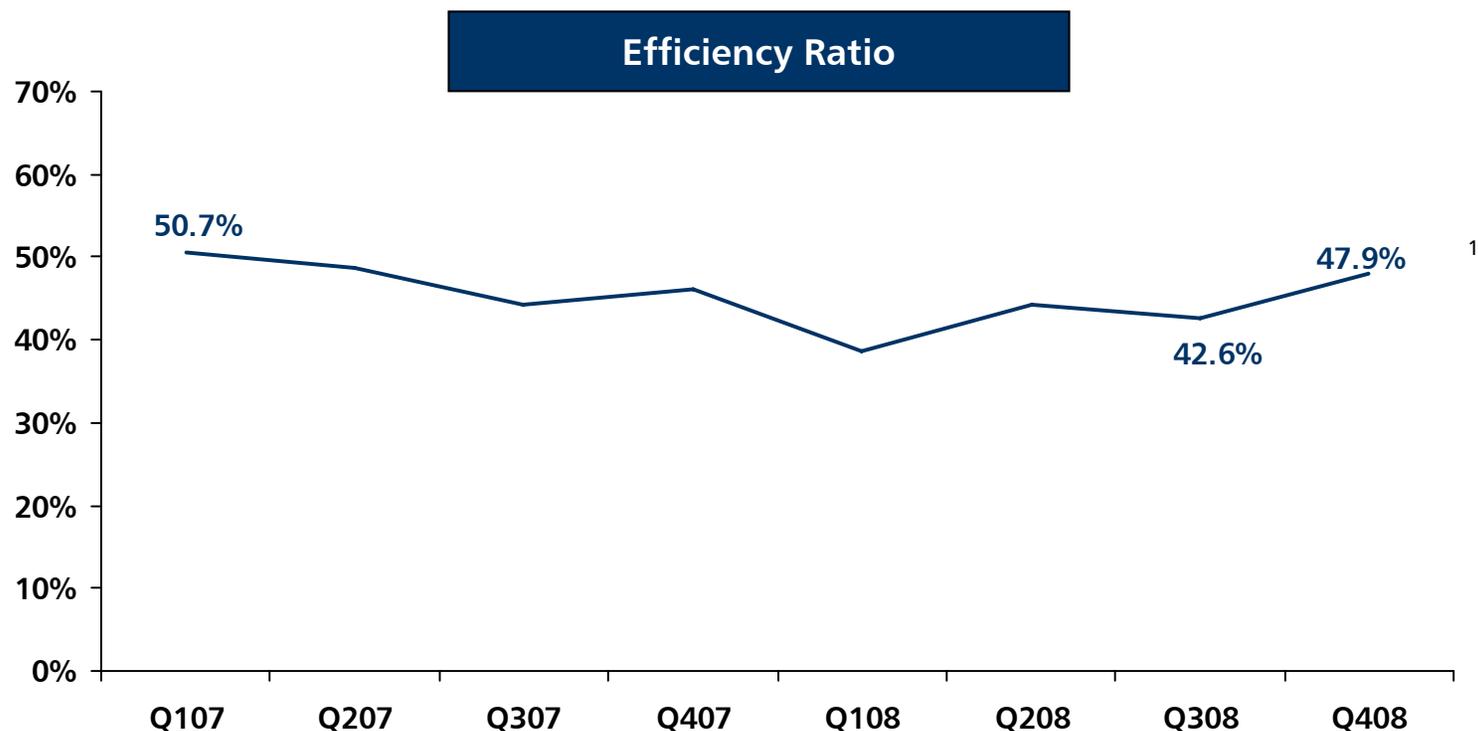
- **Credit Impacts**

- I/O strip write downs
- Increase in uncollectible finance charges & fees not recognized as revenue

- **Other Impacts**

- Declining purchase volumes in US Card
- Mix shift from loans to investment securities
- Prime/Libor dislocation (sequential quarter)
- Elevated Q407 margins from 2007 pricing & fee policy moves

# Efficiency Ratio and operating expenses improved as a result of our continuing cost management actions



	2007	2008	Improvement
<b>Efficiency Ratio</b>	<b>47.3%</b>	<b>43.1%</b>	<b>416 bps</b>
<b>Non-Interest Expense<sup>2</sup> (\$MM)</b>	<b>\$ 7,940</b>	<b>7,264</b>	<b>676</b>
<b>Operating Expense</b>	<b>6,593</b>	<b>6,146</b>	<b>447</b>
<b>Marketing Expense</b>	<b>1,347</b>	<b>1,118</b>	<b>229</b>

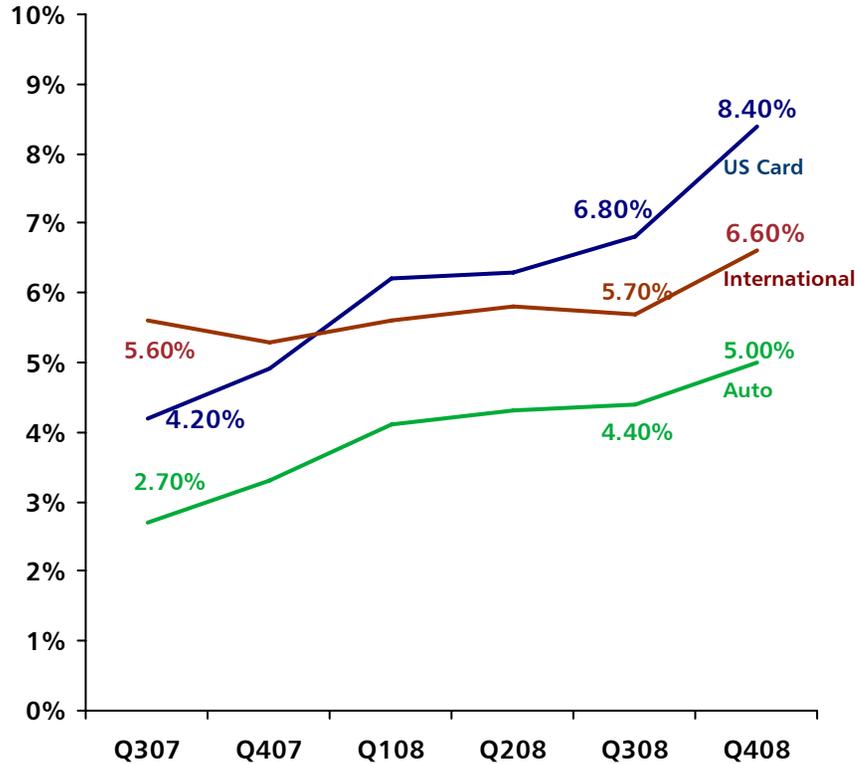


<sup>1</sup> excludes impact from Goodwill write-down of \$810.9MM

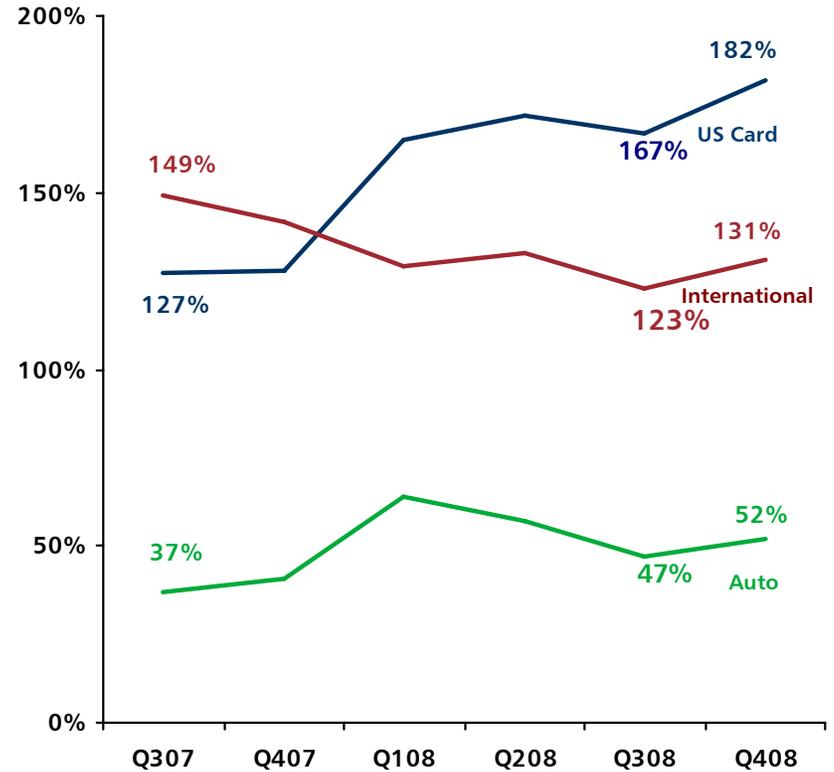
<sup>2</sup> excludes restructuring expenses

# We continue to increase allowance coverage ratios in all of our National Lending businesses

**Allowance as % of Reported Loans**



**Allowance as % of Reported 30+ Delinquencies**



Total Company:	Q307	Q407	Q108	Q208	Q308	Q408
2.39%	2.91%	3.33%	3.41%	3.59%	4.48%	



## We recorded an \$811MM non-cash impairment to goodwill in our Auto Finance sub-segment in Q408

<b>Goodwill (\$MM)</b>	<b>Local Banking</b>	<b>US Card</b>	<b>Auto Finance</b>	<b>International</b>	<b>Total Company</b>
Balance at January 1, 2008	\$ 6,683	3,761	1,430	956	12,830
Other Adjustments	36	-	-	(33)	3
Goodwill Impairment	-	-	(811)	-	(811)
Balance at December 31, 2008	\$ 6,719	3,761	619	923	12,022

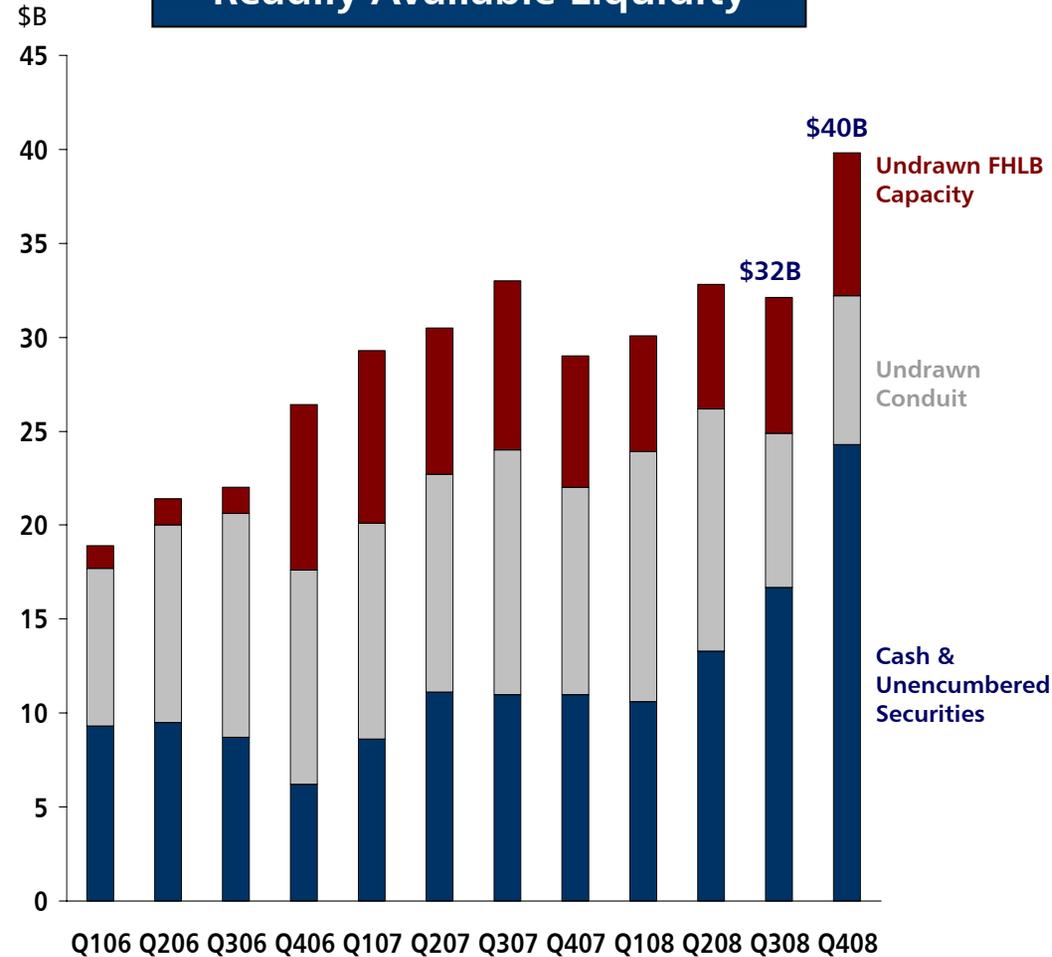
# Credit was the big driver of operating earnings

\$MM unless otherwise noted	2007	2008	YoY \$ Inc/(Dec)
Revenue excl. I/O Strip & Supression	17,912	18,984	1,073
I/O Strip Valuation Change	14	(225)	(239)
Revenue Supression*	<u>(1,140)</u>	<u>(1,920)</u>	<u>(780)</u>
<b>Revenue</b>	<b>16,786</b>	<b>16,839</b>	<b>54</b>
Marketing	1,348	1,118	(230)
Operating Expense	6,593	6,146	(447)
Restructuring	<u>137</u>	<u>135</u>	<u>(2)</u>
<b>Non Interest Expense</b>	<b>8,078</b>	<b>7,399</b>	<b>(679)</b>
<b>Pre Provision Earnings (before tax)</b>	<b>8,708</b>	<b>9,440</b>	<b>733</b>
Net Charge Offs	4,162	6,425	2,263
Allowance Build	<u>676</u>	<u>1,623</u>	<u>947</u>
<b>Provision</b>	<b>4,838</b>	<b>8,048</b>	<b>3,210</b>
<b>Operating Earnings (after tax)</b>	<b>2,592</b>	<b>896</b>	<b>(1,696)</b>
	<i>\$6.55 EPS</i>	<i>\$2.28 EPS</i>	<i>(\$4.26 EPS)</i>
Goodwill Impairment	0	811	811
<b>Continuing Operations (after tax)</b>	<b>2,592</b>	<b>85</b>	<b>(2,507)</b>
	<i>\$6.55 EPS</i>	<i>\$0.14 EPS</i>	<i>(\$6.41 EPS)</i>
Discontinued Ops	(1,021)	(131)	891
<b>Total Company (after tax)</b>	<b>1,570</b>	<b>(46)</b>	<b>(1,616)</b>
	<i>\$3.97 EPS</i>	<i>(\$0.21 EPS)</i>	<i>(\$4.18 EPS)</i>

\* In line with the Company's finance charge and fee revenue recognition policy, amounts billed to customers but not recognized as revenue

# We increased readily available liquidity by \$8B in the quarter

## Readily Available Liquidity



## Q408 Highlights

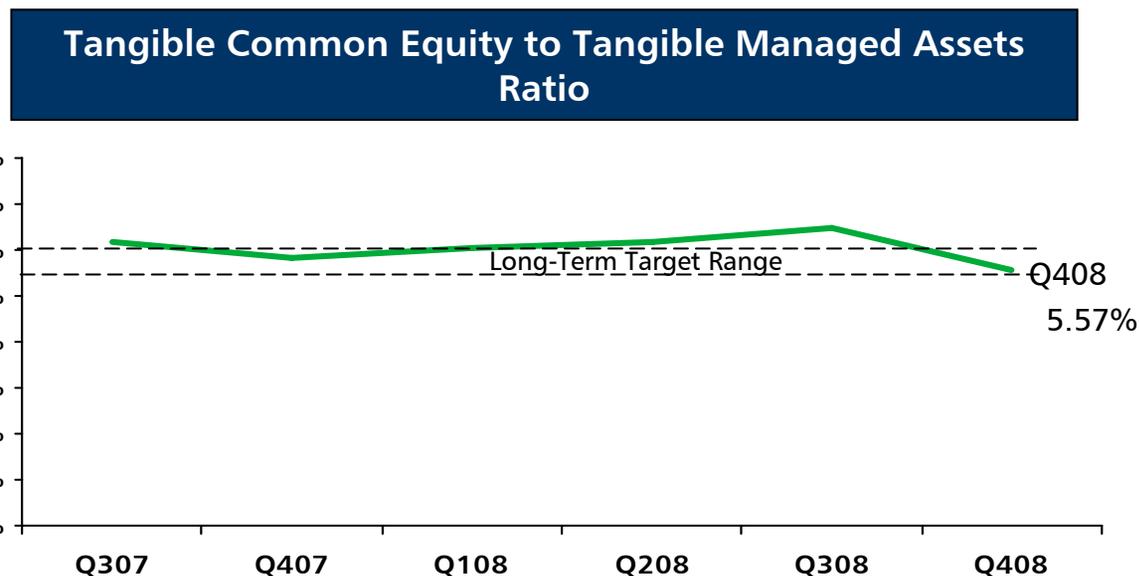
- \$8.8B Holding company cash covers parent obligations for 3+ years, including current dividend level
- \$40B of readily available liquidity is 6x next 12 months of debt maturities

# The growth in our investment portfolio has been in lower risk assets

\$MM	December 31, 2007		December 31, 2008	
	Book Value	Net Unrealized Gain/(Loss)	Book Value	Net Unrealized Gain/(Loss)
Treasuries/Agencies	\$ 1,370	16	\$ 1,549	61
Agency MBS	11,486	26	21,844	217
Non-Agency MBS	4,411	(11)	3,789	(1,035)
ABS	546	(3)	3,356	(200)
CMBS	1,250	(1)	1,082	(142)
Other	696	(5)	496	(14)
<b>Total</b>	<b>\$ 19,759</b>	<b>22</b>	<b>\$ 32,116</b>	<b>(1,113)</b>

- **Our liquidity focus results in an investment portfolio comprised of liquid, low risk securities**
  - Over 70% invested in Treasuries, Agencies and Agency-backed MBS
  - No SIV's, CDO's, leveraged loans
  - No exposure to equity or hybrids
  - No securities backed by Option ARMs
- **Over 90% of our unrealized loss is concentrated in \$3.8B of remaining Non-Agency MBS**
  - Almost entirely collateralized by Prime Jumbo mortgages (Average FICO over 730), less than \$71 million Alt-A/Subprime collateral
  - Two-thirds of these securities originally structured with at least twice the credit enhancement needed for AAA.
  - Have the liquidity strength to hold the \$3.8B of securities to maturity
- **Other than Temporary Impairment (OTTI) was \$5MM or less than 0.5% of the total net unrealized loss**

# Our TCE ratio remains strong



## Capital Ratios

	Q307	Q407	Q108	Q208	Q308	Q408
<b>TCE/TMA</b>	<b>6.2%</b>	<b>5.8%</b>	<b>6.0%</b>	<b>6.2%</b>	<b>6.5%</b>	<b>5.6%</b>
<b>TCE/TMA (Excluding OCI)</b>	<b>6.2%</b>	<b>5.9%</b>	<b>6.1%</b>	<b>6.3%</b>	<b>6.6%</b>	<b>6.1%</b>
<b>Adjusted TCE/TMA<sup>1</sup></b>	<b>6.8%</b>	<b>6.4%</b>	<b>6.6%</b>	<b>6.8%</b>	<b>7.2%</b>	<b>7.0%</b>
<b>Adjusted TCE / RWMA<sup>2</sup></b>	<b>7.6%</b>	<b>7.3%</b>	<b>7.7%</b>	<b>8.0%</b>	<b>8.5%</b>	<b>8.5%</b>
<b>Tier 1 leverage ratio<sup>3</sup></b>	<b>9.5%</b>	<b>9.0%</b>	<b>9.4%</b>	<b>9.4%</b>	<b>9.9%</b>	<b>11.1%</b>
<b>Tier 1 risk-based capital ratio<sup>3</sup></b>	<b>10.7%</b>	<b>10.1%</b>	<b>10.9%</b>	<b>11.3%</b>	<b>12.0%</b>	<b>13.6%</b>
<b>Total risk-based capital ratio<sup>3</sup></b>	<b>13.8%</b>	<b>13.1%</b>	<b>13.8%</b>	<b>14.2%</b>	<b>14.9%</b>	<b>16.5%</b>

<sup>1</sup> Adjusted TCE excludes OCI and gives 25% tangible common credit for hybrid securities and 25% tangible capital credit for preferred stock

<sup>2</sup> Adjusted TCE / RWMA defined as Adjusted TCE divided by risk weighted managed assets

<sup>3</sup> Q408 are estimates



# Our strong and transparent managed balance sheet positions us to weather the storm

- **Significantly increased allowance coverage ratios**
- **\$40B in readily available liquidity**
- **High quality investment portfolio**
- **Healthy capital position**

