

Growing



—2001
43,800,000
accounts

—2000
33,800,000

—1999
23,700,000

—1998
16,700,000

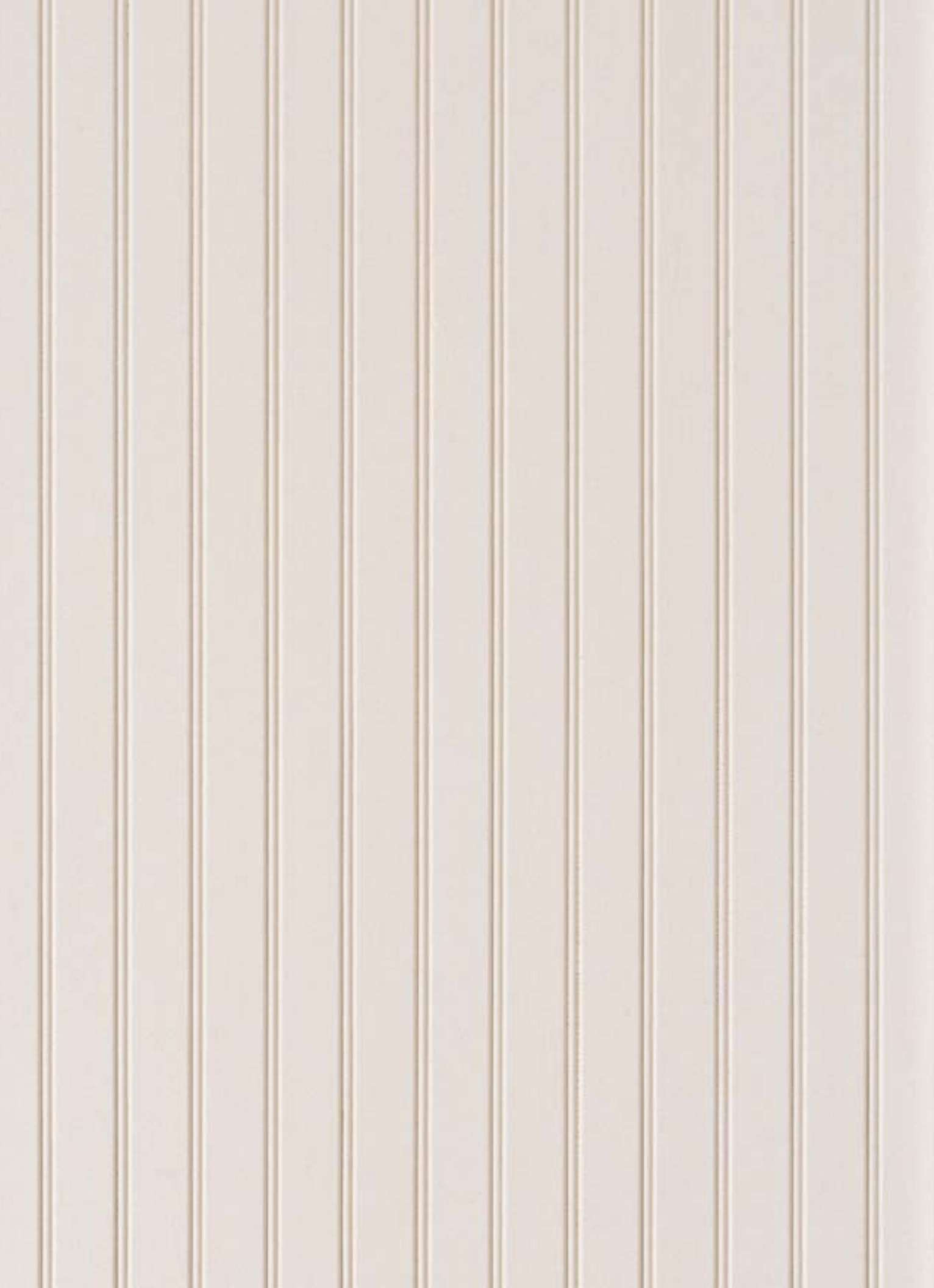
—1997
11,700,000

—1996
8,600,000

—1995
6,100,000
accounts

Capital One[®]

2001 Annual Report



Capital One is a leader in the direct marketing of credit cards, auto loans and other consumer financial services. It has 43 million accounts and is one of the world's largest consumer franchises. Capital One has grown by pursuing an information-based strategy (IBS) that enables it to test ideas before rolling them out and to tailor the terms for each customer. The Company's innovative products and services have delivered strong growth for Capital One and superior value to consumers. A holding company based in Falls Church, Virginia, Capital One Financial Corporation operates through two principal subsidiaries: Capital One Bank and Capital One F.S.B. Its common stock trades on the New York Stock Exchange under the symbol COF.

One year older. Fifty-three percent bigger. And still growing strong.

To our shareholders and friends:

Capital One had an outstanding year. We added 10 million accounts, bringing our account base to 43 million. Managed loans grew by 53%. And with a 30% rise in earnings, we again fulfilled the bold promise we made seven years ago: annual earnings growth of 20%-plus and a yearly return on equity of 20%-plus. Reaching those goals seven times in a row puts Capital One in a league with only seven other publicly held U.S. companies.

A few measurements from our growth chart: Since 1995, managed loans and earnings have quadrupled, and our customer population has multiplied sevenfold. Capital One now has more accounts than American Express®. We've become one of the country's 16 largest consumer franchises and the sixth largest credit card issuer in the U.S.

The real significance of Capital One's performance in 2001 lies not in the numbers but in the fact that the Company continued to set records despite the recession that began in the spring and the global turmoil that followed the tragedy of September 11. Having prospered in the face of these challenges, we're bullish about the future of Capital One.

In 2002 we expect another earnings increase of 20%. Longer term, we're optimistic for many reasons, all of them fundamental. Capital One is a strong player in a growing industry: credit cards. Our U.S. card operations are highly profitable, and our credit quality is the best in the industry. We've strengthened our position in the market. Our new "No-Hassle" Platinum Card with a single low, fixed rate on everything, including cash advances, is proving to be a strong attraction to customers.

Outside the U.S., Capital One is laying the foundation of a global financial services company. We now serve three million customers in the U.K., South Africa, Canada and France. We see significant potential elsewhere in Europe and in other countries where consumers are in the early stages of adopting the credit card as a medium of exchange and a form of borrowing that is anonymous, convenient and comparatively inexpensive. Credit card companies should also benefit from the introduction of the euro, which is expected to stimulate cross-border trade and consumer spending by eliminating the risk and expense of currency conversions.

The Company's recent diversification into other forms of consumer lending has been highly successful, and the opportunities for profitable long-term growth are substantial. The markets are large and well-suited to Capital One's strategy and expertise. In three years, Capital One's lending volume in auto and installment loans has grown dramatically. We'll continue growing these businesses internally and with selective acquisitions of

— 2001

30% earnings growth

— 2000

30%

— 1999

30%

— 1998

42%

— 1997

21%

— 1996

21%

— 1995

30% earnings growth

— 1994

Capital One's IPO



Richard D. Fairbank
Chairman and Chief Executive Officer



Nigel W. Morris
President and Chief Operating Officer

well-managed lenders. In 2001 we acquired PeopleFirst,[®] the Internet's largest originator of auto loans, and Amerifee[™], the leading provider of financing for elective medical procedures.

We're also bullish because of the discipline built into Capital One's information-based strategy (IBS). By combining one of the world's largest databases with cutting-edge technology and rigorous analytics, IBS allows us to excel at risk management and test thousands of ideas in search of profitable innovations. In operations, IBS gives us the power to track—and continually improve—efficiency, credit quality and customer service.

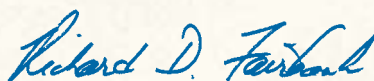
As Capital One's strong performance in 2001 shows, the Company was built to withstand stormy weather. Knowing that no one can accurately predict when a recession will occur, we assume a recession from the beginning, by stacking the deck of variables against ourselves and incorporating the results in our credit decision making. Marketing and operations are, by design, highly flexible, allowing for quick response to opportunity and change. We have also greatly reduced Capital One's annual expenses. Cost per account is now \$74—down 6% in 2001 and one of the card industry's lowest despite major investments in technology and collections and recoveries.

After our first full year of television advertising (the well-received "What's in your wallet?" campaign) and major events sponsorships, Capital One is becoming a household name. Consumers see us as innovative and on their side—the financial services provider that gives them the most for their money.

Our customers interact with us 1.1 billion times a year when they call customer service or visit www.capitalone.com or open their monthly statements. We treat each contact as a sales opportunity, and with IBS we are becoming increasingly skilled at marketing additional products and services—our own and those of other leading companies.

Capital One had the good fortune to come of age during the longest period of prosperity in American history. In a slowing economy our 20,000 plus associates sustained the fast pace of Capital One's growth, and in the wake of September 11 they did a superb job of helping customers who were grieving, stranded or called to active military duty. They were tireless and brave in dealing with the complications of the postal slowdown, which at Capital One affected millions of pieces of mail each week.

Since day one, recruiting has been our highest priority, and we've kept our pledge to hire only the best. Once again, the payoff was visible in Capital One's strong performance. And for the fourth straight year, our commitment to our associates earned Capital One a place on the "100 Best Places to Work in America[™]" list published in FORTUNE[®] magazine. After taking the full measure of our strengths—associates, strategy, brand, products and markets—we are as optimistic as ever about the future of Capital One.



Richard D. Fairbank
Chairman and
Chief Executive Officer

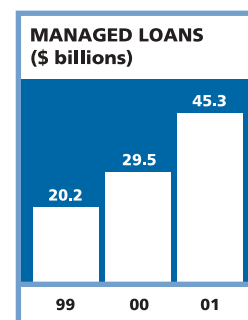
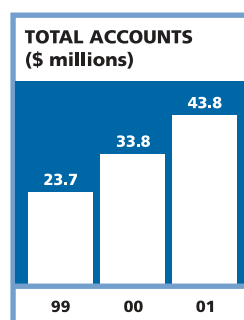
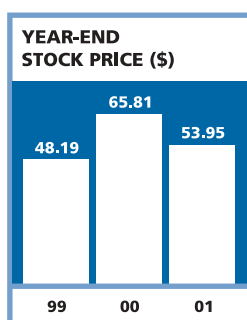
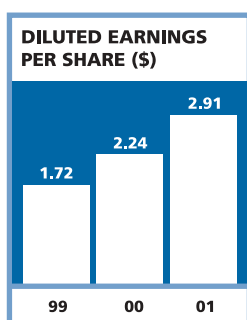


Nigel W. Morris
President and
Chief Operating Officer

Financial Summary

Year Ended December 31 (Dollars in Thousands, Except Per Share Data)

| | 2001 | 2000 | Percent Change |
|---|---------------|---------------|----------------|
| Earnings: | | | |
| Net interest income | \$ 1,663,390 | \$ 1,588,885 | 4.69 % |
| Non-interest income | 4,419,893 | 3,034,416 | 45.66 |
| Marketing | 1,082,979 | 906,147 | 19.51 |
| Other non-interest expense | 2,975,048 | 2,241,510 | 32.73 |
| Net income | 641,965 | 469,634 | 36.69 |
| Tax Rate | 38.00 % | 38.0 % | 0.00 |
| Per Common Share: | | | |
| Basic earnings | \$ 3.06 | \$ 2.39 | 28.03 |
| Diluted earnings | 2.91 | 2.24 | 29.91 |
| Dividends | 0.11 | 0.11 | 0.00 |
| Book value as of year-end | 15.33 | 9.94 | 54.93 |
| Market prices | | | |
| Year-end | \$ 53.95 | \$ 65.81 | -18.02 |
| High | 72.58 | 73.22 | -0.97 |
| Low | 36.41 | 32.06 | 13.47 |
| Price/Earnings ratio | 18.54 | 29.38 | -36.90 |
| Ratios: | | | |
| Return on average assets | 2.75 % | 3.09 % | -10.95 |
| Return on average equity | 23.08 | 27.61 | -16.40 |
| Capital to assets | 12.14 | 10.91 | 11.29 |
| Allowance for loan losses to loans as of year-end | 4.02 | 3.49 | 15.14 |
| Managed Consumer Loan Data: | | | |
| Average reported loans | \$ 17,284,306 | \$ 11,487,776 | 50.46 |
| Average off-balance sheet loans | 18,328,011 | 11,147,086 | 64.42 |
| Average total managed loans | 35,612,317 | 22,634,862 | 57.33 |
| Year-end reported loans | 20,921,014 | 15,112,712 | 38.43 |
| Year-end off-balance sheet loans | 24,342,949 | 14,411,314 | 68.92 |
| Year-end total managed loans | 45,263,963 | 29,524,026 | 53.31 |
| Year-end total accounts (000s) | 43,815 | 33,774 | 29.73 |
| Yield | 15.48 % | 17.83 % | -13.15 |
| Net interest margin | 9.04 | 10.71 | -15.66 |
| Delinquency rate (30+ days) | 4.95 | 5.23 | -5.35 |
| Net charge-off rate | 4.04 | 3.90 | 3.56 |
| Year-End Reported Data: | | | |
| Assets | \$ 28,184,047 | \$ 18,889,341 | 49.21 |
| Earning assets | 24,388,463 | 16,971,741 | 43.70 |
| Average assets | 23,346,309 | 15,209,585 | 53.50 |
| Average earning assets | 20,706,172 | 13,252,033 | 56.25 |
| Common equity | 3,323,478 | 1,962,514 | 69.35 |
| Associates (FTEs) | 21,648 | 19,247 | 12.47 |
| Shares outstanding (000s) | 216,778 | 197,369 | 9.36 |
| Common stockholders of record | 10,065 | 10,019 | 0.46 |



If a baby born today grew as fast as Capital One, he'd be 11' 9" in second grade.

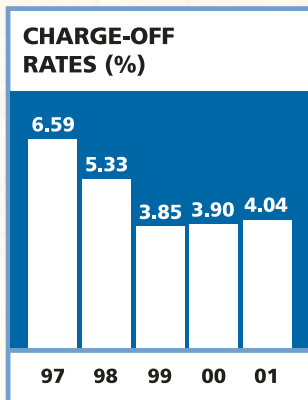
Our account base grew by 10 million in 2001 for the second year in a row. With almost 44 million accounts, Capital One is now the sixth largest credit card company in the U.S. And we're winning customers much faster than anyone else in the card business.

Capital One now has a 6% market share, leaving us plenty of room for further gains in an industry that continues to enjoy strong growth.

Our growth has been highly profitable as well as rapid. Capital One's U.S. charge-offs were the industry's lowest—4.04% compared with the 5.68% average for other major card companies in 2001. The strong credit quality is the payoff of a methodology for aligning a customer's credit line and interest rate with the risk involved.

The fast growth is also the result of Capital One's ability to identify market niches and to design innovative, profitable products for each constituency. Our new "No-Hassle" Platinum MasterCard®, offering one low, fixed rate on cash advances as well as purchases, is a big hit in the affluent superprime market. Capital One's lifestyle and lifestage cards tap numerous micro-markets, from sci-fi buffs to newlyweds. Our MilesOne frequent flyer card continues to win customers by offering the best value: low annual fee, low fixed rate and points redeemable anytime on any major U.S.-based airline.

Over the years, Capital One has received a long list of awards for its cutting-edge information technology, innovation and marketing savvy. We're proud of that, but the truth is, we win customers the old-fashioned way: by offering them an unbeatable deal.



— 2001
53%
(\$15,740,000,000)
Loan growth

— 2000
46%
(\$9,287,000,000)

— 1999
16%
(\$2,842,000,000)

— 1998
22%
(\$3,164,000,000)

— 1997
11%
(\$1,427,000,000)

— 1996
23%
(\$2,359,000,000)

— 1995
42%
(\$3,067,000,000)
Loan growth

Capital One continues to revolutionize the card industry. The latest example: the No-Hassle Platinum Card.



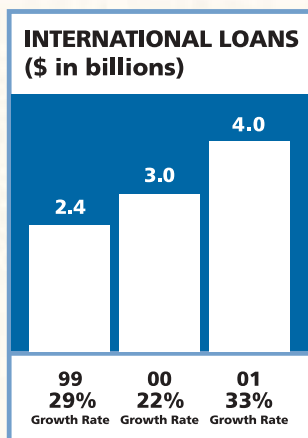
Two words for those who were impressed by last year's growth: **déjà vu.**

Whether you size up the market in euros, pounds or dollars, the need for affordable convenient consumer credit is universal—and growing. For five years we have been helping to meet that need and creating one more source of long-term growth for Capital One. We now have relationships with several million customers in the U.K., South Africa, Canada and France.

After only a few years in the U.K., Capital One is the country's eighth largest credit card issuer and is adding customers faster than any of its competitors. We have also been recognized as one of Britain's best employers and an outstanding corporate citizen.

Powered by the same information-based strategy (IBS) behind our U.S. success, Capital One's international business grew rapidly in 2001. Loan growth was up 33% to \$4.0 billion.

Europe's population and Gross Domestic Product exceed those of the U.S., but the consumer credit market is relatively undeveloped (roughly half the size of the U.S. market for consumer credit). We believe there is tremendous potential to grow our international business.



The great flexibility of IBS enables us to adapt products to suit cultural preferences, lower interest rates for most consumers and expand access to credit. By delivering these benefits, we are winning credit card customers overseas, and as we grow, we expect to steadily broaden our product lines to serve our customers' other financial needs.

11/2000
France

10/1998
South Africa

11/1996
Canada

7/1996
U.K.

Capital One is now operating in the U.K., France, Canada and South Africa—and customers throughout the world are using our products.



Last year our television campaign reached more than 95% of all American households.



We could tell you about our newest ad campaign, but chances are you've already seen it.

12/2001

92% brand awareness

12/2001

19 million see Capital One Bowl Week on ESPN™

11/2001

"Best Television Ad Campaign" CIMA Awards Card Marketing Magazine

10/2001

No-Hassle card launched

1/2001

Capital One Florida Citrus Bowl

9/2000

Brand campaign launches

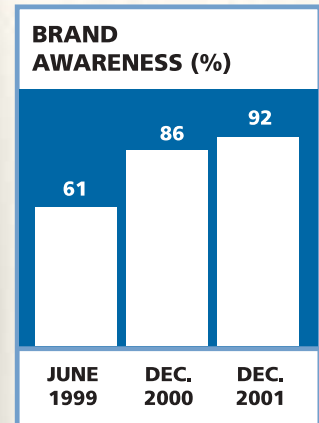
6/1999

61% brand awareness

In each quarter of last year our new ad campaign was seen by 95% of American households. And that was just one part of a marketing effort that made millions of impressions on consumers in 2001. But at Capital One, we ask our ad dollars to do more than merely increase awareness. At the end of the day, the real question is: "How well did it work?"

Almost everybody in the U.S. now recognizes our name and our tagline, "What's in your wallet?" Our television advertising has lifted brand awareness scores to the point where Capital One rivals old-line giants like American Express, Citibank® and Discover®. A strong brand makes Capital One a standout in the MasterCard and Visa® crowd and gives us a decided edge as we expand our product lines and Internet marketing.

Brand building is about more than just winning customers. It's also about delivering on promises. Consumers now know that they can count on Capital One for the best products and prices, great service, no hassles and no surprises in the fine print. Capital One's reputation, earned daily, adds to growth by winning customers and keeping their loyalty, attracting top talent and creating opportunities for mutually profitable alliances with leaders in other industries.





In 2001 Capital One acquired two new lending subsidiaries: Amerifee and PeopleFirst.

With the addition of new lending businesses, we didn't just grow, we multiplied.

Consumer lending is a natural extension of the credit card business and a huge long-term growth opportunity for Capital One. Of the \$7 trillion in U.S. consumer loans on the books in 2000, only \$555 billion—less than 10%—was in credit card balances. The rest was in auto loans, installment loans, financing for elective medical procedures, home equity loans and mortgages.

We entered the \$1 trillion auto finance market three years ago with an acquisition that brought us \$300 million in loans. In October 2001 we added \$710 million with the acquisition of PeopleFirst, the Internet's largest originator of auto loans. Capital One now has an auto finance portfolio of \$4 billion.

With installment loans, we're building from the ground up. We target low-risk borrowers and provide them with a very competitive rate. Our loan volume has tripled in three years. In other installment loan sectors we are selectively acquiring small, well-managed companies that we see as growth platforms. The most recent is Amerifree, the nation's leading provider of patient financing solutions for elective dental, orthodontic, vision and cosmetic procedures.

We believe we can succeed in consumer lending because it plays to our strengths in mass customization and direct marketing. These capabilities, combined with our information-based strategy (IBS), give us an advantage over most of our competitors, who still rely on a one-size-fits-all strategy. With these strengths and IBS, Capital One can grow profitably in consumer lending markets while cutting prices, just as it did in credit cards.

—12/2001

Capital One auto loans reach \$4.0 billion

12/2001

Capital One installment loans reach \$2.9 billion

—10/2001

acquired PeopleFirst

—5/2001

acquired Amerifree

—7/1998

acquired Summit Acceptance Corp.

September 20th— 7,000 of our associates fought terror with a telephone.

AMERICA A TRIBUTE TO HEROES

A few days after September 11, Capital One received a phone call from the organizers of *America: A Tribute to Heroes*, the celebrity telethon scheduled to air on September 20. The people slated to manage the phone banks during the broadcast had dropped out. Could we help?

In a matter of hours after a single company-wide e-mail, thousands of Capital One associates had volunteered their personal time to help in any way they could. Five hundred of them worked around the clock to get the phone technology in place. And on the night of the telethon, 7,000 more answered 300,000 calls from viewers wanting to make donations. This was the largest telethon event in history and in only eight hours raised \$150 million for disaster relief.

That night the public got a glimpse of something we feel every day: the spirit of Capital One. It's about seeing a need and filling it. Putting ideas into action. Doing whatever it takes, wherever and whenever it needs doing.

***America: A Tribute to Heroes* raised \$150 million in disaster relief for the families and victims of 9/11.**

— 9/21/01

telethon raises \$150,000,000

— 8 PM, 9/20/01

7,000 volunteer associates staff the phones

— 6 PM, 9/19/01

Call goes out to associates to help with the effort

— 9/18/01

Capital One coordinates largest call center effort in history

— 9/17/01

Capital One learns of telethon, "America: A Tribute to Heroes"

— 9/11/01



We were named among the “best places to work”

by several leading business magazines—
not to mention by our own people.

Capital One repeatedly makes the “best places to work” lists published in *FORTUNE*,[®] *Computerworld*[®] and a growing number of other publications. *FORTUNE* named us to its America’s Most Admired Companies list in 2001, and *The Sunday Times* of London ranks us as one of the three best employers in the U.K.

In annual employee satisfaction polls by an independent survey firm, Capital One regularly outscores its peers. Associates think we treat them well, they approve of our strategy, they like the culture and they consider Capital One a fun place to work.

We hire world-class people and give them every opportunity to show what they can accomplish. The culture is highly entrepreneurial, receptive to ideas from all quarters. Every year we give our in-house entrepreneurs the green light to test thousands of ideas in search of breakthrough innovations that will deliver value to consumers and growth to Capital One. Our compensation and advancement philosophy couldn’t be simpler: rewards follow results.

Capital One associates have the opportunity to go as far as their dreams and drive will take them. Recruiting will always be our highest priority because we know that great companies are made of great people—people who want to innovate, lead and develop their talents to the fullest.

Capital One invests substantial sums in the professional development of associates throughout the Company. This long-term corporate commitment recently was recognized by *Training*[®] magazine, which put us at the very top of its Training Top 50 for 2001.

Giving great people an opportunity to grow pays amazing dividends—in the community as well as in the Company. On their own time, the people of Capital One contribute their skills and energy to a wide range of endeavors to better their communities and help youth at risk. The Company supports these efforts with money, technology and leadership. In the U.K., Capital One recently received the government’s Business Excellence Award from Business in the Community, an honor given to only one company each year. By making a commitment to the professional development of our associates, we’re making a difference.

—10/2001

“Top 50
companies
for Minority
M.B.A.s”
—Minority MBA[®]
magazine

—6/2001

“100 Best Places
to Work in IT”
—Computerworld

—3/2001

#1 “Top Training
Organizations”
—Training magazine

—2/2001

#3 on the “50
Best Companies to
Work for in the
U.K.”
—The Sunday Times

—2/2001

National
Community
Service Award
—Points of Light
Foundation[®]

—1/2001

“100 Best
Places to Work
in America”
—FORTUNE



Awards and Accolades for Capital One in 2001

In 2001 Capital One ranked 327th in the *FORTUNE* 500.[®] It also earned places on three *Business Week*[®] lists measuring performance as well as size: 21st in the Nifty 50, 185th among U.S. companies and 356th in the Global 1,000.

Business Excellence Award Business in the Community (U.K.)

Card Marketing magazine 2001 CIMA awards, Best Television Ad Campaign

CIO 100, for innovation in IT

Computerworld, 100 Best Places to Work in IT

Credit Card Management, Issuer of the Year

Darwin, Fittest 50

Direct Marketing Association Financial Services Council,

Financial Services Company of the Year

Forbes 400, Best Big Companies in America

FORTUNE[®], 100 Best Companies to Work For in America[™]

FORTUNE, 25 Best Places to Work for Women

FORTUNE, America's Most Admired Companies

Hispanic Association of Colleges and Universities,

Emerging Partner

Information Week 500, Innovation in IT

Internet Week, Internet 100

Investor Relations, an unprecedented five commendations
for excellence

Minority MBA, Top 50

Points of Light Foundation[®], for contributions to the community

Smart Business 50

The Sunday Times and **FORTUNE**, Top 50 U.K. employers (#3)

Training magazine, Top 50 (#1)

Washingtonian, Best Places to Work

Worth, 50 Best CEOs

financial presentation **2001**

Selected Financial and Operating Data 21

*Management's Discussion and Analysis of
Financial Condition and Results of Operations* 22

Selected Quarterly Financial Data 39

*Management's Report on Consolidated
Financial Statements and Internal Controls
Over Financial Reporting* 40

Report of Independent Auditors 41

Consolidated Financial Statements 42

Notes to Consolidated Financial Statements 46

Selected Financial and Operating Data

| Year Ended December 31 (Dollars in Thousands, Except Per Share Data) | 2001 | 2000 | 1999 | 1998 | 1997 | Five-Year Compound Growth Rate |
|---|---------------|---------------|--------------|--------------|--------------|--------------------------------------|
| Income Statement Data: | | | | | | |
| Interest income | \$ 2,834,397 | \$ 2,389,902 | \$ 1,593,484 | \$ 1,111,536 | \$ 717,985 | 33.82% |
| Interest expense | 1,171,007 | 801,017 | 540,882 | 424,284 | 341,849 | 31.75 |
| Net interest income | 1,663,390 | 1,588,885 | 1,052,602 | 687,252 | 376,136 | 35.40 |
| Provision for loan losses | 989,836 | 718,170 | 382,948 | 267,028 | 262,837 | 42.71 |
| Net interest income after provision for loan losses | 673,554 | 870,715 | 669,654 | 420,224 | 113,299 | 27.71% |
| Non-interest income | 4,419,893 | 3,034,416 | 2,372,359 | 1,488,283 | 1,069,130 | 42.08 |
| Non-interest expense | 4,058,027 | 3,147,657 | 2,464,996 | 1,464,586 | 876,976 | 41.59 |
| Income before income taxes | 1,035,420 | 757,474 | 577,017 | 443,921 | 305,453 | 33.03 |
| Income taxes | 393,455 | 287,840 | 213,926 | 168,690 | 116,072 | 33.38 |
| Net income | \$ 641,965 | \$ 469,634 | \$ 363,091 | \$ 275,231 | \$ 189,381 | 32.83 |
| Dividend payout ratio | 3.48% | 4.43% | 5.69% | 7.46% | 10.90% | |
| Per Common Share: | | | | | | |
| Basic earnings | \$ 3.06 | \$ 2.39 | \$ 1.84 | \$ 1.40 | \$.96 | 31.44% |
| Diluted earnings | 2.91 | 2.24 | 1.72 | 1.32 | .93 | 30.46 |
| Dividends | .11 | .11 | .11 | .11 | .11 | |
| Book value as of year-end | 15.40 | 9.94 | 7.69 | 6.45 | 4.55 | |
| Average common shares | 209,866,782 | 196,477,624 | 197,593,371 | 196,768,929 | 198,209,691 | |
| Average common and common equivalent shares | 220,576,093 | 209,448,697 | 210,682,740 | 208,765,296 | 202,952,592 | |
| Selected Average Balances: | | | | | | |
| Securities | \$ 3,038,360 | \$ 1,764,257 | \$ 2,027,051 | \$ 1,877,276 | \$ 1,650,961 | 21.51% |
| Allowance for loan losses | (637,789) | (402,208) | (269,375) | (214,333) | (132,728) | 50.15 |
| Total assets | 23,346,309 | 15,209,585 | 11,085,013 | 8,330,432 | 6,568,937 | 33.20 |
| Interest-bearing deposits | 10,373,511 | 5,339,474 | 2,760,536 | 1,430,042 | 958,885 | 58.22 |
| Borrowings | 8,056,665 | 6,870,038 | 6,078,480 | 5,261,588 | 4,440,393 | 17.33 |
| Stockholders' equity | 2,781,182 | 1,700,973 | 1,407,899 | 1,087,983 | 824,077 | 32.67 |
| Selected Year-End Balances: | | | | | | |
| Securities | \$ 3,467,449 | \$ 1,859,029 | \$ 1,968,853 | \$ 2,080,980 | \$ 1,475,354 | |
| Consumer loans | 20,921,014 | 15,112,712 | 9,913,549 | 6,157,111 | 4,861,687 | |
| Allowance for loan losses | (840,000) | (527,000) | (342,000) | (231,000) | (183,000) | |
| Total assets | 28,184,047 | 18,889,341 | 13,336,443 | 9,419,403 | 7,078,279 | |
| Interest-bearing deposits | 12,838,968 | 8,379,025 | 3,783,809 | 1,999,979 | 1,313,654 | |
| Borrowings | 9,330,757 | 6,976,535 | 6,961,014 | 5,481,593 | 4,526,550 | |
| Stockholders' equity | 3,323,478 | 1,962,514 | 1,515,607 | 1,270,406 | 893,259 | |
| Managed Consumer Loan Data: | | | | | | |
| Average reported loans | \$ 17,284,306 | \$ 11,487,776 | \$ 7,667,355 | \$ 5,348,559 | \$ 4,103,036 | 36.47% |
| Average off-balance sheet loans | 18,328,011 | 11,147,086 | 10,379,558 | 9,860,978 | 8,904,146 | 19.20 |
| Average total managed loans | 35,612,317 | 22,634,862 | 18,046,913 | 15,209,537 | 13,007,182 | 25.88 |
| Interest income | 5,513,166 | 4,034,882 | 3,174,057 | 2,583,872 | 2,045,967 | 27.09 |
| Year-end total managed loans | 45,263,963 | 29,524,026 | 20,236,588 | 17,395,126 | 14,231,015 | 28.73 |
| Year-end total accounts (000s) | 43,815 | 33,774 | 23,705 | 16,706 | 11,747 | 38.54 |
| Yield | 15.48% | 17.83% | 17.59% | 16.99% | 15.73% | |
| Net interest margin | 9.04 | 10.71 | 10.83 | 9.91 | 8.81 | |
| Delinquency rate | 4.95 | 5.23 | 5.23 | 4.70 | 6.20 | |
| Net charge-off rate | 4.04 | 3.90 | 3.85 | 5.33 | 6.59 | |
| Operating Ratios: | | | | | | |
| Return on average assets | 2.75% | 3.09% | 3.28% | 3.30% | 2.88% | |
| Return on average equity | 23.08 | 27.61 | 25.79 | 25.30 | 22.98 | |
| Equity to assets (average) | 11.91 | 11.18 | 12.70 | 13.06 | 12.55 | |
| Allowance for loan losses to loans as of year-end | 4.02 | 3.49 | 3.45 | 3.75 | 3.76 | |

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 market a variety of financial 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 December 31, 2001, the Company had 43.8 million accounts and \$45.3 billion in managed consumer loans outstanding and was one of the largest providers of MasterCard and Visa credit cards in the world.

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

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

EARNINGS SUMMARY

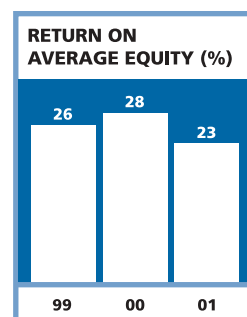
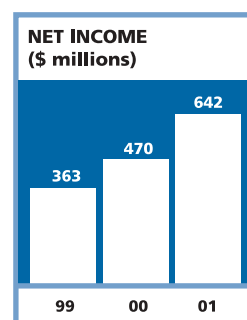
The following discussion provides a summary of 2001 results compared to 2000 results and 2000 results compared to 1999 results. Each component is discussed in further detail in subsequent sections of this analysis.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Net income of \$642.0 million, or \$2.91 per share, for the year ended December 31, 2001, compares to net income of \$469.6 million, or \$2.24 per share, in 2000. The \$172.4 million, or 37%, increase in net income is primarily the result of an increase in asset and account volumes. Net interest income increased \$74.5 million, or 5%, as the average reported earning assets increased 56% while the net interest margin decreased to 8.03% from 11.99%. The provision for loan losses increased \$271.6 million, or 38%, as average reported consumer loans increased 50% and the reported net charge-off rate decreased 64 basis points to 4.00% in 2001 from 4.64% in 2000. Non-interest income increased \$1.4 billion, or 46%, primarily due to an increase in the average off-balance sheet loan portfolio (increasing servicing and securitizations income), the increase in average accounts of 39%, as well as a shift in the mix of the reported and off-balance sheet portfolios. Marketing expenses increased \$176.8 million, or 20%, to \$1.1 billion to reflect the increase in marketing investment in existing and new product opportunities. Salaries and associate benefits expense increased \$368.7 million, or 36%, to \$1.4 billion as a direct result of the cost of operations to manage the growth in the Company's accounts and products offered. Average managed consumer loans grew 57% for the year ended December 31, 2001, to \$35.6 billion from \$22.6 billion for the year ended December 31, 2000, and average accounts grew 39% for the same period as a result of the continued success of the Company's marketing and account management strategies.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Net income of \$469.6 million, or \$2.24 per share, for the year ended December 31, 2000, compares to net income of \$363.1 million, or \$1.72 per share, in 1999. The \$106.5 million, or 29%, increase in net income is primarily the result of an increase in both asset and account volumes and an increase in net interest margin. Net interest income increased \$536.3 million, or 51%, as average earning assets increased 37% and the net interest margin increased to 11.99% from 10.86%. The provision for loan losses increased \$335.2 million, or 88%, as the average reported consumer loans increased 50% combined with the reported net



charge-off rate increase to 4.64% in 2000 from 3.59% in 1999. Non-interest income increased \$662.1 million, or 28%, primarily due to the increase in average accounts of 41%. Increases in marketing expenses of \$174.2 million, or 24%, and salaries and benefits expense of \$243.2 million, or 31%, reflect the increase in marketing investment in existing and new product opportunities and the cost of operations to manage the growth in the Company's accounts and products offered. Average managed consumer loans grew 25% for the year ended December 31, 2000, to \$22.6 billion from \$18.0 billion for the year ended December 31, 1999, and average accounts grew 41% for the same period as a result of the continued success of the Company's marketing and account management strategies.

MANAGED CONSUMER LOAN PORTFOLIO

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

The Company's managed consumer loan portfolio is comprised of reported and off-balance sheet loans. Off-balance sheet loans are those which have been securitized and accounted for as sales in accordance with Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"), and are not assets of the Company. Therefore, those loans are not shown on the balance sheet. SFAS 140 replaced SFAS 125 and was effective for securitization transactions occurring after March 31, 2001. SFAS 140 revised the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain additional disclosures; however, most of the provisions of SFAS 125 have been carried forward without amendment. Accordingly, the Company has modified or implemented several of its securitization trust agreements, and may modify or implement others, to meet the new requirements to continue recognizing transfers of consumer loans to special-purpose entities as sales. The adoption of SFAS 140 did not have a material effect on the results of the Company's operations.

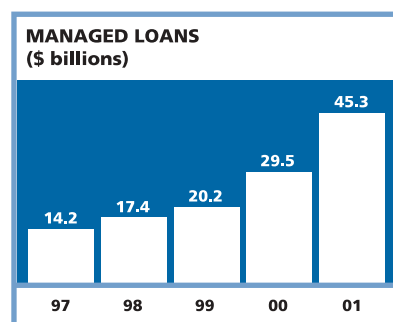
Table 1 summarizes the Company's managed consumer loan portfolio.

table 1: Managed Consumer Loan Portfolio

| Year Ended December 31 (In Thousands) | 2001 | 2000 | 1999 | 1998 | 1997 |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Year-End Balances: | | | | | |
| Reported consumer loans: | | | | | |
| Domestic | \$ 18,541,819 | \$ 12,580,973 | \$ 7,783,535 | \$ 4,569,664 | \$ 4,441,740 |
| Foreign | 2,379,195 | 2,531,739 | 2,130,014 | 1,587,447 | 419,947 |
| Total | 20,921,014 | 15,112,712 | 9,913,549 | 6,157,111 | 4,861,687 |
| Off-balance sheet loans: | | | | | |
| Domestic | 22,747,293 | 13,961,714 | 10,013,424 | 10,933,984 | 9,369,328 |
| Foreign | 1,595,656 | 449,600 | 309,615 | 304,031 | |
| Total | 24,342,949 | 14,411,314 | 10,323,039 | 11,238,015 | 9,369,328 |
| Managed consumer loan portfolio: | | | | | |
| Domestic | 41,289,112 | 26,542,687 | 17,796,959 | 15,503,648 | 13,811,068 |
| Foreign | 3,974,851 | 2,981,339 | 2,439,629 | 1,891,478 | 419,947 |
| Total | \$ 45,263,963 | \$ 29,524,026 | \$ 20,236,588 | \$ 17,395,126 | \$ 14,231,015 |
| Average Balances: | | | | | |
| Reported consumer loans: | | | | | |
| Domestic | \$ 14,648,298 | \$ 9,320,165 | \$ 5,784,662 | \$ 4,336,757 | \$ 3,914,839 |
| Foreign | 2,636,008 | 2,167,611 | 1,882,693 | 1,011,802 | 188,197 |
| Total | 17,284,306 | 11,487,776 | 7,667,355 | 5,348,559 | 4,103,036 |
| Off-balance sheet loans: | | | | | |
| Domestic | 17,718,683 | 10,804,845 | 10,062,771 | 9,773,284 | 8,904,146 |
| Foreign | 609,328 | 342,241 | 316,787 | 87,694 | |
| Total | 18,328,011 | 11,147,086 | 10,379,558 | 9,860,978 | 8,904,146 |
| Managed consumer loan portfolio: | | | | | |
| Domestic | 32,366,981 | 20,125,010 | 15,847,433 | 14,110,041 | 12,818,985 |
| Foreign | 3,245,336 | 2,509,852 | 2,199,480 | 1,099,496 | 188,197 |
| Total | \$ 35,612,317 | \$ 22,634,862 | \$ 18,046,913 | \$ 15,209,537 | \$ 13,007,182 |

The Company actively engages in off-balance sheet consumer loan securitization transactions. Securitizations involve the transfer of a pool of loan receivables by the Company 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 interest-only strips, subordinated interests in the pool of receivables, cash collateral accounts, and accrued but unbilled interest on the pool of receivables. Securities (\$24.3 billion outstanding as of December 31, 2001) representing undivided interests in the pool of consumer loan 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. In certain securitizations, the Company retains an interest in the trust (“seller’s interest”) equal to the amount of the outstanding receivables transferred to the trust in excess of the principal balance of the securities outstanding. For revolving securitizations, the Company’s undivided 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. A securitization of amortizing assets, such as auto loans, generally does not include a seller’s interest. A securitization

accounted for as a sale in accordance with SFAS 140 generally results in the removal of the receivables, other than any applicable seller’s interest, from the Company’s balance sheet for financial and regulatory accounting purposes.



Collections received from securitized receivables are used to pay interest to investors, servicing and other fees, and are available to absorb the investors’ share of credit losses. For revolving securitizations, amounts collected in excess of that needed to pay the above amounts are remitted to the Company, as described in servicing and securitizations income. For amortizing securitizations, amounts in excess of the amount that is used to pay interest, fees and principal are generally remitted to the Company, but may be paid to investors in further reduction of their outstanding principal as described below.

Investors in the Company’s revolving securitization program are generally entitled to receive principal payments either in one lump sum after an accumulation period or through monthly payments during an amortization period. Amortization may begin sooner in

certain circumstances, including the possibility of the annualized portfolio yield (generally consisting of interest and fees) for a three-month period dropping below the sum of the security rate payable to investors, loan servicing fees and net credit losses during the period. Increases in net credit losses and payment rates could significantly decrease the spread and cause early amortization. At December 31, 2001, the annualized portfolio yields on the Company’s off-balance sheet securitizations sufficiently exceeded the sum of the related security rate payable to investors, loan servicing fees and net credit losses, and as such, early amortizations of its off-balance sheet securitizations were not expected.

In revolving securitizations, prior to the commencement of the amortization or accumulation period, the investors’ share of the principal payments received on the trusts’ receivables are reinvested in new receivables to maintain the principal balance of the securities. During the amortization period, the investors’ share of principal payments is paid to the security holders until the securities are repaid. When the trust allocates principal payments to the security holders, the Company’s reported consumer loans increase by the new amount on any new activity on the accounts. During the accumulation period, the investors’ share of principal payments is paid into a principal funding account designed to accumulate principal collections so that the securities can be paid in full on the expected final payment date.

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

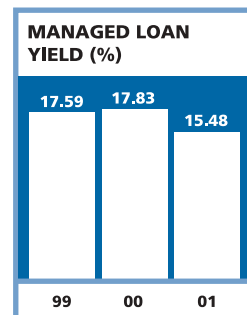
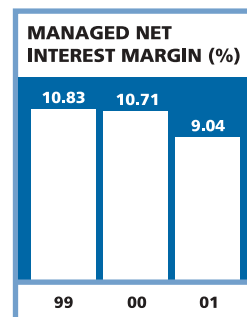
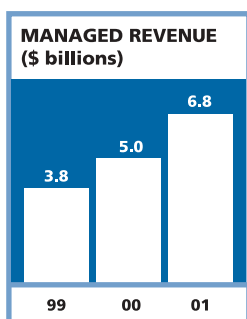


table 2: Operating Data and Ratios

| Year Ended December 31 (Dollars in Thousands) | 2001 | 2000 | 1999 |
|--|---------------|---------------|---------------|
| Reported: | | | |
| Average earning assets | \$ 20,706,172 | \$ 13,252,033 | \$ 9,694,406 |
| Net interest margin | 8.03% | 11.99% | 10.86% |
| Loan yield | 15.29 | 19.91 | 19.33 |
| Managed: | | | |
| Average earning assets | \$ 38,650,677 | \$ 24,399,119 | \$ 20,073,964 |
| Net interest margin | 9.04% | 10.71% | 10.83% |
| Loan yield | 15.48 | 17.83 | 17.59 |



RISK ADJUSTED REVENUE AND MARGIN

The Company's products are designed with the objective of maximizing customer value while optimizing 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. These measures consider 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 the Company's portfolio.

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

By applying its IBS and in response to dynamic competitive pressures, the Company also concentrates a significant amount of its marketing expense to other credit card product opportunities. Examples of such products include secured cards, lifestyle cards, co-branded cards, student cards and other cards marketed to certain consumer populations that the Company feels are underserved by the Company's competitors. These products do not have a significant, immediate impact on managed loan balances; rather they typically consist of lower credit limit accounts and balances that build over time. The terms of these customized card products tend to include membership fees and higher annual finance charge rates. The profile of the consumer populations that these

products are marketed to, in some cases, may also tend to result in higher account delinquency rates and consequently higher past-due and overlimit fees as a percentage of loan receivables outstanding than the low non-introductory rate products.

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

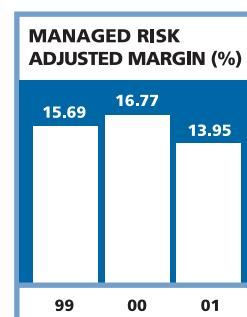
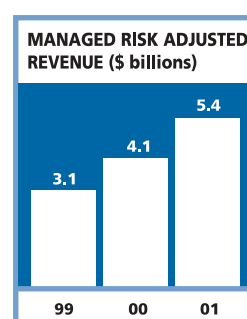


table 3: Managed Risk Adjusted Revenue

| Year Ended December 31 (Dollars in Thousands) | 2001 | 2000 | 1999 |
|---|--------------|--------------|--------------|
| Managed Income Statement: | | | |
| Net interest income | \$ 3,492,620 | \$ 2,614,321 | \$ 2,174,726 |
| Non-interest income | 3,337,397 | 2,360,111 | 1,668,381 |
| Net charge-offs | (1,438,370) | (883,667) | (694,073) |
| Risk adjusted revenue | \$ 5,391,647 | \$ 4,090,765 | \$ 3,149,034 |
| Ratios:⁽¹⁾ | | | |
| Net interest income | 9.04% | 10.71% | 10.83% |
| Non-interest income | 8.63 | 9.67 | 8.31 |
| Net charge-offs | (3.72) | (3.62) | (3.45) |
| Risk adjusted margin | 13.95% | 16.77% | 15.69% |

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

NET INTEREST INCOME

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

Reported net interest income for the year ended December 31, 2001, was \$1.7 billion compared to \$1.6 billion for 2000, representing an increase of \$74.5 million, or 5%. Net interest income increased as a result of growth in earning assets. Average earning assets increased 56% for the year ended December 31, 2001, to \$20.7 billion from \$13.3 billion for the year ended December 31, 2000. The reported net interest margin decreased to 8.03% in 2001, from 11.99% in 2000 primarily attributable to a 462 basis point decrease in the yield on consumer loans to 15.29% for the year ended December 31, 2001, from 19.91% for the year ended December 31, 2000. The yield on consumer loans decreased primarily due to a shift in the mix of the reported portfolio toward a greater composition of lower yielding, higher credit quality loans, a decrease in the frequency of past-due fees and a selective increase in the use of low introductory rates as compared to the prior year.

The managed net interest margin for the year ended December 31, 2001, decreased to 9.04% from 10.71% for the year ended December 31, 2000. This decrease was primarily the result of a 234 basis point decrease in consumer loan yield for the year ended December 31, 2001. The decrease in consumer loan yield to 15.48% for the year ended December 31, 2001, from 17.83% in 2000 was due to a shift in the mix of the managed portfolio to lower yielding, higher credit quality loans, as well as an increase in the amount of low introductory rate balances as compared to the prior year.

Reported net interest income for the year ended December 31, 2000, was \$1.6 billion, compared to \$1.1 billion for 1999, representing an increase of \$536.3 million, or 51%. Net interest income increased as a result of growth in earning assets and an increase in the net interest margin. Average earning assets increased 37% for the year ended December 31, 2000, to \$13.3 billion from \$9.7 billion for the year ended December 31, 1999. The reported net interest margin increased to 11.99% in 2000, from 10.86% in 1999 and was primarily attributable to a 58 basis point increase in the yield on consumer loans to 19.91% for the year ended December 31, 2000, from 19.33% for the year ended December 31, 1999. The yield on consumer loans increased primarily due to an increase in the frequency of past-due fees and a slight shift in the mix of the portfolio to higher yielding assets as compared to the prior year.

The managed net interest margin for the year ended December 31, 2000, decreased to 10.71% from 10.83% for the year ended December 31, 1999. This decrease was primarily the result of an increase of 74 basis points in borrowing costs to 6.53% in 2000, from 5.79% in 1999, offset by a 24 basis point increase in consumer loan yield for the year ended December 31, 2000. The increase in consumer loan yield to 17.83% for the year ended December 31, 2000, from 17.59% in 1999 was primarily the result of an increase in the frequency of past-due fees as compared to the prior year.

Table 4 provides average balance sheet data, an analysis of net interest income, net interest spread (the difference between the yield on earning assets and the cost of interest-bearing liabilities) and net interest margin for each of the years ended December 31, 2001, 2000 and 1999.

table 4: Statements of Average Balances, Income and Expense, Yields and Rates

| Year Ended December 31 | 2001 | | | 2000 | | | 1999 | | |
|--|-----------------|----------------|------------|-----------------|----------------|------------|-----------------|----------------|------------|
| (Dollars in Thousands) | Average Balance | Income/Expense | Yield/Rate | Average Balance | Income/Expense | Yield/Rate | Average Balance | Income/Expense | Yield/Rate |
| Assets: | | | | | | | | | |
| Earning assets | | | | | | | | | |
| Consumer loans ⁽¹⁾ | | | | | | | | | |
| Domestic | \$14,648,298 | \$2,257,183 | 15.41% | \$ 9,320,165 | \$ 1,996,968 | 21.43% | \$ 5,784,662 | \$ 1,260,313 | 21.79% |
| Foreign | 2,636,008 | 358,584 | 14.63% | 2,167,611 | 289,806 | 13.37% | 1,882,693 | 222,058 | 11.79% |
| Total | 17,284,306 | 2,642,767 | 15.29% | 11,487,776 | 2,286,774 | 19.91% | 7,667,355 | 1,482,371 | 19.33% |
| Securities available for sale | 2,526,529 | 138,188 | 5.47 | 1,611,582 | 96,554 | 5.99 | 1,852,826 | 105,438 | 5.69% |
| Other | | | | | | | | | |
| Domestic | 593,050 | 45,877 | 7.74% | 107,416 | 5,993 | 5.58% | 151,029 | 5,295 | 3.51% |
| Foreign | 302,287 | 7,565 | 2.50% | 45,259 | 581 | 1.28% | 23,196 | 380 | 1.64% |
| Total | 895,337 | 53,442 | 5.97% | 152,675 | 6,574 | 4.31% | 174,225 | 5,675 | 3.26% |
| Total earning assets | 20,706,172 | \$2,834,397 | 13.69% | 13,252,033 | \$ 2,389,902 | 18.03% | 9,694,406 | \$ 1,593,484 | 16.44% |
| Cash and due from banks | 171,392 | | | 103,390 | | | 17,046 | | |
| Allowance for loan losses | (637,789) | | | (402,208) | | | (269,375) | | |
| Premises and equipment, net | 735,282 | | | 549,133 | | | 366,709 | | |
| Other | 2,371,252 | | | 1,707,237 | | | 1,276,227 | | |
| Total assets | \$23,346,309 | | | \$15,209,585 | | | \$11,085,013 | | |
| Liabilities and Equity: | | | | | | | | | |
| Interest-bearing liabilities | | | | | | | | | |
| Deposits | | | | | | | | | |
| Domestic | \$ 9,700,132 | \$ 594,183 | 6.13% | \$ 5,313,178 | \$ 322,497 | 6.07% | \$ 2,760,536 | \$ 137,792 | 4.99% |
| Foreign | 673,379 | 46,287 | 6.87% | 26,296 | 1,511 | 5.75% | | | |
| Total | 10,373,511 | 640,470 | 6.17% | 5,339,474 | 324,008 | 6.07% | 2,760,536 | 137,792 | 4.99% |
| Senior notes | 5,064,356 | 357,495 | 7.06% | 3,976,623 | 274,975 | 6.91% | 4,391,438 | 302,698 | 6.89% |
| Other borrowings | | | | | | | | | |
| Domestic | 2,551,996 | 145,316 | 5.69% | 2,011,295 | 142,355 | 7.08% | 1,398,397 | 82,508 | 5.90% |
| Foreign | 440,313 | 27,726 | 6.30% | 882,120 | 59,679 | 6.77% | 288,645 | 17,884 | 6.20% |
| Total | 2,992,309 | 173,042 | 5.78% | 2,893,415 | 202,034 | 6.98% | 1,687,042 | 100,392 | 5.95% |
| Total interest-bearing liabilities | 18,430,176 | \$1,171,007 | 6.35% | 12,209,512 | \$ 801,017 | 6.56% | 8,839,016 | \$ 540,882 | 6.12% |
| Other | 2,134,951 | | | 1,299,100 | | | 838,098 | | |
| Total liabilities | 20,565,127 | | | 13,508,612 | | | 9,677,114 | | |
| Equity | 2,781,182 | | | 1,700,973 | | | 1,407,899 | | |
| Total liabilities and equity | \$23,346,309 | | | \$15,209,585 | | | \$11,085,013 | | |
| Net interest spread | | | 7.34% | | | 11.47% | | | 10.32% |
| Interest income to average earning assets | | | 13.69 | | | 18.03 | | | 16.44 |
| Interest expense to average earning assets | | | 5.66 | | | 6.04 | | | 5.58 |
| Net interest margin | | | 8.03% | | | 11.99% | | | 10.86% |

(1) Interest income includes past-due fees on loans of approximately \$709,596, \$780,014 and \$478,918 for the years ended December 31, 2001, 2000 and 1999, 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 and decreases in interest income and interest expense resulting from changes in the volume of earning assets and interest-bearing liabilities and from changes in yields and rates.

table 5: Interest Variance Analysis

| Year Ended December 31 (Dollars in Thousands) | 2001 vs. 2000 | | | 2000 vs. 1999 | | |
|--|------------------------|------------|--|------------------------|------------|--|
| | Increase (Decrease) | Volume | Change Due to ⁽¹⁾ Yield/Rate | Increase (Decrease) | Volume | Change Due to ⁽¹⁾ Yield/Rate |
| Interest Income: | | | | | | |
| Consumer loans | | | | | | |
| Domestic | \$ 260,215 | \$ 926,633 | \$ (666,418) | \$ 736,655 | \$ 757,865 | \$ (21,210) |
| Foreign | 95,778 | 66,728 | 29,050 | 67,748 | 35,989 | 31,759 |
| Total | 355,993 | 970,541 | (614,548) | 804,403 | 759,271 | 45,132 |
| Securities available for sale | 41,634 | 50,678 | (9,044) | (8,884) | (14,244) | 5,360 |
| Other | | | | | | |
| Domestic | 39,884 | 36,743 | 3,141 | 698 | (1,826) | 2,524 |
| Foreign | 6,984 | 5,984 | 1,000 | 201 | 298 | (97) |
| Total | 46,868 | 43,420 | 3,448 | 899 | (765) | 1,664 |
| Total interest income | 444,495 | 1,117,519 | (673,024) | 796,418 | 629,696 | 166,722 |
| Interest Expense: | | | | | | |
| Deposits | | | | | | |
| Domestic | 271,686 | 268,697 | 2,989 | 184,705 | 149,727 | 34,978 |
| Foreign | 44,776 | 44,422 | 354 | 1,511 | 1,511 | |
| Total | 316,462 | 310,709 | 5,753 | 186,216 | 151,286 | 34,930 |
| Senior notes | 82,520 | 76,672 | 5,848 | (27,723) | (28,681) | 958 |
| Other borrowings | | | | | | |
| Domestic | 2,961 | 33,938 | (30,977) | 59,847 | 41,121 | 18,726 |
| Foreign | (31,953) | (28,072) | (3,881) | 41,795 | 40,006 | 1,788 |
| Total | (28,992) | 6,708 | (35,700) | 101,642 | 81,806 | 19,836 |
| Total interest expense | 369,990 | 395,995 | (26,005) | 260,135 | 218,759 | 41,376 |
| Net interest income ⁽¹⁾ | \$ 74,505 | \$ 707,857 | \$ (633,352) | \$ 536,283 | \$ 417,642 | \$ 118,641 |

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

SERVICING AND SECURITIZATIONS INCOME

In accordance with SFAS 140, the Company records gains or losses on the off-balance sheet 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. Retained interests in securitized assets include interest-only strips, retained subordinated interests in the transferred pool of receivables, cash collateral accounts and accrued but unbilled interest on the investors' share of the pool of receivables. Gains represent the present value of estimated excess cash flows the Company will receive over the estimated life of the receivables and are included in servicing and securitizations income. Essentially, this excess cash flow represents an interest-only strip, consisting of the excess of finance charges and past-due fees over the sum of the return paid to investors, estimated contractual servicing

fees and credit losses. The credit risk exposure on retained interests exceeds the pro rata share of the Company's interest in the pool of receivables. However, exposure to credit losses on the securitized loans is contractually limited to the retained interests.

Servicing and securitizations income represents servicing fees, excess spread and other fees relating to the pool of loan receivables sold through securitization transactions, as well as gains and losses recognized as a result of the securitization transactions. Servicing and securitizations income increased \$1.3 billion, or 112%, to \$2.4 billion for the year ended December 31, 2001, from \$1.2 billion in 2000. This increase was primarily due to a 64% increase in the average off-balance sheet loan portfolio and a shift in the mix of that portfolio toward higher yielding, lower credit quality loans to more closely reflect the composition of the managed portfolio.

Servicing and securitizations income decreased \$34.7 million, or 3%, to \$1.2 billion for the year ended December 31, 2000, compared to 1999. This decrease was primarily due to an increase in net charge-offs on such loans as a result of the seasoning of accounts combined with a change in customer usage patterns, resulting in decreases of certain fees.

Certain estimates inherent in the determination of the fair value of the retained interests 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 140 will be dependent on the timing and amount of future securitizations. The Company intends to continuously assess the performance of new and existing securitization transactions as estimates of future cash flows change.

OTHER NON-INTEREST INCOME

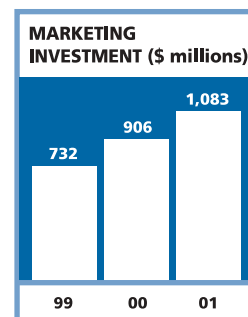
Interchange income increased \$142.0 million, or 60%, to \$379.8 million for the year ended December 31, 2001, from \$237.8 million in 2000. This increase was primarily attributable to increased purchase volume and new account growth for the year ended December 31, 2001. Service charges and other customer-related fees decreased by \$45.3 million, or 3%, to \$1.6 billion for the year ended December 31, 2001. This decrease was primarily due to the shift in the mix of the reported loan portfolio toward a greater composition of lower fee-generating loans, offset by a 39% increase in the average number of accounts in 2001.

Interchange income increased \$93.5 million, or 65%, to \$237.8 million for the year ended December 31, 2000, from \$144.3 million in 1999. Service charges and other customer-related fees increased to \$1.6 billion, or 58%, for the year ended December 31, 2000, compared to \$1.0 billion for the year ended December 31, 1999. These increases were primarily due to a 41% increase in the average number of accounts for the year ended December 31, 2000, from 1999, an increase in purchase volume, customer usage patterns and increased purchases of cross-sell products.

NON-INTEREST EXPENSE

Non-interest expense for the year ended December 31, 2001, increased \$910.4 million, or 29%, to \$4.1 billion from \$3.1 billion for the year ended December 31, 2000. Contributing to the increase in non-interest expense were marketing expenses, which increased \$176.8 million, or 20%, to \$1.1 billion in 2001, from \$906.1 million in 2000. The increase in marketing expenses during 2001 reflects the Company's continued identification of and investments in opportunities for growth, as well as our marketing extension into television advertisements. Salaries and associate benefits increased \$368.7 million, or 36%, to \$1.4 billion in 2001, from \$1.0 billion in 2000, as the Company added approximately 2,400 net new associates to our staffing levels to manage the growth in the Company's accounts. All other non-interest expenses increased \$364.8 million, or 30%, to \$1.6 billion for the year ended December 31, 2001, from \$1.2 billion in 2000. The increase in other non-interest

expenses was primarily composed of increased depreciation expense due to premises and equipment growth, increased collections costs as a result of increased collection and recovery efforts, and non-recurring expenses such as the write-off of an investment in an ancillary business as well as costs associated with the mailing of amendments to customer account agreements. The increase was also driven by the 39% increase in average accounts.



Non-interest expense for the year ended December 31, 2000, increased \$682.7 million, or 28%, to \$3.1 billion from \$2.5 billion for the year ended December 31, 1999. Contributing to the increase in non-interest expense were marketing expenses which increased \$174.2 million, or 24%, to \$906.1 million in 2000, from \$731.9 million in 1999. The increase in marketing expenses during 2000 reflects the Company's continued identification of and investments in opportunities for growth. Salaries and associate benefits increased \$243.2 million, or 31%, to \$1.0 billion in 2000, from \$780.2 million in 1999, as the Company added approximately 3,800 net new associates to our staffing levels to manage the growth in the Company's accounts. All other non-interest expenses increased \$265.2 million, or 28%, to \$1.2 billion for the year ended December 31, 2000, from \$952.9 million in 1999. The increase in other non-interest expense, as well as the increase in salaries and associate benefits, was primarily a result of a 41% increase in the average number of accounts for the year ended December 31, 2000, and the Company's continued exploration and testing of new products and markets.

INCOME TAXES

The Company's income tax rate was 38%, 38% and 37%, for the years ended December 31, 2001, 2000 and 1999, respectively. The effective rate includes both state and federal income tax components.

ASSET QUALITY

The asset quality of a portfolio is generally a function of the initial underwriting criteria used, levels of competition, account management activities and demographic concentration, as well as general economic conditions. The seasoning of the accounts is also an important factor in the delinquency and loss levels of the portfolio. Accounts tend to exhibit a rising trend of delinquency and credit losses as they season. As of December 31, 2001 and 2000, 58% and 60% of managed accounts, respectively, representing 51% of the total managed loan balance, were less than eighteen months old. Accordingly, it is likely that the Company's managed loan portfolio could experience increased levels of delinquency and credit losses as the average age of the Company's accounts increases.

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

During 2001, general economic conditions for consumer credit deteriorated slightly as industry levels of charge-offs (including bankruptcies) and delinquencies both increased. These trends did not have a material impact on the Company's 2001 results.

DELINQUENCIES

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

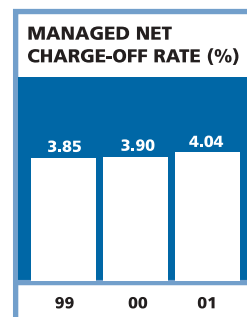
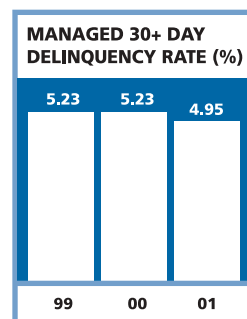
table 6: Delinquencies

| As of December 31 | 2001 | | 2000 | | 1999 | | 1998 | | 1997 | |
|--------------------------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|
| (Dollars in Thousands) | Loans | % of Total Loans | Loans | % of Total Loans | Loans | % of Total Loans | Loans | % of Total Loans | Loans | % of Total Loans |
| Reported: | | | | | | | | | | |
| Loans outstanding | \$ 20,921,014 | 100.00% | \$ 15,112,712 | 100.00% | \$ 9,913,549 | 100.00% | \$ 6,157,111 | 100.00% | \$ 4,861,687 | 100.00% |
| Loans delinquent: | | | | | | | | | | |
| 30–59 days | 494,871 | 2.37 | 418,967 | 2.77 | 236,868 | 2.39 | 123,162 | 2.00 | 104,216 | 2.14 |
| 60–89 days | 233,206 | 1.11 | 242,770 | 1.61 | 129,251 | 1.30 | 67,504 | 1.10 | 64,217 | 1.32 |
| 90 or more days | 284,480 | 1.36 | 435,574 | 2.88 | 220,513 | 2.23 | 98,798 | 1.60 | 99,667 | 2.05 |
| Total | \$ 1,012,557 | 4.84% | \$ 1,097,311 | 7.26% | \$ 586,632 | 5.92% | \$ 289,464 | 4.70% | \$ 268,100 | 5.51% |
| Loans delinquent by geographic area: | | | | | | | | | | |
| Domestic | 930,077 | 5.02% | 1,034,995 | 8.23% | 533,081 | 6.85% | 264,966 | 5.80% | 264,942 | 5.96% |
| Foreign | 82,480 | 3.47% | 62,316 | 2.46% | 53,551 | 2.51% | 24,498 | 1.54% | 3,158 | 0.75% |
| Managed: | | | | | | | | | | |
| Loans outstanding | \$ 45,263,963 | 100.00% | \$ 29,524,026 | 100.00% | \$ 20,236,588 | 100.00% | \$ 17,395,126 | 100.00% | \$ 14,231,015 | 100.00% |
| Loans delinquent: | | | | | | | | | | |
| 30–59 days | 934,681 | 2.06 | 605,040 | 2.05 | 416,829 | 2.06 | 329,239 | 1.89 | 327,407 | 2.30 |
| 60–89 days | 502,959 | 1.11 | 349,250 | 1.18 | 238,476 | 1.18 | 182,982 | 1.05 | 213,726 | 1.50 |
| 90 or more days | 804,007 | 1.78 | 590,364 | 2.00 | 403,464 | 1.99 | 305,589 | 1.76 | 340,887 | 2.40 |
| Total | \$ 2,241,647 | 4.95% | \$ 1,544,654 | 5.23% | \$ 1,058,769 | 5.23% | \$ 817,810 | 4.70% | \$ 882,020 | 6.20% |

NET CHARGE-OFFS

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

The 30-plus day delinquency rate for the managed consumer loan portfolio was 4.95% as of December 31, 2001, down 28 basis points from 5.23% as of December 31, 2000. The 30-plus day delinquency rate for the reported consumer loan portfolio decreased to 4.84% as of December 31, 2001, from 7.26% as of December 31, 2000. Both reported and managed consumer loan delinquency rate decreases as of December 31, 2001, as compared to December 31, 2000, principally reflected improvements in customer credit performance including enhanced payment activity. The decrease in the reported consumer loan delinquency rate was also a result of a shift in the mix of the composition of the reported portfolio towards lower yielding, higher credit quality loans.



For the year ended December 31, 2001, the managed net charge-off rate increased 14 basis points to 4.04%. The managed net charge-off rate for the first three quarters of 2001 remained stable while the fourth quarter managed net charge-off rate increased significantly resulting in an overall increase for the year ended December 31, 2001. This increase is a result of the seasoning of accounts originated in the fourth quarter of the year ended December 31, 2000. For the year ended December 31, 2001, the reported net charge-off rate decreased 64 basis points to 4.00%. The decrease in the reported net charge-off rate was the result of a shift in the overall mix of the reported portfolio

towards lower yielding, higher credit quality loans. Table 7 shows the Company's net charge-offs for the years presented on a reported and managed basis.

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

table 7: Net Charge-Offs

| Year Ended December 31 (Dollars in Thousands) | 2001 | 2000 | 1999 | 1998 | 1997 |
|--|---------------|---------------|---------------|---------------|---------------|
| Reported: | | | | | |
| Average loans outstanding | \$ 17,284,306 | \$ 11,487,776 | \$ 7,667,355 | \$ 5,348,559 | \$ 4,103,036 |
| Net charge-offs | 691,636 | 532,621 | 275,470 | 226,531 | 198,192 |
| Net charge-offs as a percentage of average loans outstanding | 4.00% | 4.64% | 3.59% | 4.24% | 4.83% |
| Managed: | | | | | |
| Average loans outstanding | \$ 35,612,317 | \$ 22,634,862 | \$ 18,046,913 | \$ 15,209,537 | \$ 13,007,182 |
| Net charge-offs | 1,438,370 | 883,667 | 694,073 | 810,306 | 856,704 |
| Net charge-offs as a percentage of average loans outstanding | 4.04% | 3.90% | 3.85% | 5.33% | 6.59% |

PROVISION AND ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at an amount estimated to be sufficient to absorb probable losses, net of recoveries (including recovery of collateral), inherent in the existing reported loan portfolio. The provision for loan losses is the periodic cost of maintaining an adequate allowance. Management believes that the allowance for loan losses is adequate to cover anticipated losses in the reported homogeneous consumer loan portfolio under current conditions. There can be no assurance as to future credit losses that may be incurred in connection with the Company's consumer loan portfolio, nor can there be any assurance that the loan loss allowance that has been established by the Company will be sufficient to absorb such future credit losses. The allowance is a general allowance applicable to the entire reported homogeneous consumer loan portfolio. The amount of allowance necessary is determined primarily based on a migration analysis of delinquent and current accounts. In evaluating the sufficiency of the allowance for loan losses, management also takes into consideration the following factors: recent trends in delinquencies and charge-offs including bankrupt, deceased and recovered amounts; historical trends in loan volume; forecasting uncertainties and size of credit risks; the degree of risk inherent in the composition of the loan portfolio; economic conditions; credit evaluations and underwriting policies. Additional information on the Company's allowance for loan loss policy can be found in Note A to the Consolidated Financial Statements.

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

For the year ended December 31, 2001, the provision for loan losses increased to \$989.8 million, or 38%, from the 2000 provision for loan losses of \$718.2 million. This increase is primarily a result of the 50% increase in average reported loans, offset by a 64 basis point, or 14%, decrease in the reported net charge-off rate as a result of the aforementioned shift in the mix of the composition of the reported portfolio. As a result of these factors, the Company increased the allowance for loan losses by \$313 million during 2001.

For the year ended December 31, 2000, the provision for loan losses increased 88% to \$718.2 million from the 1999 provision for loan losses of \$382.9 million as a result of an increase in average reported loans 50%, continued seasoning of the reported portfolio and the shift in the mix of the composition of the reported portfolio. As a result of these factors, the Company increased the allowance for loan losses by \$185.0 million during 2000.

table 8: Summary of Allowance for Loan Losses

| Year Ended December 31 (Dollars in Thousands) | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|-------------|------------|------------|------------|------------|
| Provision for loan losses: | | | | | |
| Domestic | 920,155 | 611,406 | 320,978 | 230,821 | 254,904 |
| Foreign | 69,681 | 106,764 | 61,970 | 36,207 | 7,933 |
| Total provisions for loan losses | 989,836 | 718,170 | 382,948 | 267,028 | 262,837 |
| Acquisitions/other | 14,800 | (549) | 3,522 | 7,503 | (2,770) |
| Charge-offs: | | | | | |
| Domestic | (908,065) | (693,106) | (344,679) | (282,455) | (221,401) |
| Foreign | (110,285) | (79,296) | (55,464) | (11,840) | (1,628) |
| Total charge-offs | (1,018,350) | (772,402) | (400,143) | (294,295) | (223,029) |
| Recoveries: | | | | | |
| Domestic | 304,919 | 230,123 | 122,258 | 67,683 | 27,445 |
| Foreign | 21,795 | 9,658 | 2,415 | 81 | 17 |
| Total recoveries | 326,714 | 239,781 | 124,673 | 67,764 | 27,462 |
| Net charge-offs | (691,636) | (532,621) | (275,470) | (226,531) | (195,567) |
| Balance at end of year | \$ 840,000 | \$ 527,000 | \$ 342,000 | \$ 231,000 | \$ 183,000 |
| Allowance for loan losses to loans at end of year | 4.02% | 3.49% | 3.45% | 3.75% | 3.76% |
| Allowance for loan losses by geographic distribution: | | | | | |
| Domestic | \$ 784,857 | \$ 451,074 | \$ 299,424 | \$ 198,419 | \$ 174,659 |
| Foreign | 55,143 | 75,926 | 42,576 | 32,581 | 8,341 |

FUNDING

The Company has established access to a variety of funding alternatives, in addition to securitization of its consumer loans. In June 2000, the Company established a \$5.0 billion global senior and subordinated bank note program, of which \$3.0 billion was outstanding as of December 31, 2001 with original terms of three to five years. In 2001, the Company issued a \$1.3 billion five-year fixed rate senior bank note and a \$750.0 million three-year fixed rate senior bank note under the global bank note program. The Company has historically issued senior unsecured debt of the Bank through its \$8.0 billion domestic bank note program, of which \$1.8 billion was outstanding as of December 31, 2001, with original terms of one to ten years. The Company did not renew such program and it is no longer available for future issuances. Internationally, the Company has funding programs designed for foreign investors or to raise funds in

foreign currencies allowing the Company to borrow from both U.S. and non-U.S. lenders, including two committed revolving credit facilities offering foreign currency funding options. 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.

Additionally, the Company has three shelf registration statements under which the Company from time to time may offer and sell senior or subordinated debt securities, preferred stock and common stock. As of December 31, 2001, the Company had existing unsecured senior debt outstanding under the shelf registrations of \$550.0 million and had issued 6,750,390 shares of common stock in a public offering, increasing equity by \$412.8 million. As of December 31, 2001, the Company had \$587.2 million available for future issuance under these registration statements. On January 30, 2002, the Company issued \$300.0 million aggregate principal amount of senior notes due in 2007. Following such issuance, the Company had \$287.2 million available for future issuance under these registration statements. The Company has also filed a new shelf registration statement that will enable the Company to sell senior or subordinated debt securities, preferred stock, common stock, common equity units, stock purchase contracts and, through one or more subsidiary trusts, other preferred securities, in an aggregate amount not to exceed \$1.5 billion.

The Company has significantly expanded its retail deposit gathering efforts through both direct and broker marketing channels. The Company uses its IBS capabilities to test and market a variety of retail deposit origination strategies, including via the Internet, as well as to develop customized account management programs. As of December 31, 2001, the Company had \$12.8 billion in interest-bearing deposits, with original maturities up to ten years.

Funding (\$ millions)

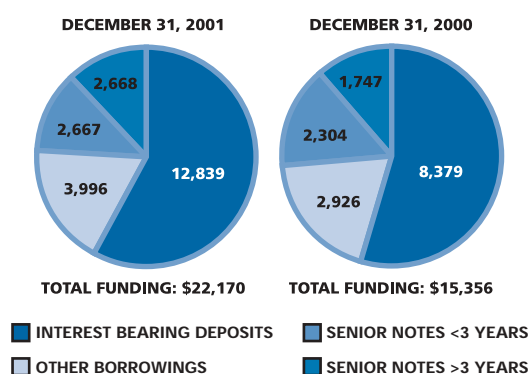


Table 9 reflects the costs of other borrowings of the Company as of and for each of the years ended December 31, 2001, 2000 and 1999.

table 9: Short-Term Borrowings

| (Dollars in Thousands) | Maximum Outstanding as of any Month-End | Outstanding as of Year-End | Average Outstanding | Average Interest Rate | Year-End Interest Rate |
|---|---|----------------------------|---------------------|-----------------------|------------------------|
| 2001 | | | | | |
| Federal funds purchased and resale agreements | \$ 1,643,524 | \$ 434,024 | \$ 1,046,647 | 3.77% | 1.91% |
| Other | 616,584 | 449,393 | 224,995 | 7.66% | 2.29% |
| Total | | \$ 883,417 | \$ 1,271,642 | 4.46% | 2.10% |
| 2000 | | | | | |
| Federal funds purchased and resale agreements | \$ 1,303,714 | \$ 1,010,693 | \$ 1,173,267 | 6.26% | 6.58% |
| Other | 371,020 | 43,359 | 129,700 | 11.52 | 6.17 |
| Total | | \$ 1,054,052 | \$ 1,302,967 | 6.79% | 6.56% |
| 1999 | | | | | |
| Federal funds purchased and resale agreements | \$ 1,491,463 | \$ 1,240,000 | \$ 1,046,475 | 5.33% | 5.84% |
| Other | 193,697 | 97,498 | 175,593 | 8.42 | 3.97 |
| Total | | \$ 1,337,498 | \$ 1,222,068 | 5.77% | 5.70% |

Table 10 shows the maturities of domestic time certificates of deposit in denominations of \$100,000 or greater (large denomination CDs) as of December 31, 2001.

table 10: Maturities of Large Denomination Certificates — \$100,000 or More

| December 31, 2001 (Dollars in Thousands) | Balance | Percent |
|--|--------------|---------|
| 3 months or less | \$ 719,957 | 15.57% |
| Over 3 through 6 months | 491,885 | 10.64 |
| Over 6 through 12 months | 919,073 | 19.88 |
| Over 12 months | 2,492,081 | 53.91 |
| Total | \$ 4,622,996 | 100.00% |

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

Table 11 summarizes the amounts and maturities of the contractual funding obligations of the Company, including off-balance sheet funding.

table 11: Funding Obligations

| As of December 31, 2001 | Total | Up to 1 year | 1-3 years | 4-5 years | After 5 years |
|---|---------------|--------------|---------------|---------------|---------------|
| Interest bearing deposits | \$ 12,838,968 | \$ 3,723,143 | \$ 4,794,191 | \$ 4,028,736 | \$ 292,898 |
| Senior notes | 5,335,229 | 518,635 | 2,148,045 | 2,269,262 | 399,287 |
| Other borrowings | 3,995,528 | 1,691,436 | 1,370,228 | 486,000 | 447,864 |
| Operating leases | 253,571 | 57,619 | 87,749 | 51,949 | 56,254 |
| Off-balance sheet securitization amortization | 24,322,085 | 3,734,661 | 7,939,135 | 8,474,385 | 4,173,904 |
| Total obligations | \$ 46,745,381 | \$ 9,725,494 | \$ 16,339,348 | \$ 15,310,332 | \$ 5,370,207 |

The terms of the lease and credit facility agreements related to certain other borrowings and operating leases in Table 11 require several financial covenants (including performance measures and equity ratios) to be met. If these covenants are not met, there may be an acceleration of the payment due dates noted above. As of December 31, 2001, the Company was not in default of any such covenants.

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 2002 to 2008 and for revolving securitizations, 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. Additionally, this early amortization would have a significant effect on the ability of the Bank and the Savings Bank to meet the capital adequacy requirements as all off-balance sheet loans experiencing such early amortization would have to be recorded on the balance sheet.

The amounts of investor principal from off-balance sheet consumer loans that are expected to amortize into the Company's consumer loans, or be otherwise paid over the periods indicated, based on outstanding off-balance sheet consumer loans as of January 1, 2002 are summarized in Table 11. As of December 31, 2001 and 2000, 54% and 51%, respectively, of the Company's total managed loans were included in off-balance sheet securitizations.

As such amounts amortize or are otherwise paid, the Company believes it can securitize consumer loans, gather deposits, 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, mortgage-backed securities, commercial paper, interest-bearing deposits with other banks, federal funds and other cash equivalents in order to provide adequate liquidity and to meet its ongoing cash needs. As of December 31, 2001, the Company had \$3.8 billion of such securities.

Liability liquidity is measured by the Company's ability to obtain borrowed funds in the financial markets in adequate amounts and at favorable rates. As of December 31, 2001, the Company, the Bank and the Savings Bank collectively had over \$1.7 billion in unused commitments under its credit facilities available for liquidity needs.

CAPITAL ADEQUACY

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

The most recent notifications received from the regulators categorized the Bank and the Savings Bank as "well-capitalized." As of December 31, 2001, 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.

In November 2001, the four federal banking agencies (the "Agencies") adopted an amendment to the regulatory capital standards regarding the treatment of certain recourse obligations, direct credit substitutes (i.e., guarantees on third-party assets), residual interests in asset securitizations, and other securitized transactions that expose institutions primarily to credit risk. Effective January 1, 2002, this rule amends the Agencies' regulatory capital standards to create greater differentiation in the capital treatment of residual interests. Based on the Company's analysis of the rule adopted by the Agencies, we do not anticipate any material changes to our regulatory capital ratios when the rule becomes effective.

On January 31, 2001, the Agencies issued "Expanded Guidance for Subprime Lending Programs" (the "Guidelines"). The Guidelines, while not constituting a formal regulation, provide guidance to the federal bank examiners regarding the adequacy of capital and loan loss reserves held by insured depository institutions engaged in subprime lending. The Guidelines adopt a broad definition of "subprime" loans which likely covers more than one-third of all consumers in the United States. Because our business strategy is to provide credit card products and other consumer loans to a wide range of consumers, the examiners may view a portion of our loan assets as "subprime." Thus, under the Guidelines, bank examiners could require the Bank or the Savings Bank to hold additional capital (up to one and one-half to three times the minimally required level of capital, as set forth in the Guidelines), or additional loan loss reserves, against such assets. As described above, at December 31, 2001 the Bank and the Savings Bank each met the requirements for a "well-capitalized" institution, and management believes that each institution is holding an appropriate amount of capital or loan loss reserves against higher risk assets. Management also believes we have general risk management practices in place that are appropriate in light of our business strategy.

Significantly increased capital or loan loss reserve requirements, if imposed, however, could have a material impact on the Company's consolidated financial statements.

In connection with the Bank's subsidiary bank in the United Kingdom, the Company has committed to the Federal Reserve that, for so long as the Bank maintains a branch or subsidiary bank in the United Kingdom, the Company will maintain a minimum Tier 1 leverage ratio of 3.0%. As of December 31, 2001 and 2000, the Company's Tier 1 leverage ratio was 11.93% and 11.14%, respectively.

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

DIVIDEND POLICY

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

OFF-BALANCE SHEET RISK

The Company is subject to off-balance sheet risk in the normal course of business including commitments to extend credit and interest rate sensitivity related to its securitization transactions.

DERIVATIVE 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 derivative financial instruments expose the Company to certain credit, market, legal and operational risks. The Company has established credit policies for these instruments.

The Company adopted SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of Effective Date of FASB Statement No. 133," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," (collectively, "SFAS 133") on January 1, 2001. SFAS

133 required the Company to recognize all of its derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains and losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation.

Additional information regarding derivative instruments can be found in Note O to the Consolidated Financial Statements.

INTEREST RATE SENSITIVITY

Interest rate sensitivity refers to the change in earnings that may result from changes in the level of interest rates. To the extent that managed interest income and expense do not respond equally to changes in interest rates, or that all rates do not change uniformly, earnings could be affected. The Company's managed net interest income is affected primarily by changes in LIBOR, as variable rate card receivables, securitization bonds and corporate debts are repriced. 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 by entering into interest rate swaps.

The Company measures interest rate risk through the use of a simulation model. The model generates a normal distribution of 12-month managed net interest income outcomes based on a plausible set of interest rate paths, which are generated from an industry-accepted model. The consolidated balance sheet and all off-balance sheet positions are included in the analysis. The Company's Asset/Liability Management Policy requires, that based on this distribution, there be no more than a 5% probability of a 12-month reduction in net interest income of more than \$50 million, or 1.4% of 2001 net interest income. As of December 31, 2001, the Company was in compliance with the policy. The interest rate scenarios evaluated as of December 31, 2001, included scenarios in which short-term interest rates rose by over 400 basis points or fell by as much as 170 basis points over the 12 months. Additionally, the Company regularly reviews the output of other industry accepted techniques for measuring and managing exposures to rate movements, including measures based on the net present value of assets less liabilities (termed "economic value of equity"). These analyses do not consider the effects from changes in the overall level of 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. For example, management may, within legal and competitive constraints, reprice interest rates on outstanding credit card loans.

Table 12 reflects the interest rate repricing schedule for earning assets and interest-bearing liabilities as of December 31, 2001.

table 12: Interest Rate Sensitivity

| As of December 31, 2001 Subject to Repricing (Dollars in Millions) | Within 180 Days | >180 Days– 1 Year | >1 Year– 5 Years | Over 5 Years |
|--|--------------------|----------------------|---------------------|-----------------|
| Earning assets: | | | | |
| Federal funds sold and resale agreements | \$ 20 | | | |
| Interest-bearing deposits at other banks | 332 | | | |
| Securities available for sale | 55 | \$ 203 | \$ 749 | \$ 2,109 |
| Consumer loans | 8,097 | 1,800 | 7,903 | 3,121 |
| Total earning assets | 8,504 | 2,003 | 8,652 | 5,230 |
| Interest-bearing liabilities: | | | | |
| Interest-bearing deposits | 3,155 | 1,980 | 7,411 | 293 |
| Other borrowings | 500 | 292 | 4,144 | 399 |
| Senior notes | 1,408 | 557 | 1,720 | 311 |
| Total interest-bearing liabilities | 5,063 | 2,829 | 13,275 | 1,003 |
| Non-rate related assets | | | | (2,219) |
| Interest sensitivity gap | 3,441 | (826) | (4,623) | 2,008 |
| Impact of swaps | 2,202 | (348) | (1,754) | (100) |
| Impact of consumer loan securitizations | (1,117) | 1,168 | (3,602) | 3,551 |
| Interest sensitivity gap adjusted for impact of securitizations and swaps | \$ 4,526 | \$ (6) | \$ (9,979) | \$ 5,459 |
| Adjusted gap as a percentage of managed assets | 8.62% | -.01% | -19.01% | 10.40% |
| Adjusted cumulative gap | \$ 4,526 | \$ 4,520 | \$ (5,459) | \$ — |
| Adjusted cumulative gap as a percentage of managed assets | 8.62% | 8.61% | -10.40% | 0.00% |

BUSINESS OUTLOOK

Earnings, Goals and Strategies

This business outlook section summarizes Capital One's expectations for earnings for 2002, and our 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 that could materially influence results are set forth throughout this section and in Capital One's Annual Report on Form 10-K for the year ended December 31, 2001 (Part I, Item 1, Risk Factors).

We have set targets, dependent on the factors set forth below, to increase Capital One's earnings per share for 2002 by approximately 20% over earnings per share for the prior year. As discussed elsewhere in this report and below, Capital One's actual earnings are a function of our revenues (net interest income and non-interest income on our earning assets), consumer usage and payment patterns, credit quality of our earning assets (which affects fees and charge-offs), marketing expenses and operating expenses.

Product and Market Opportunities

Our strategy for future growth has been, and is expected to continue to be, to apply our proprietary IBS to our lending business. We will seek to identify new product opportunities and to make informed investment decisions regarding new and existing products. Our lending and other financial products are subject to competitive pressures, which management anticipates will increase as these markets mature.

Lending includes credit card and other consumer lending products, such as automobile financing and unsecured installment lending. 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. We expect continued growth across a broad spectrum of new and existing customized products, which are distinguished by a range of credit lines, pricing structures and other characteristics. For example, our low rate products, which are typically 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 loss rates. 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 loss rates. These products also involve higher operational costs but exhibit better response rates, less adverse selection, less attrition and a greater ability to reprice than traditional products. More importantly, on a portfolio basis, these customized products continue to have less volatile returns than traditional products in recent market conditions, based partly on our ability to diversify risk. Based in part on the success of this range of products and continued significant offerings of introductory rate products, we expect strong growth in our managed loan balances during 2002. We believe that we can continue to gain market share and to grow accounts and loan balances, despite our expectation that the credit card industry as a whole will continue to experience slower growth.

Partnership finance relationships have continued to grow through the fourth quarter of 2001. We recently announced a new alliance with TJX Companies, Inc. to offer credit cards to their customers. We anticipate entering into more alliances of this nature through 2002 as opportunities arise to utilize our IBS strategy to originate accounts through partnering relationships.

Capital One Auto Finance, Inc., our automobile finance subsidiary, offers loans, secured by automobiles, through dealer networks and through direct-to-consumer channels throughout the United States. As with our credit card lending, we have applied IBS to our auto finance lending activities by reinventing existing products and creating new products to optimize pricing and customer selection, and to implement our conservative risk management strategy. In October 2001, we acquired PeopleFirst, Inc., the largest online provider of direct motor vehicle loans. We anticipate continued significant auto finance lending activities growth during 2002.

We have expanded our existing operations outside of the United States and have experienced growth in the number of accounts and loan balances in our international business. To date, our principal operations outside of the United States have been in the United Kingdom, with additional operations in Canada, France and South Africa. Our bank in the United Kingdom has authority to conduct full-service operations to support the continued growth of our United Kingdom business and any future business in Europe. We anticipate entering and doing business in additional countries from time to time as opportunities arise.

We will continue to apply our IBS in an effort to balance the mix of credit card products with other financial products and services to optimize profitability within the context of acceptable risk. We continually test new product offerings and pricing combinations, using IBS, to target different consumer groups. The number of tests we conduct has increased each year since 1994 and we expect further increases in 2002. Our growth through expansion and product diversification, however, will be affected by our ability to build

internally or acquire the necessary operational and organizational infrastructure, recruit experienced personnel, fund these new businesses and manage expenses. Although we believe we have the personnel, financial resources and business strategy necessary for continued success, there can be no assurance that our results of operations and financial condition in the future will reflect our historical financial performance.

Marketing Investment

We expect our 2002 marketing expenses to exceed the marketing expense level in 2001, as we continue to invest marketing funds in various consumer lending products and services. Our marketing expenditures reached their highest level to date in the fourth quarter of 2001, with a continued focus on capitalizing on the opportunities that we see in the market.

We also plan to continue our focus on a brand marketing, or "brand awareness," strategy with the intent of building a branded franchise to support our IBS and mass customization strategies. We caution, 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 our portfolio continues to grow, generating balances and accounts to offset attrition requires increasing amounts of marketing. Although we are one of the leading direct mail marketers in the credit card industry, increased mail volume throughout the industry indicates that competition in customer mailings is at near record levels. This intense competition in the credit card market has resulted in an industry-wide reduction in both credit card response rates and the productivity of marketing dollars invested in that line of business, both of which may affect us more significantly in 2002. Furthermore, the cost to acquire new accounts varies across product lines and is expected to rise as we continue to move beyond the domestic card lending activities. With competition affecting the profitability of traditional card products, we have been allocating, and expect to continue to allocate, a greater portion of our marketing expense to other customized credit card products and other financial products. We intend to continue a flexible approach in our allocation of marketing expenses. The actual amount of marketing investment is subject to a variety of external and internal factors, such as competition in the consumer credit industry, general economic conditions affecting consumer credit performance, the asset quality of our portfolio and the identification of market opportunities across product lines that exceed our targeted rates of return on investment.

The amount of marketing expense allocated to various products or businesses will influence the characteristics of our portfolio as various products or businesses are characterized by different account growth, loan growth and asset quality characteristics. Due in part to an increase in our marketing efforts across the entire credit spectrum, we currently expect continued strong loan growth in 2002, but expect account growth, while remaining strong, to moderate compared to recent quarters. Actual growth, however, may vary significantly depending on our actual product mix and the level of attrition in our managed portfolio, which is primarily affected by competitive pressures. Also primarily as a result of our continued growth in superprime lending, our increased offerings of introductory rate products, and an increase in the Company's liquidity portfolio during the fourth quarter, our net interest margin decreased during 2001. We anticipate that net interest margin may continue to fluctuate during 2002, based on continued movement in the underlying components and due in part to the scheduled repricing of certain introductory rate credit card products as well as continuing shifts in our asset mix.

Impact of Delinquencies, Charge-Offs and Attrition

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

As of December 31, 2001, we had the lowest managed net charge-off rate among the top ten credit card issuers in the United States. However, we expect delinquencies and charge-offs to increase in 2002, primarily due to the continued seasoning of certain accounts, as well as general economic factors. We caution that delinquency and charge-off levels are not always predictable and may vary from projections and from period to period. During an economic downturn or recession, delinquencies and charge-offs are likely to increase more quickly. This impact could be exacerbated by a decline in the loan growth rate. In addition, competition in the credit card industry, as measured by the volume of mail solicitations, remains very high. Competition can affect our earnings by increasing attrition of our outstanding loans (thereby reducing interest and fee income) and by making it more difficult to retain and attract profitable customers.

Cautionary Factors

The strategies and objectives outlined above, and the other forward-looking statements contained in this section, involve a number of risks and uncertainties. Capital One 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 that compete with our businesses; with respect to financial and other products, changes in our aggregate accounts or consumer loan balances and the growth rate thereof, including changes resulting from factors such as shifting product mix, amount of our actual marketing expenses and attrition of accounts and loan balances; any significant disruption of, or loss of public confidence in, the U.S. mail system affecting response rates or customer payments; an increase in credit losses (including increases due to a worsening of general economic conditions); our ability to continue to securitize our credit cards and consumer loans and to otherwise access the capital markets at attractive rates and terms to fund our operations and future growth; difficulties or delays in the development, production, testing and marketing of new products or services; losses associated with new products or services or expansion internationally; financial, legal, regulatory or other difficulties that may affect investment in, or the overall performance of, a product or business, including changes in existing laws to regulate further the credit card and consumer loan industry and the financial services industry, in general, including the flexibility of financial services companies to obtain, use and share consumer data; the amount of, and rate of growth in, our expenses (including salaries and associate benefits and marketing expenses) as our business develops or changes or as we expand into new market areas; the availability of capital necessary to fund our new businesses; our ability to build the operational and organizational infrastructure necessary to engage in new businesses or to expand internationally; our ability to recruit experienced personnel to assist in the management and operations of new products and services; and other factors listed from time to time in our SEC reports, including, but not limited to, the Annual Report on Form 10-K for the year ended December 31, 2001 (Part I, Item 1, Risk Factors).

Selected Quarterly Financial Data

| (Unaudited) | 2001 | | | | 2000 | | | |
|--|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Summary of Operations: | | | | | | | | |
| (In Thousands) | | | | | | | | |
| Interest income | \$ 804,618 | \$ 722,690 | \$ 657,216 | \$ 649,873 | \$ 706,235 | \$ 631,713 | \$ 536,507 | \$ 515,447 |
| Interest expense | 314,838 | 294,869 | 287,146 | 274,154 | 247,675 | 218,843 | 172,549 | 161,950 |
| Net interest income | 489,780 | 427,821 | 370,070 | 375,719 | 458,560 | 412,870 | 363,958 | 353,497 |
| Provision for loan losses | 305,889 | 230,433 | 202,900 | 250,614 | 247,226 | 193,409 | 151,010 | 126,525 |
| Net interest income after provision | | | | | | | | |
| for loan losses | 183,891 | 197,388 | 167,170 | 125,105 | 211,334 | 219,461 | 212,948 | 226,972 |
| Non-interest income | 1,177,251 | 1,144,190 | 1,073,676 | 1,024,776 | 872,080 | 796,469 | 710,807 | 655,060 |
| Non-interest expense | 1,074,567 | 1,074,897 | 990,316 | 918,247 | 876,516 | 818,957 | 742,264 | 709,920 |
| Income before income taxes | 286,575 | 266,681 | 250,530 | 231,634 | 206,898 | 196,973 | 181,491 | 172,112 |
| Income taxes | 108,894 | 101,337 | 95,203 | 88,021 | 78,621 | 74,850 | 68,966 | 65,403 |
| Net income | \$ 177,681 | \$ 165,344 | \$ 155,327 | \$ 143,613 | \$ 128,277 | \$ 122,123 | \$ 112,525 | \$ 106,709 |
| Per Common Share: | | | | | | | | |
| Basic earnings | \$.83 | \$.78 | \$.74 | \$.70 | \$.65 | \$.62 | \$.57 | \$.54 |
| Diluted earnings | .80 | .75 | .70 | .66 | .61 | .58 | .54 | .51 |
| Dividends | .03 | .03 | .03 | .03 | .03 | .03 | .03 | .03 |
| Market prices | | | | | | | | |
| High | 55.60 | 67.25 | 72.58 | 70.44 | 73.22 | 71.75 | 53.75 | 48.81 |
| Low | 41.00 | 36.41 | 51.61 | 46.90 | 45.88 | 44.60 | 39.38 | 32.06 |
| Average common shares (000s) | 214,718 | 210,763 | 209,076 | 204,792 | 196,996 | 196,255 | 196,012 | 196,645 |
| Average common and common equivalent shares (000s) | 223,350 | 219,897 | 221,183 | 217,755 | 210,395 | 210,055 | 208,633 | 208,710 |
| Average Balance Sheet Data: | | | | | | | | |
| (In Millions) | | | | | | | | |
| Consumer loans | \$ 19,402 | \$ 17,515 | \$ 16,666 | \$ 15,509 | \$ 14,089 | \$ 12,094 | \$ 10,029 | \$ 9,705 |
| Allowance for loan losses | (747) | (660) | (605) | (539) | (469) | (415) | (378) | (347) |
| Securities | 3,943 | 2,977 | 2,741 | 2,478 | 1,810 | 1,729 | 1,666 | 1,856 |
| Other assets | 4,382 | 4,059 | 3,277 | 2,907 | 2,530 | 2,699 | 2,380 | 1,825 |
| Total assets | \$ 26,980 | \$ 23,891 | \$ 22,079 | \$ 20,355 | \$ 17,960 | \$ 16,107 | \$ 13,697 | \$ 13,039 |
| Interest-bearing deposits | \$ 12,237 | \$ 10,537 | \$ 9,686 | \$ 8,996 | \$ 7,156 | \$ 5,788 | \$ 4,495 | \$ 3,894 |
| Other borrowings | 3,496 | 3,103 | 2,915 | 2,442 | 3,290 | 3,084 | 2,688 | 2,505 |
| Senior and deposit notes | 5,389 | 5,281 | 4,899 | 4,679 | 4,085 | 4,140 | 3,660 | 4,019 |
| Other liabilities | 2,635 | 2,035 | 1,971 | 1,891 | 1,564 | 1,352 | 1,228 | 1,054 |
| Stockholders' equity | 3,223 | 2,935 | 2,608 | 2,347 | 1,865 | 1,743 | 1,626 | 1,567 |
| Total liabilities and equity | \$ 26,980 | \$ 23,891 | \$ 22,079 | \$ 20,355 | \$ 17,960 | \$ 16,107 | \$ 13,697 | \$ 13,039 |

The above schedule is a tabulation of the Company's unaudited quarterly results for the years ended December 31, 2001 and 2000. The Company's common shares are traded on the New York Stock Exchange under the symbol COF. In addition, shares may be traded in the over-the-counter stock market. There were 10,065 and 10,019 common stockholders of record as of December 31, 2001 and 2000, respectively.

Management's Report on Consolidated Financial Statements and Internal Controls Over Financial Reporting

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

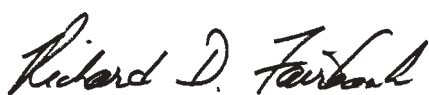
The Consolidated Financial Statements have been audited by the Company's independent auditors, Ernst & Young LLP, whose independent professional opinion appears separately. Their audit provides an objective assessment of the degree to which the Company's Management meets its responsibility for financial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

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


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

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

The Company assessed its internal controls over financial reporting as of December 31, 2001, in relation to the criteria described in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company believes that as of December 31, 2001, in all material respects, the Company maintained effective internal controls over financial reporting.



Richard D. Fairbank
Chairman and
Chief Executive Officer



Nigel W. Morris
President and
Chief Operating Officer



David M. Willey
Executive Vice President and
Chief Financial Officer

Report of Independent Auditors

The Board of Directors and Stockholders Capital One Financial Corporation

We have audited the accompanying consolidated balance sheets of Capital One Financial Corporation as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also

includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital One Financial Corporation at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

McLean, Virginia
January 15, 2002, except for Note E
as to which the date is February 6, 2002

Consolidated Balance Sheets

December 31 (Dollars in Thousands, Except Per Share Data)

2001

2000

Assets:

| | | |
|--|----------------------|----------------------|
| Cash and due from banks | \$ 355,680 | \$ 74,493 |
| Federal funds sold and resale agreements | 19,802 | 60,600 |
| Interest-bearing deposits at other banks | 331,756 | 101,614 |
| Cash and cash equivalents | 707,238 | 236,707 |
| Securities available for sale | 3,115,891 | 1,696,815 |
| Consumer loans | 20,921,014 | 15,112,712 |
| Less: Allowance for loan losses | (840,000) | (527,000) |
| Net loans | 20,081,014 | 14,585,712 |
| Accounts receivable from securitizations | 2,452,548 | 1,143,902 |
| Premises and equipment, net | 759,683 | 664,461 |
| Interest receivable | 105,459 | 82,675 |
| Other | 962,214 | 479,069 |
| Total assets | \$ 28,184,047 | \$ 18,889,341 |

Liabilities:

| | | |
|---------------------------|-------------------|-------------------|
| Interest-bearing deposits | \$ 12,838,968 | \$ 8,379,025 |
| Senior notes | 5,335,229 | 4,050,597 |
| Other borrowings | 3,995,528 | 2,925,938 |
| Interest payable | 188,160 | 122,658 |
| Other | 2,502,684 | 1,448,609 |
| Total liabilities | 24,860,569 | 16,926,827 |

Commitments and Contingencies

Stockholders' Equity:

| | | |
|--|----------------------|----------------------|
| Preferred stock, par value \$.01 per share; authorized 50,000,000 shares, none issued or outstanding | | |
| Common stock, par value \$.01 per share; authorized 1,000,000,000 shares, 217,656,985 and 199,670,421 issued as of December 31, 2001 and 2000, respectively | 2,177 | 1,997 |
| Paid-in capital, net | 1,350,108 | 575,179 |
| Retained earnings | 2,090,761 | 1,471,106 |
| Cumulative other comprehensive income (loss) | (84,598) | 2,918 |
| Less: Treasury stock, at cost; 878,720 and 2,301,476 shares as of December 31, 2001 and 2000, respectively | (34,970) | (88,686) |
| Total stockholders' equity | 3,323,478 | 1,962,514 |
| Total liabilities and stockholders' equity | \$ 28,184,047 | \$ 18,889,341 |

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Year Ended December 31 (In Thousands, Except Per Share Data)

| | 2001 | 2000 | 1999 |
|---|--------------|--------------|--------------|
| Interest Income: | | | |
| Consumer loans, including fees | \$ 2,642,767 | \$ 2,286,774 | \$ 1,482,371 |
| Securities available for sale | 138,188 | 96,554 | 105,438 |
| Other | 53,442 | 6,574 | 5,675 |
| Total interest income | 2,834,397 | 2,389,902 | 1,593,484 |
| Interest Expense: | | | |
| Deposits | 640,470 | 324,008 | 137,792 |
| Senior notes | 357,495 | 274,975 | 302,698 |
| Other borrowings | 173,042 | 202,034 | 100,392 |
| Total interest expense | 1,171,007 | 801,017 | 540,882 |
| Net interest income | 1,663,390 | 1,588,885 | 1,052,602 |
| Provision for loan losses | 989,836 | 718,170 | 382,948 |
| Net interest income after provision for loan losses | 673,554 | 870,715 | 669,654 |
| Non-Interest Income: | | | |
| Servicing and securitizations | 2,441,144 | 1,152,375 | 1,187,098 |
| Service charges and other customer-related fees | 1,598,952 | 1,644,264 | 1,040,944 |
| Interchange | 379,797 | 237,777 | 144,317 |
| Total non-interest income | 4,419,893 | 3,034,416 | 2,372,359 |
| Non-Interest Expense: | | | |
| Salaries and associate benefits | 1,392,072 | 1,023,367 | 780,160 |
| Marketing | 1,082,979 | 906,147 | 731,898 |
| Communications and data processing | 327,743 | 296,255 | 264,897 |
| Supplies and equipment | 310,310 | 252,937 | 181,663 |
| Occupancy | 136,974 | 112,667 | 72,275 |
| Other | 807,949 | 556,284 | 434,103 |
| Total non-interest expense | 4,058,027 | 3,147,657 | 2,464,996 |
| Income before income taxes | 1,035,420 | 757,474 | 577,017 |
| Income taxes | 393,455 | 287,840 | 213,926 |
| Net income | \$ 641,965 | \$ 469,634 | \$ 363,091 |
| Basic earnings per share | \$ 3.06 | \$ 2.39 | \$ 1.84 |
| Diluted earnings per share | \$ 2.91 | \$ 2.24 | \$ 1.72 |
| Dividends paid per share | \$ 0.11 | \$ 0.11 | \$ 0.11 |

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

| (Dollars in Thousands, Except Per Share Data) | Common Stock | | Paid-In Capital, Net | Retained Earnings | Cumulative Other Comprehensive Income (Loss) | Treasury Stock | Total Stockholders' Equity |
|---|--------------|----------|-------------------------|----------------------|---|-------------------|----------------------------------|
| | Shares | Amount | | | | | |
| Balance, December 31, 1998 | 199,670,376 | \$ 1,997 | \$ 598,167 | \$ 679,838 | \$ 60,655 | \$ (70,251) | \$ 1,270,406 |
| Comprehensive income: | | | | | | | |
| Net income | | | | 363,091 | | | 363,091 |
| Other comprehensive income, net of income tax: | | | | | | | |
| Unrealized losses on securities, net of income tax benefits of \$58,759 | | | | | (95,868) | | (95,868) |
| Foreign currency translation adjustments | | | | | 3,951 | | 3,951 |
| Other comprehensive loss | | | | | (91,917) | | (91,917) |
| Comprehensive income | | | | | | | 271,174 |
| Cash dividends — \$0.11 per share | | | | (20,653) | | | (20,653) |
| Purchases of treasury stock | | | | | | (107,104) | (107,104) |
| Issuances of common stock | | | (1,628) | | | 9,833 | 8,205 |
| Exercise of stock options | | | (38,422) | | | 76,508 | 38,086 |
| Common stock issuable under incentive plan | | | 49,236 | | | | 49,236 |
| Other items, net | 45 | | 6,237 | 20 | | | 6,257 |
| Balance, December 31, 1999 | 199,670,421 | 1,997 | 613,590 | 1,022,296 | (31,262) | (91,014) | 1,515,607 |
| Comprehensive income: | | | | | | | |
| Net income | | | | 469,634 | | | 469,634 |
| Other comprehensive income, net of income tax: | | | | | | | |
| Unrealized gains on securities, net of income taxes of \$19,510 | | | | | 31,831 | | 31,831 |
| Foreign currency translation adjustments | | | | | 2,349 | | 2,349 |
| Other comprehensive income | | | | | 34,180 | | 34,180 |
| Comprehensive income | | | | | | | 503,814 |
| Cash dividends — \$0.11 per share | | | | (20,824) | | | (20,824) |
| Purchases of treasury stock | | | | | | (134,619) | (134,619) |
| Issuances of common stock | | | 1,441 | | | 17,436 | 18,877 |
| Exercise of stock options | | | (61,261) | | | 119,511 | 58,250 |
| Common stock issuable under incentive plan | | | 17,976 | | | | 17,976 |
| Other items, net | | | 3,433 | | | | 3,433 |
| Balance, December 31, 2000 | 199,670,421 | 1,997 | 575,179 | 1,471,106 | 2,918 | (88,686) | 1,962,514 |
| Comprehensive income: | | | | | | | |
| Net income | | | | 641,965 | | | 641,965 |
| Other comprehensive income, net of income tax: | | | | | | | |
| Unrealized gains on securities, net of income taxes of \$5,927 | | | | | 9,671 | | 9,671 |
| Foreign currency translation adjustments | | | | | (23,161) | | (23,161) |
| Cumulative effect of change in accounting principle, net of income tax benefit of \$16,685 | | | | | (27,222) | | (27,222) |
| Unrealized losses on cash flow hedging instruments, net of income tax benefit of \$28,686 | | | | | (46,804) | | (46,804) |
| Other comprehensive loss | | | | | (87,516) | | (87,516) |
| Comprehensive income | | | | | | | 554,449 |
| Cash dividends — \$0.11 per share | | | | (22,310) | | | (22,310) |
| Issuances of common stock | 12,453,961 | 125 | 642,356 | | | 18,647 | 661,128 |
| Exercise of stock options | 5,532,603 | 55 | 141,178 | | | 35,069 | 176,302 |
| Amortization of deferred compensation | | | 984 | | | | 984 |
| Common stock issuable under incentive plan | | | (11,134) | | | | (11,134) |
| Other items, net | | | 1,545 | | | | 1,545 |
| Balance, December 31, 2001 | 217,656,985 | \$ 2,177 | \$ 1,350,108 | \$2,090,761 | \$ (84,598) | \$ (34,970) | \$ 3,323,478 |

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

| Year Ended December 31 (In Thousands) | 2001 | 2000 | 1999 |
|---|--------------|--------------|-------------|
| Operating Activities: | | | |
| Net income | \$ 641,965 | \$ 469,634 | \$ 363,091 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | |
| Provision for loan losses | 989,836 | 718,170 | 382,948 |
| Depreciation and amortization, net | 337,562 | 244,823 | 172,623 |
| Stock compensation plans | (11,134) | 17,976 | 49,236 |
| Increase in interest receivable | (20,087) | (18,038) | (11,720) |
| (Increase) decrease in accounts receivable from securitizations | (1,266,268) | (468,205) | 65,208 |
| Increase in other assets | (323,758) | (16,513) | (156,639) |
| Increase in interest payable | 55,060 | 6,253 | 24,768 |
| Increase in other liabilities | 864,573 | 489,001 | 383,820 |
| Net cash provided by operating activities | 1,267,749 | 1,443,101 | 1,273,335 |
| Investing Activities: | | | |
| Purchases of securities available for sale | (4,268,527) | (407,572) | (871,355) |
| Proceeds from maturities of securities available for sale | 1,481,390 | 172,889 | 42,995 |
| Proceeds from sales of securities available for sale | 1,356,971 | 432,203 | 719,161 |
| Proceeds from securitizations of consumer loans | 11,915,990 | 6,142,709 | 2,586,517 |
| Net increase in consumer loans | (18,057,529) | (12,145,055) | (6,763,580) |
| Recoveries of loans previously charged off | 326,714 | 239,781 | 124,673 |
| Additions of premises and equipment, net | (326,594) | (374,018) | (350,987) |
| Net cash used in investing activities | (7,571,585) | (5,939,063) | (4,512,576) |
| Financing Activities: | | | |
| Net increase in interest-bearing deposits | 4,459,943 | 4,595,216 | 1,783,830 |
| Net increase in other borrowings | 515,121 | 145,214 | 1,038,010 |
| Issuances of senior notes | 1,987,833 | 994,176 | 1,453,059 |
| Maturities of senior notes | (706,916) | (1,125,292) | (1,012,639) |
| Dividends paid | (22,310) | (20,824) | (20,653) |
| Purchases of treasury stock | | (134,619) | (107,104) |
| Net proceeds from issuances of common stock | 477,892 | 21,076 | 14,028 |
| Proceeds from exercise of stock options | 62,804 | 11,225 | 37,040 |
| Net cash provided by financing activities | 6,774,367 | 4,486,172 | 3,185,571 |
| Increase (decrease) in cash and cash equivalents | 470,531 | (9,790) | (53,670) |
| Cash and cash equivalents at beginning of year | 236,707 | 246,497 | 300,167 |
| Cash and cash equivalents at end of year | \$ 707,238 | \$ 236,707 | \$ 246,497 |

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(Currencies in Thousands, Except Per Share Data)

Note A

Significant Accounting Policies

Organization and Basis of Presentation

The Consolidated Financial Statements include the accounts of Capital One Financial Corporation (the "Corporation") and its subsidiaries. The Corporation is a holding company whose subsidiaries market a variety of financial 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."

The accompanying Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles ("GAAP") that require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. All significant intercompany balances and transactions have been eliminated. Certain prior years' amounts have been reclassified to conform to the 2001 presentation.

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

Cash and Cash Equivalents

Cash and cash equivalents includes cash and due from banks, federal funds sold and resale agreements and interest-bearing deposits at other banks. Cash paid for interest for the years ended December 31, 2001, 2000 and 1999, was \$1,105,505, \$794,764 and \$516,114, respectively. Cash paid for income taxes for the years ended December 31, 2001, 2000 and 1999, was \$70,754, \$237,217 and \$216,438, respectively.

Securities Available for Sale

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

Consumer Loans

The Company recognizes finance charges and fee income on loans according to the contractual provisions of the credit agreements. When, based on historic performance of the portfolio, payment in full of finance charge and fee income is not expected, the estimated uncollectible portion of previously accrued amounts are reversed against current period income. Annual membership fees and direct loan origination costs are deferred and amortized over one year on a straight-line basis. Deferred fees (net of deferred costs) were \$291,647 and \$237,513 as of December 31, 2001 and 2000, respectively. The entire balance of an account is contractually delinquent if the minimum payment is not received by the payment due date. The Company charges off credit card loans (net of any collateral) at 180 days past the due date, and generally charges off other consumer loans at 120 days past the due date. Bankrupt consumers' accounts are generally charged off within 30 days of receipt of the bankruptcy petition. All amounts collected on previously charged-off accounts are included in recoveries for the determination of net charge-offs. Costs to recover previously charged-off accounts are recorded as collections expense in non-interest expenses.

Securitizations

On April 1, 2001, the Company adopted the requirements of Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," ("SFAS 140"), a replacement of SFAS 125, which applies prospectively to all securitization transactions occurring after March 31, 2001. Adoption of SFAS 140 did not have a material impact on the operations or financial position of the Company.

Periodically, the Company transfers pools of consumer loan receivables to one or more third-party trusts or qualified special purpose entities (the "trusts") for use in securitization transactions. Transfers of receivables that meet the requirements set forth in SFAS 140 for sales treatment are accounted for as off-balance sheet securitizations in accordance with SFAS 140. Certain undivided interests in the pool of consumer loan receivables are sold to investors as asset-backed securities in public underwritten offerings or private placement transactions. The remaining undivided interests retained by the Company ("seller's interest") is recorded in consumer loans.

The proceeds from off-balance sheet securitizations are distributed by the trusts to the Company as consideration for the consumer loan receivables transferred. Each new securitization results in the removal of the sold assets from the balance sheet and the recognition of the gain on the sale of the receivables. This gain on sale is based on the estimated fair value of assets sold and retained and liabilities incurred, and is recorded at the time of sale in servicing and securitizations income. The related receivable is the interest-only strip, which is concurrently recorded at fair value in accounts receivable from securitizations on the balance sheet. The Company estimates the fair value of the interest-only strip based on the present value of the

estimated excess finance charges and past-due fees over the sum of the return paid to security holders, estimated contractual servicing fees and credit losses. The Company periodically reviews the key assumptions and estimates used in determining the interest-only strip. Decreases in fair values below the carrying amount as a result of changes in the key assumptions are recognized in servicing and securitizations income, while increases in fair values as a result of changes in key assumptions are recorded as unrealized gains. Unrealized gains are included as a component of cumulative other comprehensive income, on a net-of-tax basis, in accordance with the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." In accordance with EITF 99-20, "Recognition of Interest Income and Impairment of Purchased and Retained Beneficial Interests in Securitized Financial Assets," the interest component of cash flows attributable to retained interests in securitizations is recorded in other interest income. See further discussion of off-balance sheet securitizations in Note N to the Consolidated Financial Statements.

Transfers of receivables that do not meet the requirements of SFAS 140 for sales treatment are treated as secured borrowings, with the transferred receivables remaining in consumer loans and the related liability recorded in other borrowings. See discussion of secured borrowings in Note E to the Consolidated Financial Statements.

Allowance for Loan Losses

The allowance for loan losses is maintained at the amount estimated to be sufficient to absorb probable 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. 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.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. The Company capitalizes direct costs (including external costs for purchased software, contractors, consultants and internal staff costs) for internally developed software projects that have been identified as being in the application development stage. Depreciation and amortization expenses are computed generally by the straight-line method over the estimated useful lives of the assets. Useful lives for premises and equipment are as follows: buildings and improvements — 5-39 years; furniture and equipment — 3-10 years; computers and software — 3 years.

Marketing

The Company expenses marketing costs as incurred. Television advertising costs are expensed during the period in which the advertisements are aired.

Credit Card Fraud Losses

The Company experiences fraud losses from the unauthorized use of credit cards. Transactions suspected of being fraudulent are charged to non-interest expense after a 60-day investigation period.

Income Taxes

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

Segment Reporting

The Company maintains three distinct operating segments: consumer lending, auto finance and international. The consumer lending segment is comprised primarily of credit card lending activities in the United States. The auto finance segment consists of automobile lending activities. The international segment is comprised primarily of credit card lending activities in the United Kingdom and Canada. Consumer lending is the Company's only reportable business segment, based on the quantitative thresholds applied to the managed loan portfolio for reportable segments provided in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

The accounting policies of these segments are the same as those described above. Management measures the performance of its business segments on a managed basis and makes resource allocation decisions based upon several factors, including income before taxes, less indirect expenses. Substantially all of the Company's managed assets, revenue and income are derived from the consumer lending segment in all periods presented. All revenue considered for the quantitative thresholds are generated from external customers.

Derivative Instruments and Hedging Activities

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of Effective Date of FASB Statement No. 133," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," (collectively, "SFAS 133") on January 1, 2001. SFAS 133 required the Company to recognize all of its derivative instruments as either assets or liabilities in the balance sheet at fair

value. The accounting for changes in the fair value (i.e., gains and losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation. The adoption of SFAS 133 resulted in a cumulative-effect adjustment decreasing other comprehensive income by \$27,222, net of an income tax benefit of \$16,685.

For derivative instruments that are designated and qualify as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk is recognized in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. For derivative instruments that are designated and qualify as hedges of a net investment in a foreign operation, the gain or loss is reported in other comprehensive income as part of the cumulative translation adjustment to the extent that it is effective. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

The Company formally documents all hedging relationships, as well as its risk management objective and strategy for undertaking the hedge transaction. At inception and at least quarterly, the Company also formally assesses whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the hedged items to which they are designated and whether those derivatives may be expected to remain highly effective in future periods. The Company will discontinue hedge accounting prospectively when it is determined that a derivative has ceased to be highly effective as a hedge.

Prior to January 1, 2001, the Company also used interest rate swap contracts and foreign exchange contracts for hedging purposes. Amounts paid or received on interest rate and currency swaps were recorded on an accrual basis as an adjustment to the related income or expense of the item to which the agreements were designated. At December 31, 2000, the related amounts payable to counterparties was \$26,727. Changes in the fair value of interest rate swaps were not reflected in the financial statements. Changes in the fair value of foreign currency contracts and currency swaps were recorded in the period in which they occurred as foreign currency gains or losses in other non-interest income, effectively offsetting the related gains or losses on the items to which they were designated. Realized gains and losses at the time of termination, sale or repayment of a derivative financial instrument are recorded in a manner consistent with its original designation. Amounts were deferred and amortized as an adjustment to the related income or expense over the original period of exposure, provided the designated asset or liability continued to exist, or in the case of anticipated transactions, was probable of occurring. Realized and unrealized changes in the fair value of swaps or foreign exchange contracts, designated with items that no longer exist or are no longer probable of occurring, were recorded as a component of the gain or loss arising from the disposition of the designated item. At December 31, 2000, the gross unrealized gains in the portfolio were \$23,890. Under the terms of certain swaps, each party may be required to pledge collateral if the market value of the swaps exceeds an amount set forth in the agreement or in the event of a change in its credit rating. At December 31, 2000, the Company had pledged \$55,364 of such collateral.

Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," but retains the requirements of SFAS No. 121 to test long-lived assets for impairment and removes goodwill from its scope. In addition, the changes presented in SFAS No. 144 require that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions. Under SFAS No. 144, discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The implementation of SFAS No. 144 is not expected to have a material impact on the earnings or financial position of the Company.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," effective for business combinations initiated after June 30, 2001, and SFAS No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under SFAS No. 141, the pooling of interests method of accounting for business

combinations is eliminated. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the pronouncement. Other intangible assets will continue to be

amortized over their useful lives. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite-lived intangible assets. The adoption of SFAS No. 142 in 2002 is not expected to have a material impact on the earnings or financial position of the Company.

Note B

Securities Available for Sale

Securities available for sale as of December 31, 2001, 2000 and 1999 were as follows:

| | Maturity Schedule | | | | Market Value Totals | Amortized Cost Totals |
|--|-------------------|-------------------|------------------|--------------------|---------------------|-----------------------|
| | 1 Year or Less | 1-5 Years | 5-10 Years | Over 10 Years | | |
| December 31, 2001 | | | | | | |
| U.S. Treasury and other U.S. government agency obligations | \$ 256,548 | \$ 748,224 | \$800,184 | | \$ 1,804,956 | \$ 1,796,033 |
| Collateralized mortgage obligations | | | 19,814 | \$ 616,863 | 636,677 | 628,897 |
| Mortgage-backed securities | | | 8,536 | 640,171 | 648,707 | 662,098 |
| Other | 1,092 | 424 | 244 | 23,791 | 25,551 | 25,678 |
| Total | \$ 257,640 | \$ 748,648 | \$828,778 | \$1,280,825 | \$ 3,115,891 | \$ 3,112,706 |

December 31, 2000

| | | | | | | |
|--|-------------------|-------------------|------------------|-------------------|---------------------|---------------------|
| U.S. Treasury and other U.S. government agency obligations | \$ 283,607 | \$ 893,745 | \$ 10,702 | | \$ 1,188,054 | \$ 1,178,386 |
| Collateralized mortgage obligations | | | 20,867 | \$ 391,240 | 412,107 | 414,770 |
| Mortgage-backed securities | 3,752 | | 11,420 | 61,648 | 76,820 | 74,695 |
| Other | 16,260 | 1,380 | 343 | 1,851 | 19,834 | 19,986 |
| Total | \$ 303,619 | \$ 895,125 | \$ 43,332 | \$ 454,739 | \$ 1,696,815 | \$ 1,687,837 |

December 31, 1999

| | | | | | | |
|--|-------------------|---------------------|------------------|-------------------|---------------------|---------------------|
| Commercial paper | \$ 24,927 | | | | \$ 24,927 | \$ 24,927 |
| U.S. Treasury and other U.S. government agency obligations | 437,697 | \$ 1,014,335 | | | 1,452,032 | 1,471,783 |
| Collateralized mortgage obligations | | | \$ 37,421 | \$ 299,846 | 337,267 | 345,619 |
| Mortgage-backed securities | | 5,293 | 13,828 | | 19,121 | 19,426 |
| Other | 19,443 | 1,361 | 441 | 1,829 | 23,074 | 23,254 |
| Total | \$ 482,067 | \$ 1,020,989 | \$ 51,690 | \$ 301,675 | \$ 1,856,421 | \$ 1,885,009 |

| | Weighted Average Yields | | | |
|--|-------------------------|--------------|--------------|---------------|
| | 1 Year or Less | 1-5 Years | 5-10 Years | Over 10 Years |
| December 31, 2001 | | | | |
| U.S. Treasury and other U.S. government agency obligations | 5.90% | 5.17% | 5.78% | |
| Collateralized mortgage obligations | | | 7.10 | 6.20% |
| Mortgage-backed securities | | | 6.67 | 6.00 |
| Other | 3.26 | 6.36 | 6.49 | 6.07 |
| Total | 5.89% | 5.17% | 5.82% | 6.09% |

Weighted average yields were determined based on amortized cost. Gross realized gains and losses on the sales of securities were \$19,097 and \$5,602, respectively, for the year ended December 31, 2001. Substantially no gains or losses on sales of securities were realized for the years ended December 31, 2000 and 1999.

Note C

Allowance for Loan Losses

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

| Year Ended December 31 | 2001 | 2000 | 1999 |
|------------------------------|-------------|------------|------------|
| Balance at beginning of year | \$ 527,000 | \$ 342,000 | \$ 231,000 |
| Provision for loan losses | 989,836 | 718,170 | 382,948 |
| Acquisitions/other | 14,800 | (549) | 3,522 |
| Charge-offs | (1,018,350) | (772,402) | (400,143) |
| Recoveries | 326,714 | 239,781 | 124,673 |
| Net charge-offs | (691,636) | (532,621) | (275,470) |
| Balance at end of year | \$ 840,000 | \$ 527,000 | \$ 342,000 |

Note D

Premises and Equipment

Premises and equipment were as follows:

| December 31 | 2001 | 2000 |
|---|------------|------------|
| Land | \$ 90,377 | \$ 10,917 |
| Buildings and improvements | 305,312 | 279,979 |
| Furniture and equipment | 680,942 | 621,404 |
| Computer software | 216,361 | 140,712 |
| In process | 144,527 | 104,911 |
| | 1,437,519 | 1,157,923 |
| Less: Accumulated depreciation and amortization | (677,836) | (493,462) |
| Total premises and equipment, net | \$ 759,683 | \$ 664,461 |

Depreciation and amortization expense was \$235,997, \$180,289 and \$122,778, for the years ended December 31, 2001, 2000 and 1999, respectively.

Note E

Borrowings

Borrowings as of December 31, 2001 and 2000 were as follows:

| | 2001 | | 2000 | |
|----------------------------------|---------------------|-----------------------|--------------|-----------------------|
| | Outstanding | Weighted Average Rate | Outstanding | Weighted Average Rate |
| Interest-Bearing Deposits | | | | |
| Deposits | \$12,838,968 | 5.34% | \$ 8,379,025 | 6.67% |
| Senior Notes | | | | |
| Bank — fixed rate | \$ 4,454,041 | 6.96% | \$ 3,154,555 | 6.98% |
| Bank — variable rate | 332,000 | 3.45 | 347,000 | 7.41 |
| Corporation | 549,188 | 7.20 | 549,042 | 7.20 |
| Total | \$ 5,335,229 | | \$ 4,050,597 | |

Other Borrowings

| | | | | |
|---|--------------|-------|--------------|-------|
| Secured borrowings | \$ 3,013,418 | 4.62% | \$ 1,773,450 | 6.76% |
| Junior subordinated capital income securities | 98,693 | 3.78 | 98,436 | 8.31 |
| Federal funds purchased and resale agreements | 434,024 | 1.91 | 1,010,693 | 6.58 |
| Other short-term borrowings | 449,393 | 2.29 | 43,359 | 6.17 |
| Total | \$ 3,995,528 | | \$ 2,925,938 | |

Interest-Bearing Deposits

As of December 31, 2001, the aggregate amount of interest-bearing deposits with accounts equal to or exceeding \$100 was \$4,622,996.

Bank Notes

In June 2000, the Bank entered into a Global Bank Note Program, from which it may issue and sell up to a maximum of U.S. \$5,000,000 aggregate principal amount (or the equivalent thereof in other currencies) of senior global bank notes and subordinated global bank notes with maturities from 30 days to 30 years. This Global Bank Note Program must be renewed annually. During 2001, the Bank issued a \$1,250,000 five-year fixed rate bank note and a \$750,000 three-year fixed rate senior note under the Global Bank Note Program. As of December 31, 2001 and 2000, the Bank had \$2,958,067 and \$994,794, respectively, outstanding with original maturities of three and five years. The Company has historically issued senior unsecured debt of the Bank through its \$8,000,000 Domestic Bank Note Program (of which, up to \$200,000 may be subordinated bank notes). Under the Domestic Bank Note Program, the Bank from time to time could issue senior bank notes at fixed or variable rates tied to London InterBank Offering Rates ("LIBOR") with maturities from 30 days to 30 years. The Company did not renew such program and it is no longer available for issuances. As of December 31, 2001 and 2000, there were

\$1,827,974 and \$2,501,761, respectively, outstanding under the Domestic Bank Note Program, with no subordinated bank notes issued or outstanding.

The Corporation has three shelf registration statements under which the Corporation from time to time may offer and sell (i) senior or subordinated debt securities, consisting of debentures, notes and/or other unsecured evidences, (ii) preferred stock, which may be issued in the form of depository shares evidenced by depository receipts and (iii) common stock. The amount of securities registered is limited to a \$1,550,000 aggregate public offering price or its equivalent (based on the applicable exchange rate at the time of sale) in one or more foreign currencies, currency units or composite currencies as shall be designated by the Corporation. At December 31, 2001, the Corporation had existing unsecured senior debt outstanding under the shelf registrations of \$550,000, including \$125,000 maturing in 2003, \$225,000 maturing in 2006, and \$200,000 maturing in 2008. During 2001, the Corporation issued 6,750,390 shares of common stock in a public offering under the shelf registration statement that resulted in proceeds of \$412,800. At December 31, 2001, remaining availability under the shelf registration statements was \$587,200. On January 30, 2002, the Company issued \$300,000 aggregate principal amount of senior notes due 2007, which reduced the availability under the shelf registration statements to \$287,200. The Company has also filed a new shelf registration statement that will enable the Company to sell senior or subordinated debt securities, preferred stock, common stock, common equity units, stock purchase contracts and, through one or more subsidiary trusts, other preferred securities, in an aggregate amount not to exceed \$1,500,000.

Secured Borrowings

Capital One Auto Finance, Inc., a subsidiary of the Company, currently maintains five agreements to transfer pools of consumer loans accounted for as secured borrowings. The agreements were entered into in December 2001, July 2001, December 2000, May 2000 and May 1999, relating to the transfer of pools of consumer loans totaling \$1,300,000, \$910,000, \$425,000, \$325,000 and \$350,000, respectively. Principal payments on the borrowings are based on principal collections, net of losses, on the transferred consumer loans. The secured borrowings accrue interest predominantly at fixed rates and mature between June 2006 and September 2008, or earlier depending upon the repayment of the underlying consumer loans. At December 31, 2001 and 2000, \$2,536,168 and \$870,185, respectively, of the secured borrowings were outstanding.

PeopleFirst Inc. ("PeopleFirst"), a subsidiary of Capital One Auto Finance, Inc., currently maintains four agreements to transfer pools of consumer loans accounted for as secured borrowings. The agreements were entered into between 1998 and 2000 relating to the transfer of pools of consumer loans totaling approximately \$910,000. Principal payments on the borrowings are based on principal collections, net of losses, on the transferred consumer loans. The secured borrowings

accrue interest at fixed rates and mature between September 2003 and September 2007, or earlier depending upon the repayment of the underlying consumer loans. At December 31, 2001, \$477,250 of the secured borrowings was outstanding.

In 1999, the Bank entered into a £750,000 revolving credit facility collateralized by a security interest in certain consumer loan assets of the Company. Interest on the facility is based on commercial paper rates or LIBOR. The facility matured in August 2001. At December 31, 2000, £600,000 (\$895,800 equivalent) was outstanding under the facility.

Junior Subordinated Capital Income Securities

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

Other Short-Term Borrowings

In October 2001, PeopleFirst entered into a \$500,000 revolving credit facility collateralized by a security interest in certain consumer loan assets. Interest on the facility is based on LIBOR. The facility matures in March 2002. At December 31, 2001, \$443,110 was outstanding under the facility.

During 2000, the Bank entered into a multicurrency revolving credit facility (the "Multicurrency Facility"). The Multicurrency Facility is intended to finance the Company's business in the United Kingdom and was initially comprised of two Tranches, each in the amount of Euro 300,000 (\$270,800 equivalent based on the exchange rate at closing). The Tranche A facility was intended for general corporate purposes and terminated on August 9, 2001. The Tranche B facility is intended to replace and extend the Corporation's prior credit facility for U.K. pounds sterling and Canadian dollars, which matured on August 29, 2000. The Tranche B facility terminates August 9, 2004. The Corporation serves as guarantor of all borrowings under the Multicurrency Facility. In October 2000, the Bank's subsidiary, Capital One Bank Europe plc, replaced the Bank as a borrower under the Bank's guarantee. As of December 31, 2001 and 2000, the Company had no outstandings under the Multicurrency Facility.

During 2000, the Company entered into four bilateral revolving credit facilities with different lenders (the "Bilateral Facilities"). The Bilateral Facilities were used to finance the Company's business in Canada and for general corporate purposes. Two of the Bilateral Facilities each for Capital One Inc., guaranteed by the Corporation, in the amount of C\$100,000 (\$67,400 equivalent based on exchange rate at closing),

were terminated in February 2001. The other two Bilateral Facilities were for the Corporation in the amount of \$70,000 and \$30,000 and were terminated in March 2001.

During 1999, the Company entered into a four-year, \$1,200,000 unsecured revolving credit arrangement (the "Credit Facility"). The Credit Facility is comprised of two tranches: a \$810,000 Tranche A facility available to the Bank and the Savings Bank, including an option for up to \$250,000 in multicurrency availability; and a \$390,000 Tranche B facility available to the Corporation, the Bank and the Savings Bank, including an option for up to \$150,000 in multicurrency availability. Each tranche under the facility is structured as a four-year commitment and is available for general corporate purposes. All borrowings under the Credit Facility are based on varying terms of LIBOR. The Bank has irrevocably undertaken to honor any demand by the lenders to repay any borrowings that are due and payable by the Savings Bank but which have not been paid. Any borrowings under the Credit Facility will mature on May 24, 2003; however, the final maturity of each tranche may be extended for an additional one-year period with the lenders' consent. As of December 31, 2001 and 2000, the Company had no outstandings under the Credit Facility.

Interest-bearing deposits, senior notes and other borrowings as of December 31, 2001, mature as follows:

| | Interest-Bearing Deposits | Senior Notes | Other Borrowings | Total |
|------------|------------------------------|-----------------|---------------------|---------------|
| 2002 | \$ 3,723,143 | \$ 518,635 | \$ 1,691,436 | \$ 5,933,214 |
| 2003 | 2,611,507 | 1,105,861 | 326,287 | 4,043,655 |
| 2004 | 2,182,684 | 1,042,184 | 1,043,941 | 4,268,809 |
| 2005 | 1,701,675 | 812,462 | 415,000 | 2,929,137 |
| 2006 | 2,327,061 | 1,456,800 | 71,000 | 3,854,861 |
| Thereafter | 292,898 | 399,287 | 447,864 | 1,140,049 |
| Total | \$ 12,838,968 | \$ 5,335,229 | \$ 3,995,528 | \$ 22,169,725 |

Note F

Associate Benefit and Stock Plans

The Company sponsors a contributory Associate Savings Plan in which substantially all full-time and certain part-time associates are eligible to participate. The Company makes contributions to each eligible employee's account, matches a portion of associate contributions and makes discretionary contributions based upon the Company meeting a certain earnings per share target. The Company's contributions to this plan, all of which were in cash, amounted to \$64,299, \$44,486 and \$27,157 for the years ended December 31, 2001, 2000 and 1999, respectively.

The Company has five stock-based compensation plans. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for its stock-based compensation plans. In accordance with APB 25, no compensation cost has been recognized for the Company's fixed stock options, since the exercise price of all such options equals or exceeds the market price of the underlying stock on the date of grant, nor for the Associate Stock Purchase Plan (the "Purchase Plan"), which is considered to be noncompensatory. For the performance-based option grants discussed below, compensation cost is measured as the difference between the exercise price and the target stock price required for vesting and is recognized over the estimated vesting period. The Company recognized \$1,768, \$10,994 and \$44,542 of compensation cost relating to its associate stock plans for the years ended December 31, 2001, 2000 and 1999, respectively. Additionally, the Company recognized \$113,498, \$47,025 and \$1,046 of tax benefits from the exercise of stock options by its associates during 2001, 2000 and 1999, respectively.

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

| Year Ended December 31 | 2001 | 2000 | 1999 |
|--|-------|-------|-------|
| Assumptions | | | |
| Dividend yield | .19% | .21% | .24% |
| Volatility factors of expected market price of stock | 50% | 49% | 45% |
| Risk-free interest rate | 4.15% | 6.09% | 5.29% |
| Expected option lives (in years) | 8.5 | 4.5 | 5.4 |

Pro Forma Information

| | | | |
|----------------------------|------------|------------|------------|
| Net income | \$ 597,313 | \$ 412,987 | \$ 325,701 |
| Basic earnings per share | \$ 2.85 | \$ 2.10 | \$ 1.65 |
| Diluted earnings per share | \$ 2.71 | \$ 1.97 | \$ 1.55 |

In January 2002, the Company established the 2002 Non-Executive Officer Stock Incentive Plan. Under the plan, the Company has reserved 8,500,000 common shares for issuance in the form of nonstatutory stock options, stock appreciation rights, restricted stock awards, and incentive stock awards. The exercise price of each stock option will equal or exceed the market price of the Company's stock on the date of grant, the maximum term will be ten years, and vesting will be determined at the time of grant. All of the shares remain available for future grants and all employees are eligible for awards except for executive officers.

Under the 1994 Stock Incentive Plan, the Company has reserved 67,112,640 common shares as of December 31, 2001, for issuance in the form of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock and incentive stock. The exercise price of each stock option issued to date equals or exceeds the market price of the Company's stock on the date of grant. Each option's maximum term is ten years. The number of shares available for future grants was 2,770,459, 1,221,281, and 2,191,884 as of December 31, 2001, 2000 and 1999, respectively. Other than the performance-based options discussed below, options generally vest annually or on a fixed date over three years and expire beginning November 2004. During 2001, 934,102 shares of restricted stock were issued under the plan.

In April 1999, the Company established the 1999 Stock Incentive Plan. Under the plan, the Company has reserved 600,000 common shares for issuance in the form of nonstatutory stock options. The exercise price of each stock option equals or exceeds the market price of the Company's stock on the date of grant. The maximum term of each option is ten years. As of December 31, 2001, 2000 and 1999 the number of shares available for future grant was 305,350, 294,800 and 283,800, respectively. All options granted under the plan to date were granted on April 29, 1999 and expire on April 29, 2009. These options vested immediately upon the optionee's execution of an intellectual property protection agreement with the Company.

In October 2001, the Company's Board of Directors approved a stock options grant to senior management (EntrepreneurGrant V). This grant was composed of 6,502,318 options to certain key managers (including 3,535,000 performance-based options to the Company's Chief Executive Officer ("CEO") and Chief Operating Officer ("COO")) at the fair market value on the date of grant. The CEO and COO gave up their salaries, annual cash incentives, annual option grants and Senior Executive Retirement Plan contributions for the years 2002 and 2003 in exchange for their EntrepreneurGrant V options. Other members of senior management had the opportunity to forego up to 50 percent of their expected annual cash incentives for 2002 through 2004 in exchange for performance-based options. All performance-based options under this grant will vest on October 18, 2007. Vesting will be accelerated if the Company's common stock's fair

market value is at or above \$83.87 per share, \$100.64 per share, \$120.77 per share or \$144.92 per share in any five trading days during the performance period on or before October 18, 2004, 2005, 2006 or 2007, respectively. In addition, the performance-based options under this grant will also vest upon the achievement of at least \$5.03 cumulative diluted earnings per share in any four consecutive quarters ending in the fourth quarter of 2004, or upon a change of control of the Company. In addition, all executives were granted standard options under a retention grant (including 2,225,000 to the Company's CEO and COO) that will vest annually in equal installments over the next three years.

In May 2000, the Company's Board of Directors approved a stock option grant of 1,690,380 options to all managers, excluding the Company's CEO and COO, at the fair market value on the date of grant. All options under this grant will vest ratably over three years.

In April 1999, the Company's Board of Directors approved a stock option grant to senior management ("EntrepreneurGrant IV"). This grant was composed of 7,636,107 options to certain key managers (including 1,884,435 options to the Company's CEO and COO) with an exercise price equal to the fair market value on the date of grant. The CEO and COO gave up their salaries for the year 2001 and their annual cash incentives, annual option grants and Senior Executive Retirement Plan contributions for the years 2000 and 2001 in exchange for their EntrepreneurGrant IV options. Other members of senior management had the opportunity to give up all potential annual stock option grants for 1999 and 2000 in exchange for this one-time grant. All options under this grant will vest on April 29, 2008, or earlier if the common stock's fair market value is at or above \$100 per share for at least ten trading days in any 30 consecutive calendar day period on or before June 15, 2002, or upon a change of control of the Company. These options will expire on April 29, 2009.

In May 2001, the Company's Board of Directors approved an amendment to EntrepreneurGrant IV that provides additional vesting criteria. As amended, EntrepreneurGrant IV will continue to vest under its original terms, and will also vest if the Company's common stock price reaches a fair market value of at least \$120 per share or \$144 per share for ten trading days within 30 calendar days prior to June 15, 2003 or June 15, 2004, respectively. In addition, 50% of the EntrepreneurGrant IV stock options held by middle management as of the grant date will vest on April 29, 2005, regardless of stock performance.

In June 1998, the Company's Board of Directors approved a grant to executive officers ("EntrepreneurGrant III"). This grant consisted of 2,611,896 performance-based options granted to certain key managers (including 2,000,040 options to the Company's CEO and COO), which were approved by the stockholders in April 1999, at the then market price of \$33.77 per share. The Company's CEO and COO gave up 300,000 and 200,010 vested options (valued at \$8,760 in total), respectively, in exchange for their EntrepreneurGrant III options. Other executive officers gave up future cash compensation for each of the next three years in exchange for the options. These options vested in September 2000 when the market price of the Company's stock remained at or above \$58.33 for at least ten trading days in a 30 consecutive calendar day period.

In April 1998, upon stockholder approval, a 1997 stock option grant to senior management ("EntrepreneurGrant II") became effective at the December 18, 1997 market price of \$16.25 per share. This grant included 3,429,663 performance-based options granted to certain key managers (including 2,057,265 options to the Company's CEO and COO), which vested in April 1998 when the market price of the Company's stock remained at or above \$28.00 for at least ten trading days in a 30 consecutive calendar day period. The grant also included 671,700 options that vested in full on December 18, 2000.

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

The Company maintains two non-associate directors stock incentive plans: the 1995 Non-Employee Directors Stock Incentive Plan and the 1999 Non-Employee Directors Stock Incentive Plan. The 1995 plan originally authorized 1,500,000 shares of the Company's common stock for the automatic grant of restricted stock and stock options to eligible members of the Company's Board of Directors. However, in April 1999, the Company terminated the ability to make grants from the 1995 plan. Options granted prior to termination vest after one year and their maximum term is ten years. The exercise price of each option equals the market price of the Company's stock on the date of grant. As of December 31, 2001, there was no outstanding restricted stock under this plan.

In April 1999, the Company established the 1999 Non-Employee Directors Stock Incentive Plan. The plan authorizes a maximum of 825,000 shares of the Company's common stock for the grant of nonstatutory stock options to eligible members of the Company's Board of Directors. In April 1999, all non-employee directors of the Company were given the option to receive performance-based options under this plan in lieu of their annual cash retainer and their time-vesting options for each of 1999, 2000 and 2001. As a result, 497,490 performance-based options were granted to certain non-employee directors of the Company. The options vest in full if, on or before June 15, 2002, the market value of the Company's stock equals or exceeds \$100 per share for ten trading days in a 30 consecutive calendar day period. All options vest immediately upon a change of control of the Company on or before June 15, 2002. As of December 31, 2001 and 2000, 22,510 and 27,510 shares, respectively, were available for grant under this plan. All options under this plan have a maximum term of ten years. The exercise price of each option equals or exceeds the market price of the Company's stock on the date of grant.

In October 2001, the Company granted 305,000 options to the non-executive members of the Board of Directors for director compensation for the years 2002, 2003 and 2004. These options were granted at the fair market value on the date of grant and vest on October 18, 2010. Vesting will be accelerated if the stock's fair market value is at or above \$83.87 per share, \$100.64 per share, \$120.77 per share, \$144.92 per share, \$173.91 per share, \$208.70 per share or \$250.43 per share for at least five days during the performance period on or before October 18, 2004, 2005, 2006, 2007, 2008, 2009 or 2010, respectively. In addition, the options under this grant will vest upon the achievement of at least \$5.03 cumulative diluted earnings per share for any four consecutive quarters ending in the fourth quarter 2004, or upon a change in control of the Company.

A summary of the status of the Company's options as of December 31, 2001, 2000 and 1999, and changes for the years then ended is presented below:

| | 2001 | | 2000 | | 1999 | |
|---|-------------------|---|-------------------|---|-------------------|---|
| | Options (000s) | Weighted- Average Exercise Price Per Share | Options (000s) | Weighted- Average Exercise Price Per Share | Options (000s) | Weighted- Average Exercise Price Per Share |
| Outstanding at beginning of year | 36,689 | \$ 30.57 | 37,058 | \$ 27.24 | 29,139 | \$ 15.99 |
| Granted | 21,114 | 49.93 | 4,063 | 51.14 | 10,541 | 55.71 |
| Exercised | (6,950) | 12.29 | (3,330) | 12.20 | (2,111) | 11.44 |
| Canceled | (707) | 55.89 | (1,102) | 49.79 | (511) | 38.17 |
| Outstanding at end of year | 50,146 | \$ 40.84 | 36,689 | \$ 30.57 | 37,058 | \$ 27.24 |
| Exercisable at end of year | 18,714 | \$ 23.25 | 22,108 | \$ 16.48 | 19,635 | \$ 12.16 |
| Weighted-average fair value of options granted during the year | | \$ 29.73 | | \$ 23.41 | | \$ 25.92 |

The following table summarizes information about options outstanding as of December 31, 2001:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|---------------------------------|---|---|---------------------------------|---|
| | Number Outstanding (000s) | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price Per Share | Number Exercisable (000s) | Weighted-Average Exercise Price Per Share |
| \$4.31–\$6.46 | 199 | 3.10 years | \$ 6.11 | 199 | \$ 6.11 |
| \$6.47–\$9.70 | 261 | 4.00 | 8.07 | 261 | 8.07 |
| \$9.71–\$14.56 | 8,069 | 3.90 | 10.12 | 8,069 | 10.12 |
| \$14.57–\$21.85 | 2,573 | 5.90 | 16.13 | 2,573 | 16.13 |
| \$21.86–\$32.79 | 856 | 6.30 | 31.64 | 856 | 31.64 |
| \$32.80–\$49.20 | 24,663 | 7.70 | 46.00 | 5,459 | 37.66 |
| \$49.21–\$72.22 | 13,525 | 7.90 | 56.27 | 1,297 | 58.50 |

Under the Company's Associate Stock Purchase Plan, associates of the Company are eligible to purchase common stock through monthly salary deductions of a maximum of 15% and a minimum of 1% of monthly base pay. To date, the amounts deducted are applied to the purchase of unissued common or treasury stock of the Company at 85% of the current market price. Shares may also be acquired on the market. An aggregate of three million common shares has been authorized for issuance under the Associate Stock Purchase Plan, of which 847,582 shares were available for issuance as of December 31, 2001.

On November 16, 1995, the Board of Directors of the Company declared a dividend distribution of one Right for each outstanding share of common stock. As amended, each Right entitles a registered holder to purchase from the Company 1/300th of a share of the Company's authorized Cumulative Participating Junior Preferred Stock (the "Junior Preferred Shares") at a price of \$200 per 1/300th of a share, subject to adjustment. The Company has reserved one million shares of its authorized preferred stock for the Junior Preferred Shares. Because of the nature of the Junior Preferred Shares' dividend and liquidation rights, the value of the 1/300th interest in a Junior Preferred Share purchasable upon exercise of each Right should

approximate the value of one share of common stock. Initially, the Rights are not exercisable and trade automatically with the common stock. However, the Rights generally become exercisable and separate certificates representing the Rights will be distributed, if any person or group acquires 15% or more of the Company's outstanding common stock or a tender offer or exchange offer is announced for the Company's common stock. Upon such event, provisions would also be made so that each holder of a Right, other than the acquiring person or group, may exercise the Right and buy common stock with a market value of twice the \$200 exercise price. The Rights expire on November 29, 2005, unless earlier redeemed by the Company at \$0.01 per Right prior to the time any person or group acquires 15% of the outstanding common stock. Until the Rights become exercisable, the Rights have no dilutive effect on earnings per share.

In July 1997, the Company's Board of Directors voted to repurchase up to six million shares of the Company's common stock to mitigate the dilutive impact of shares issuable under its benefit plans, including its Purchase Plan, dividend reinvestment plan and stock incentive plans. In July 1998 and February 2000, the Company's Board of Directors

voted to increase this amount by 4,500,000 and 10,000,000 shares, respectively, of the Company's common stock. For the year ended December 31, 2001, the Company did not repurchase shares, under this program. For the years ended December 31, 2000 and 1999, the Company repurchased 3,028,600 and 2,250,000 shares, respectively, under this program. Certain treasury shares have been reissued in connection with the Company's benefit plans.

In 1997, the Company implemented its dividend reinvestment and stock purchase plan ("DRP"), which allows participating stockholders to purchase additional shares of the Company's common stock through automatic reinvestment of dividends or optional cash investments. In 2001, the Company issued 659,182 shares of new common stock under the DRP.

Note G

Other Non-Interest Expense

| Year Ended December 31 | 2001 | 2000 | 1999 |
|----------------------------------|------------|------------|------------|
| Professional services | \$ 230,502 | \$ 163,905 | \$ 145,398 |
| Collections | 253,728 | 156,592 | 101,000 |
| Fraud losses | 65,707 | 53,929 | 22,476 |
| Bankcard association assessments | 83,255 | 51,726 | 33,301 |
| Other | 174,757 | 130,132 | 131,928 |
| Total | \$ 807,949 | \$ 556,284 | \$ 434,103 |

Note H

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2001 and 2000 were as follows:

| December 31 | 2001 | 2000 |
|-------------------------------------|------------|------------|
| Deferred tax assets: | | |
| Allowance for loan losses | \$ 107,389 | \$ 155,218 |
| Unearned income | 260,208 | 171,516 |
| Stock incentive plan | 48,117 | 56,615 |
| Foreign | 4,203 | 12,366 |
| Net operating losses | 23,119 | 4,198 |
| State taxes, net of federal benefit | 39,212 | 18,560 |
| Other | 89,831 | 75,181 |
| Subtotal | 572,079 | 493,654 |
| Valuation allowance | (41,359) | (35,642) |
| Total deferred tax assets | 530,720 | 458,012 |

Deferred tax liabilities:

| | | |
|--|--------------|------------|
| Securizations | 75,084 | 38,307 |
| Deferred revenue | 624,254 | 222,106 |
| Other | 44,322 | 39,591 |
| Total deferred tax liabilities | 743,660 | 300,004 |
| Net deferred tax assets (liabilities) before unrealized (gains) losses | (212,940) | 158,008 |
| Cumulative effect of change in accounting principle | 16,685 | |
| Unrealized losses on cash flow hedging instruments | 28,686 | |
| Unrealized (gains) losses on securities available for sale | (5,453) | 478 |
| Net deferred tax assets (liabilities) | \$ (173,022) | \$ 158,486 |

During 2001, the Company increased its valuation allowance by \$5,717 for certain state and international loss carryforwards generated during the year.

At December 31, 2001, the Company had net operating losses available for federal income tax purposes of \$66,054 that are subject to certain annual limitations under the Internal Revenue Code, and expire at various dates from 2018 to 2020. Also, foreign net operation losses of \$71 (net of related valuation allowances) are without expiration limitations.

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

| Year Ended December 31 | 2001 | 2000 | 1999 |
|------------------------|------------|------------|------------|
| Federal taxes | \$ 138 | \$ 284,661 | \$ 232,910 |
| State taxes | 2,214 | 578 | 754 |
| International taxes | 555 | 1,156 | |
| Deferred income taxes | 390,548 | 1,445 | (19,738) |
| Income taxes | \$ 393,455 | \$ 287,840 | \$ 213,926 |

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

| Year Ended December 31 | 2001 | 2000 | 1999 |
|------------------------------|---------------|--------|--------|
| Income tax at statutory | | | |
| federal tax rate | 35.00% | 35.00% | 35.00% |
| Other, primarily state taxes | 3.00 | 3.00 | 2.07 |
| Income taxes | 38.00% | 38.00% | 37.07% |

Note I

Cumulative Other Comprehensive Income and Earnings Per Share

The following table presents the cumulative balances of the components of other comprehensive income, net of tax:

| As of December 31 | 2001 | 2000 | 1999 |
|--|--------------------|----------|-------------|
| Unrealized gains (losses) | | | |
| on securities | \$ 8,894 | \$ (777) | \$ (32,608) |
| Foreign currency translation adjustments | (19,466) | 3,695 | 1,346 |
| Unrealized losses on cash flow hedging instruments | (74,026) | | |
| Total cumulative other comprehensive income (loss) | \$ (84,598) | \$ 2,918 | \$ (31,262) |

Unrealized gains (losses) on securities included gross unrealized gains of \$44,568 and \$17,075, and gross unrealized losses of \$30,224 and \$18,332, as of December 31, 2001 and 2000, respectively.

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

| Year Ended December 31 (Shares in Thousands) | 2001 | 2000 | 1999 |
|---|-------------------|------------|------------|
| Numerator: | | | |
| Net income | \$ 641,965 | \$ 469,634 | \$ 363,091 |
| Denominator: | | | |
| Denominator for basic earnings per share — | | | |
| Weighted average shares | 209,867 | 196,478 | 197,594 |
| Effect of dilutive securities: | | | |
| Stock options | 10,709 | 12,971 | 13,089 |
| Dilutive potential common shares | 10,709 | 12,971 | 13,089 |
| Denominator for diluted earnings per share — | | | |
| Adjusted weighted average shares | 220,576 | 209,449 | 210,683 |
| Basic earnings per share | \$ 3.06 | \$ 2.39 | \$ 1.84 |
| Diluted earnings per share | \$ 2.91 | \$ 2.24 | \$ 1.72 |

Securities of approximately 5,217,000, 5,496,000 and 5,200,000 during 2001, 2000 and 1999, respectively, were not included in the computation of diluted earnings per share because their inclusion would be antidilutive.

Note J

Purchase of PeopleFirst, Inc. and AmeriFee Corporation

In October 2001, the Company acquired PeopleFirst Inc. (“PeopleFirst”). Based in San Diego, California, PeopleFirst is the largest online provider of direct motor vehicle loans. The acquisition price for PeopleFirst was approximately \$174,000, paid primarily through the issuance of approximately 3,746,000 shares of the Company’s common stock. This purchase combination created approximately \$166,000 in goodwill, as approximately \$763,000 of assets was acquired and \$755,000 of liabilities was assumed. The Company will perform impairment tests on the goodwill purchased each year in accordance with SFAS No. 142.

In May 2001, the Company acquired AmeriFee Corporation (“AmeriFee”). AmeriFee is a financial services firm based in Southborough, Massachusetts that provides financing solutions for consumers seeking elective medical and dental procedures. The acquisition was accounted for as a purchase business combination. The initial acquisition price for AmeriFee was \$81,500, paid through approximately \$64,500 of cash and approximately 257,000 shares of the Company’s common stock. This purchase combination created approximately \$80,000 in goodwill. The goodwill prior to December 31, 2001 was amortized on a straight-line basis over 20 years. After December 31, 2001, the Company will cease amortization and perform impairment tests on the book value of the remaining goodwill in accordance with SFAS No. 142. The terms of the acquisition agreement provide for additional consideration to be paid annually if AmeriFee’s results of operations exceed certain targeted levels over the next three years. The additional consideration, up to a maximum of \$454,500, may be paid either in cash or with shares of the Company’s common stock.

Note K

Regulatory Matters

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

could have a material effect on the Company's consolidated financial statements. Additionally, the regulators have broad discretion in applying higher capital requirements. Regulators consider a range of factors in determining capital adequacy, such as an institution's size, quality and stability of earnings, interest rate risk exposure, risk diversification, management expertise, asset quality, liquidity and internal controls.

The most recent notifications received from the regulators categorized the Bank and the Savings Bank as "well-capitalized." To be categorized as "well-capitalized," the Bank and the Savings Bank must maintain minimum capital ratios as set forth in the following table. As of December 31, 2001, there were no conditions or events since the notifications discussed above that management believes would have changed either the Bank or the Savings Bank's capital category.

| Ratios | Minimum For Capital Adequacy Purposes | To Be "Well-Capitalized" Under Prompt Corrective Action Provisions |
|--------------------------|---------------------------------------|--|
| December 31, 2001 | | |
| Capital One Bank | | |
| Tier 1 Capital | 12.95% | 4.00% |
| Total Capital | 15.12 | 8.00 |
| Tier 1 Leverage | 12.09 | 4.00 |
| Capital One, F.S.B. | | |
| Tier 1 Capital | 9.27% | 4.00% |
| Total Capital | 11.21 | 8.00 |
| Tier 1 Leverage | 8.86 | 4.00 |

| | | |
|--------------------------|-------|-------|
| December 31, 2000 | | |
| Capital One Bank | | |
| Tier 1 Capital | 9.30% | 4.00% |
| Total Capital | 11.38 | 8.00 |
| Tier 1 Leverage | 10.02 | 4.00 |
| Capital One, F.S.B. | | |
| Tier 1 Capital | 8.24% | 4.00% |
| Total Capital | 10.90 | 8.00 |
| Tier 1 Leverage | 6.28 | 4.00 |

In November 2001, the four federal banking agencies (the "Agencies") adopted an amendment to the regulatory capital standards regarding the treatment of certain recourse obligations, direct credit substitutes (i.e., guarantees on third-party assets), residual interests in asset securitizations, and other securitized transactions that expose institutions primarily to credit risk. Effective January 1, 2002, this rule amends the Agencies' regulatory capital standards to create greater differentiation in the capital treatment of residual interests. Based on the Company's analysis of the rule adopted by the Agencies, we do not anticipate any material changes to our regulatory capital ratios when the rule becomes effective.

On January 31, 2001, the Agencies issued "Expanded Guidance for Subprime Lending Programs" (the "Guidelines"). The Guidelines, while not constituting a formal regulation, provide guidance to the federal bank examiners regarding the adequacy of capital and loan loss reserves held by insured depository institutions engaged in subprime lending. The Guidelines adopt a broad definition of "subprime" loans which likely covers more than one-third of all consumers in the United States. Because the Company's business strategy is to provide credit card products and other consumer loans to a wide range of consumers, the examiners may view a portion of the Company's loan assets as "subprime." Thus, under the Guidelines, bank examiners could require the Bank or the Savings Bank to hold additional capital (up to one and one-half to three times the minimally required level of capital, as set forth in the Guidelines), or additional loan loss reserves, against such assets. As described above, at December 31, 2001 the Bank and the Savings Bank each met the requirements for a "well-capitalized" institution, and management believes that each institution is holding an appropriate amount of capital or loan loss reserves against higher risk assets. Management also believes we have general risk management practices in place that are appropriate in light of our business strategy. Significantly increased capital or loan loss reserve requirements, if imposed, however, could have a material impact on the Company's consolidated financial statements.

In August 2000, the Bank received regulatory approval and established a subsidiary bank in the United Kingdom. In connection with the approval of its former branch office in the United Kingdom, the Company committed to the Federal Reserve that, for so long as the Bank maintains a branch or subsidiary bank in the United Kingdom, the Company will maintain a minimum Tier 1 Leverage ratio of 3.0%. As of December 31, 2001 and 2000, the Company's Tier 1 Leverage ratio was 11.93% and 11.14%, respectively.

Additionally, certain regulatory restrictions exist that limit the ability of the Bank and the Savings Bank to transfer funds to the Corporation. As of December 31, 2001, retained earnings of the Bank and the Savings Bank of \$864,500 and \$99,800, 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.

Note L

Commitments and Contingencies

As of December 31, 2001, the Company had outstanding lines of credit of approximately \$142,600,000 committed to its customers. Of that total commitment, approximately \$97,400,000 was unused. While this amount represented the total available lines of credit to customers, the Company has not experienced, and does not anticipate, that all of its customers will exercise their entire available line at any given point in time. The Company generally has the right to increase, reduce, cancel, alter or amend the terms of these available lines of credit at any time.

Certain premises and equipment are leased under agreements that expire at various dates through 2011, without taking into consideration available renewal options. Many of these leases provide for payment by the lessee of property taxes, insurance premiums, cost of maintenance and other costs. In some cases, rentals are subject to increase in relation to a cost of living index. Total expenses amounted to \$64,745, \$66,108, and \$37,685 for the years ended December 31, 2001, 2000 and 1999, respectively.

Future minimum rental commitments as of December 31, 2001, for all non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

| | | |
|------------|----|---------|
| 2002 | \$ | 57,619 |
| 2003 | | 51,667 |
| 2004 | | 36,082 |
| 2005 | | 30,366 |
| 2006 | | 21,583 |
| Thereafter | | 56,254 |
| Total | \$ | 253,571 |

The Company has entered into synthetic lease transactions to finance several facilities. A synthetic lease structure typically involves establishing a special purpose vehicle ("SPV") that owns the properties to be leased. The SPV is funded and its equity is held by outside investors, and as a result, neither the debt of nor the properties owned by the SPV are included in the Consolidated Financial Statements. These transactions, as described below, are accounted for as operating leases in accordance with SFAS No. 13, "Accounting for Leases."

In December 2000, the Company entered into a 10-year agreement for the lease of a headquarters building being constructed in McLean, Virginia. Monthly rent commences upon completion, which is expected in December 2002, and is based on LIBOR rates applied to the cost of the buildings funded. If, at the end of the lease term, the Company does not purchase the property, the Company guarantees a residual value of up to approximately 72% of the estimated \$159,500 cost of the buildings in the lease agreement. Upon a sale of the property at the end of the lease term, the Company's obligation is limited to any amount by which the guaranteed residual value exceeds the selling price.

In 1999, the Company entered into two three-year agreements for the construction and subsequent lease of four facilities located in Tampa, Florida and Federal Way, Washington. At December 31, 2001, the construction of all four of the facilities had been completed. The total cost of the buildings was approximately \$98,800. Monthly rent commenced upon completion of each of the buildings and is based on LIBOR rates applied to the cost of the facilities funded. The Company has a one-year renewal option under the terms of the leases. If, at the end of the lease term, the Company does not purchase all of the properties, the Company guarantees a residual value to the lessor of up to approximately 85% of the cost of the buildings in the lease agreement. Upon a sale of the property at the end of the lease term, the Company's obligation is limited to any amount by which the guaranteed residual value exceeds the selling price.

In 1998, the Company entered into a five-year lease of five facilities in Tampa, Florida and Richmond, Virginia. Monthly rent on the facilities is based on a fixed interest rate of 6.87% per annum applied to the cost of the buildings included in the lease of \$86,800. The Company has two one-year renewal options under the terms of the lease. If, at the end of the lease term, the Company does not purchase all of the properties, the Company guarantees a residual value to the lessor of up to approximately 84% of the costs of the buildings. Upon a sale of the property at the end of the lease term, the Company's obligation is limited to any amount by which the guaranteed residual value exceeds the selling price.

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

Note M

Related Party Transactions

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

Note N

Off-Balance Sheet Securitizations

Off-balance sheet securitizations involve the transfer of pools of consumer loan receivables by the Company to one or more third-party trusts or qualified special purpose entities that are accounted for as sales in accordance with SFAS 140. Certain undivided interests in the pool of consumer loan receivables are sold to investors as asset-backed securities in public underwritten offerings or private placement transactions. The remaining undivided interests retained by the Company ("seller's interest") are recorded in consumer loans. The amounts of the remaining undivided interests fluctuate as the accountholders make principal payments and incur new charges on the selected accounts. The amount of seller's interest was \$5,675,078 and \$3,270,839 as of December 31, 2001 and 2000, respectively.

The key assumptions used in determining the fair value of the interest-only strip resulting from securitizations of consumer loan receivables completed during the period included the weighted average ranges for charge-off rates, principal repayment rates, lives of receivables and discount rates included in the following table.

Securitization Key Assumptions

| Year Ended December 31 | 2001 | 2000 |
|--|-------------------|------------|
| Weighted average life for receivables (months) | 6 to 9 | 7 to 8 |
| Principal repayment rate (weighted average rate) | 13% to 15% | 13% to 16% |
| Charge-off rate (weighted average rate) | 4% to 6% | 4% to 6% |
| Discount rate (weighted average rate) | 9% to 11% | 11% to 13% |

If these assumptions are not met or change, the interest-only strip and related servicing and securitizations income would be affected. The following adverse changes to the key assumptions and estimates, presented in accordance with SFAS 140, are hypothetical and should be used with caution. As the figures indicate, any change in fair value based on a 10% or 20% variation in assumptions cannot be extrapolated because the relationship of change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the interest-only strip is calculated independently from any change in another assumption. However, changes in one factor may result in changes in other factors, which might magnify or counteract the sensitivities.

Securitization Key Assumptions and Sensitivities

| As of December 31 | 2001 | 2000 |
|--|-------------------|------------|
| Interest-only strip | \$ 269,527 | \$ 119,412 |
| Weighted average life for receivables (months) | 9 | 7 |
| Principal repayment rate (weighted average rate) | 13% | 16% |
| Impact on fair value of 10% adverse change | \$ 12,496 | \$ 5,912 |
| Impact on fair value of 20% adverse change | 23,652 | 10,626 |
| Charge-off rate (weighted average rate) | 6% | 4% |
| Impact on fair value of 10% adverse change | \$ 50,844 | \$ 16,733 |
| Impact on fair value of 20% adverse change | 100,854 | 33,467 |
| Discount rate (weighted average rate) | 9% | 12% |
| Impact on fair value of 10% adverse change | \$ 1,889 | \$ 245 |
| Impact on fair value of 20% adverse change | 3,706 | 488 |

Static pool credit losses are calculated by summing the actual and projected future credit losses and dividing them by the original balance of each pool of asset. Due to the short-term revolving nature of consumer loan receivables, the weighted average percentage of static pool credit losses is not considered to be materially different from the assumed charge-off rates used to determine the fair value of retained interests.

In addition to the interest-only strip, the Company maintains other residual interests to enhance the credit quality of the pool of receivables. The other residual interests may be in various forms, including subordinated interests in the transferred receivables, cash collateral accounts and accrued but unbilled interest on the transferred receivables. These other residual interests are carried at cost, which approximates fair value. The credit risk exposure on residual interests exceeds the pro rata share of the Company's interest in the pool of receivables. Residual interests are recorded in accounts receivable from securitizations and totaled \$934,305 and \$479,123 at December 31, 2001 and 2000, respectively.

Supplemental Loan Information

| Year Ended December 31 | 2001 | | 2000 | |
|-------------------------|----------------------|---------------------|-------------------|------------------|
| | Loans Outstanding | Loans Delinquent | Loans Outstanding | Loans Delinquent |
| Managed loans | \$ 45,263,963 | \$ 2,241,647 | \$ 29,524,026 | \$ 1,544,654 |
| Off-balance sheet loans | 24,342,949 | 1,229,090 | 14,411,314 | 447,343 |
| Consumer loans | \$ 20,921,014 | \$ 1,012,557 | \$ 15,112,712 | \$ 1,097,311 |
| | Average Loans | Net Charge-Offs | Average Loans | Net Charge-Offs |
| Managed loans | \$ 35,612,317 | \$ 1,438,370 | \$ 22,634,862 | \$ 883,667 |
| Off-balance sheet loans | 18,328,011 | 746,734 | 11,147,086 | 351,046 |
| Consumer loans | \$ 17,284,306 | \$ 691,636 | \$ 11,487,776 | \$ 532,621 |

The Company acts as a servicing agent and receives contractual servicing fees of approximately 2% of the investor principal outstanding. The servicing revenues associated with transferred receivables adequately compensate the Company for servicing the accounts. Accordingly, no servicing asset or liability has been recorded. The Company's residual interests are generally restricted or subordinated to investors' interests and their value is subject to substantial credit, repayment and interest rate risks on the transferred financial assets. The investors and the trusts have no recourse to the Company's assets if the securitized loans are not paid when due.

Securitization Cash Flows

| Year Ended December 31 | 2001 | 2000 |
|--|----------------------|--------------|
| Proceeds from new securitizations | \$ 11,915,990 | \$ 6,142,709 |
| Collections reinvested in revolving-period securitizations | 30,218,660 | 18,566,784 |
| Repurchases of accounts from the trust | 1,579,455 | |
| Servicing fees received | 330,350 | 171,245 |
| Cash flows received on retained interests | 84,817 | 48,211 |

For the year ended December 31, 2001 and 2000, the Company recognized \$68,135 and \$30,466, respectively, in gains related to the new transfer of receivables accounted for as sales, net of transaction costs. These gains are recorded in servicing and securitizations income.

Note O

Derivative Instruments and Hedging Activities

The Company maintains a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate and foreign exchange rate volatility. The Company's goal is to manage sensitivity to changes in rates by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities, thereby limiting the impact on earnings. By using derivative instruments, the Company is exposed to credit and market risk. If the counterparty fails to perform, credit risk is equal to the extent of the fair value gain in a derivative. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes the Company, and, therefore, creates a repayment risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty, and therefore, has no repayment risk. The Company minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by the Company's credit committee. The Company also maintains a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association Master Agreement; depending on the nature of the derivative transaction, bilateral collateral agreements may be required as well.

Market risk is the adverse effect that a change in interest rates, currency, or implied volatility rates has on the value of a financial instrument. The Company manages the market risk associated with interest rate and foreign exchange contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken.

The Company periodically uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps generally involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. To the extent that there is a high degree of correlation between the hedged asset or liability and the derivative instrument, the income or loss generated will generally offset the effect of this unrealized appreciation or depreciation.

The Company's foreign currency denominated assets and liabilities expose it to foreign currency exchange risk. The Company enters into various foreign exchange derivative contracts for managing foreign currency exchange risk. Changes in the fair value of the derivative instrument effectively offset the related foreign exchange gains or losses on the items to which they are designated.

The Company has non-trading derivatives that do not qualify as hedges. These derivatives are carried at fair value and changes in value are included in current earnings.

The asset/liability management committee, as part of that committee's oversight of the Company's asset/liability and treasury functions, monitors the Company's derivative activities. The Company's asset/liability management committee is responsible for approving hedging strategies. The resulting strategies are then incorporated into the Company's overall interest rate risk management strategies.

Fair Value Hedges

The Company has entered into forward exchange contracts to hedge foreign currency denominated investments against fluctuations in exchange rates. The purpose of the Company's foreign currency hedging activities is to protect the Company from the risk of adverse affects from movements in exchange rates.

During the year ended December 31, 2001, the Company recognized substantially no net gains or losses related to the ineffective portions of its fair value hedging instruments.

Cash Flow Hedges

The Company has entered into interest rate swap agreements for the management of its interest rate risk exposure. The interest rate swap agreements utilized by the Company effectively modify the Company's exposure to interest rate risk by converting floating rate debt to a fixed rate over the next five years. The agreements involve the receipt of fixed rate amounts in exchange for floating rate interest payments over the life of the agreement without an exchange of underlying principal amounts. The Company has also entered into interest rate swaps and amortizing notional interest rate swaps to effectively reduce the interest rate sensitivity of anticipated net cash flows of its interest-only strip from securitization transactions over the next four years.

The Company has also entered into currency swaps that effectively convert fixed rate foreign currency denominated interest receipts to fixed dollar interest receipts on foreign currency denominated assets. The purpose of these hedges is to protect against adverse movements in exchange rates.

The Company has entered into forward exchange contracts to reduce the Company's sensitivity to foreign currency exchange rate changes on its foreign currency denominated loans. The forward rate agreements allow the Company to "lock-in" functional currency equivalent cash flows associated with the foreign currency denominated loans.

During the year ended December 31, 2001, the Company recognized no net gains or losses related to the ineffective portions of its cash flow hedging instruments. The Company recognized net losses of \$5,138 during the year ended December 31, 2001, for cash flow hedges that have been discontinued which have been included in interest income in the income statement.

At December 31, 2001, the Company expects to reclassify \$58,946 of net losses after tax on derivative instruments from cumulative other comprehensive income to earnings during the next 12 months as interest payments and receipts on the related derivative instruments occur.

Hedge of Net Investment in Foreign Operations

The Company uses cross-currency swaps to protect the value of its investment in its foreign subsidiaries. Realized and unrealized gains and losses from these hedges are not included in the income statement, but are shown in the cumulative translation adjustment account included in other comprehensive income. The purpose of these hedges is to protect against adverse movements in exchange rates.

For the year ended December 31, 2001, net losses of \$605 related to these derivatives was included in the cumulative translation adjustment.

Non-Trading Derivatives

The Company uses interest rate swaps to manage interest rate sensitivity related to loan securitizations. The Company enters into interest rate swaps with its securitization trust and essentially offsets the derivative with separate interest rate swaps with third parties. These derivatives do not qualify as hedges and are recorded on the balance sheet at fair value with changes in value included in current earnings. During the year ended December 31, 2001, the Company recognized substantially no net gains or losses related to these derivatives.

Derivative Instruments and Hedging Activities— Pre-SFAS 133

The Company has entered into interest rate swaps to effectively convert certain interest rates on bank notes from variable to fixed. The pay-fixed, receive-variable swaps, which had a notional amount totaling \$157,000 as of December 31, 2000, will mature from 2001 to 2007 to coincide with maturities of the variable bank notes to which they are designated. The Company has also entered into interest rate swaps and amortizing notional interest rate swaps to effectively reduce the interest rate sensitivity of loan securitizations. These pay-fixed, receive-variable interest rate swaps had notional amounts totaling \$2,050,000 as of December 31, 2000. The interest rate swaps will mature from 2002 to 2005, and the amortizing notional interest rate swaps will fully amortize between 2004 and 2006 to coincide with the estimated paydown of the securitizations to which they are designated. The Company also had a pay-fixed, receive-variable interest rate swap with an amortizing notional amount of \$545,000, which will amortize through 2003 to coincide with the estimated attrition of the fixed rate Canadian dollar consumer loans to which it is designated.

The Company has also entered into currency swaps that effectively convert fixed rate pound sterling interest receipts to fixed rate U.S. dollar interest receipts on pound sterling denominated assets. These currency swaps had notional amounts totaling \$261,000 as of December 31, 2000, and mature from 2001 to 2005, coinciding with the repayment of the assets to which they are designated.

The Company has entered into foreign exchange contracts to reduce the Company's sensitivity to foreign currency exchange rate changes on its foreign currency denominated assets and liabilities. As of December 31, 2000, the Company had foreign exchange contracts with notional amounts totaling \$665,284 that mature in 2001 to coincide with the repayment of the assets to which they are designated.

Note P

Significant Concentration of Credit Risk

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

| December 31 | 2001 | | 2000 | |
|------------------|----------------------|---------------------|---------------|---------------------|
| | Loans | Percentage of Total | Loans | Percentage of Total |
| South | \$ 15,400,081 | 34.02% | \$ 9,869,290 | 33.43% |
| West | 9,354,934 | 20.67 | 5,962,360 | 20.19 |
| Midwest | 8,855,719 | 19.56 | 5,694,318 | 19.29 |
| Northeast | 7,678,378 | 16.97 | 5,016,719 | 16.99 |
| International | 3,974,851 | 8.78 | 2,981,339 | 10.10 |
| | 45,263,963 | 100.00% | 29,524,026 | 100.00% |
| Less securitized | | | | |
| balances | (24,342,949) | | (14,411,314) | |
| Total | \$ 20,921,014 | | \$ 15,112,712 | |

Note Q

Disclosures About Fair Value of Financial Instruments

The following discloses the fair value of financial instruments whether or not recognized in the balance sheets as of December 31, 2001 and 2000. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. As required under GAAP, these disclosures exclude certain financial

instruments and all non-financial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The Company, in estimating the fair value of its financial instruments as of December 31, 2001 and 2000, used the following methods and assumptions:

Financial Assets

Cash and cash equivalents

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

Securities available for sale

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

Consumer loans

The net carrying amount of consumer loans approximated fair value due to the relatively short average life and variable interest rates on a substantial number of these loans. This amount excluded any value related to account relationships.

Interest receivable

The carrying amount approximated the fair value of this asset due to its relatively short-term nature.

Accounts receivable from securitizations

The carrying amount approximated fair value.

Derivatives

The carrying amount of derivatives approximated fair value and was represented by the estimated unrealized gains as determined by quoted market prices. This value generally reflects the estimated amounts that the Corporation would have received to terminate the interest rate swaps, currency swaps and forward foreign currency exchange ("f/x") contracts at the respective dates, taking into account the forward yield curve on the swaps and the forward rates on the currency swaps and f/x contracts. These derivatives are included in other assets on the balance sheet.

Financial Liabilities

Interest-bearing deposits

The fair value of interest-bearing deposits was calculated by discounting the future cash flows using estimates of market rates for corresponding contractual terms.

Other borrowings

The carrying amount of federal funds purchased and resale agreements and other short-term borrowings approximated fair value. The fair value of secured borrowings was calculated by discounting the future cash flows using estimates of market rates for corresponding contractual terms and assumed maturities when no stated final maturity was available. The fair value of the junior subordinated capital income securities was determined based on quoted market prices.

Senior notes

The fair value of senior notes was determined based on quoted market prices.

Interest payable

The carrying amount approximated the fair value of this asset due to its relatively short-term nature.

Derivatives

The carrying amount of derivatives approximated fair value and was represented by the estimated unrealized losses as determined by quoted market prices. This value generally reflects the estimated amounts that the Corporation would have paid to terminate the interest rate swaps, currency swaps and f/x contracts at the respective dates, taking into account the forward yield curve on the swaps and the forward rates on the currency swaps and f/x contracts. These derivatives are included in other liabilities on the balance sheet.

| | 2001 | | 2000 | |
|--|-----------------|----------------------|-----------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Financial Assets | | | | |
| Cash & cash equivalents | \$ 707,238 | \$ 707,238 | \$ 236,707 | \$ 236,707 |
| Securities available for sale | 3,115,891 | 3,115,891 | 1,696,815 | 1,696,815 |
| Net loans | 20,081,014 | 20,081,014 | 14,585,712 | 14,585,712 |
| Accounts receivable from securitizations | 2,452,548 | 2,452,548 | 1,143,902 | 1,143,902 |
| Interest receivable | 105,459 | 105,459 | 82,675 | 82,675 |
| Derivatives | 91,474 | 91,474 | | 23,834 |
| Financial Liabilities | | | | |
| Interest-bearing deposits | \$12,838,968 | \$ 13,223,954 | \$ 8,379,025 | \$ 8,493,763 |
| Senior notes | 5,335,229 | 5,237,220 | 4,050,597 | 3,987,116 |
| Other borrowings | 3,995,528 | 4,047,865 | 2,925,938 | 2,924,113 |
| Interest payable | 188,160 | 188,160 | 122,658 | 122,658 |
| Derivatives | 199,976 | 199,976 | | 62,965 |

Note R

International Activities

The Company's international activities are primarily performed through Capital One Bank (Europe) plc, a subsidiary bank of the Bank that provides consumer lending and other financial products in the United Kingdom and France, and Capital One Bank—Canada Branch, a foreign branch office of the Bank that provides consumer lending products in Canada. The total assets, revenue, income before income taxes and net income of the international operations are summarized below.

| | 2001 | 2000 | 1999 |
|----------------------------|---------------|---------------|--------------|
| Domestic | | | |
| Total assets | \$ 25,254,438 | \$ 15,719,760 | \$10,202,219 |
| Revenue ⁽¹⁾ | 5,609,616 | 4,336,911 | 3,246,868 |
| Income before income taxes | 1,064,240 | 906,732 | 661,759 |
| Net income | 660,809 | 562,174 | 415,631 |
| International | | | |
| Total assets | 2,929,609 | 3,169,581 | 3,134,224 |
| Revenue ⁽¹⁾ | 473,667 | 286,390 | 178,093 |
| Income before income taxes | (29,000) | (149,258) | (84,742) |
| Net loss | (18,844) | (92,540) | (52,540) |
| Total Company | | | |
| Total assets | \$ 28,184,047 | \$ 18,889,341 | \$13,336,443 |
| Revenue ⁽¹⁾ | 6,083,283 | 4,623,301 | 3,424,961 |
| Income before income taxes | 1,035,420 | 757,474 | 577,017 |
| Net income | 641,965 | 469,634 | 363,091 |

(1) Revenue equals net interest income plus non-interest income.

Because certain international operations are integrated with many of the Company's domestic operations, estimates and assumptions have been made to assign certain expense items between domestic and foreign operations. Amounts are allocated for income taxes and other items incurred.

Note S

Capital One Financial Corporation (Parent Company Only) Condensed Financial Information

| Balance Sheets as of December 31 | 2001 | 2000 |
|--------------------------------------|--------------|--------------|
| Assets: | | |
| Cash and cash equivalents | \$ 9,847 | \$ 9,284 |
| Investment in subsidiaries | 3,327,778 | 1,832,387 |
| Loans to subsidiaries ⁽¹⁾ | 950,231 | 808,974 |
| Other | 164,923 | 98,034 |
| Total assets | \$ 4,452,779 | \$ 2,748,679 |

| | | |
|--|--------------|--------------|
| Liabilities: | | |
| Senior notes | \$ 549,187 | \$ 549,042 |
| Borrowings from subsidiaries | 569,476 | 204,367 |
| Other | 10,638 | 32,756 |
| Total liabilities | 1,129,301 | 786,165 |
| Stockholders' equity | 3,323,478 | 1,962,514 |
| Total liabilities and stockholders' equity | \$ 4,452,779 | \$ 2,748,679 |

(1) As of December 31, 2001 and 2000, includes \$122,053 and \$63,220, respectively, of cash invested at the Bank instead of the open market.

| Statements of Income for the Year Ended December 31 | 2001 | 2000 | 1999 |
|--|------------|------------|------------|
| Interest from | | | |
| temporary investments | \$ 48,595 | \$ 41,321 | \$ 32,191 |
| Interest expense | (53,536) | (46,486) | (41,011) |
| Dividends, principally | | | |
| from bank subsidiaries | 125,000 | 250,000 | 220,001 |
| Non-interest income | 4,847 | 61 | 39 |
| Non-interest expense | (45,223) | (8,184) | (6,274) |
| Income before income taxes and equity in undistributed earnings of subsidiaries | | | |
| earnings of subsidiaries | 79,683 | 236,712 | 204,946 |
| Income tax benefit | 17,221 | 5,049 | 5,721 |
| Equity in undistributed earnings of subsidiaries | | | |
| earnings of subsidiaries | 545,061 | 227,873 | 152,424 |
| Net income | \$ 641,965 | \$ 469,634 | \$ 363,091 |

Operating Activities:

| | | | |
|---|------------|------------|------------|
| Net income | \$ 641,965 | \$ 469,634 | \$ 363,091 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Equity in undistributed earnings of subsidiaries | (545,061) | (227,873) | (152,424) |
| (Increase) decrease in other assets | (47,701) | 9,625 | 5,282 |
| (Decrease) increase in other liabilities | (22,118) | 19,117 | 2,604 |
| Net cash provided by operating activities | 27,085 | 270,503 | 218,553 |

Investing Activities:

| | | | |
|---|-----------|-----------|-----------|
| Purchases of securities available for sale | | | (26,836) |
| Proceeds from sales of securities available for sale | | 8,455 | |
| Proceeds from maturities of securities available for sale | | 6,832 | 11,658 |
| Increase in investment in subsidiaries | (768,760) | (117,123) | (115,233) |
| Increase in loans to subsidiaries | (141,257) | (199,798) | (233,780) |
| Net cash used for investing activities | (910,017) | (301,634) | (364,191) |

Financing Activities:

| | | | |
|---|----------|-----------|-----------|
| Increase (decrease) in borrowings from subsidiaries | 365,109 | 157,711 | (7,398) |
| Issuance of senior notes | | | 224,684 |
| Dividends paid | (22,310) | (20,824) | (20,653) |
| Purchases of treasury stock | | (134,619) | (107,104) |
| Net proceeds from issuances of common stock | 477,892 | 21,076 | 14,028 |
| Proceeds from exercise of stock options | 62,804 | 11,225 | 37,040 |
| Net cash provided by financing activities | 883,495 | 34,569 | 140,597 |
| Increase (decrease) in cash and cash equivalents | 563 | 3,438 | (5,041) |
| Cash and cash equivalents at beginning of year | 9,284 | 5,846 | 10,887 |
| Cash and cash equivalents at end of year | \$ 9,847 | \$ 9,284 | \$ 5,846 |

Directors and Officers

Capital One Financial Corporation Board of Directors

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

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

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

James A. Flick, Jr.*

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

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

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

Capital One Financial Corporation Executive Officers

Richard D. Fairbank
Chairman and Chief Executive Officer

Nigel W. Morris
President and Chief Operating Officer

Gregor Bailar
Executive Vice President
and Chief Information Officer

Marjorie M. Connelly
Executive Vice President,
Enterprise Services Group

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

Larry Klane
Executive Vice President,
Corporate Development

Dennis H. Liberson
Executive Vice President,
Human Resources

William J. McDonald
Executive Vice President,
Brand Management

Peter A. Schnall
Executive Vice President,
Marketing and Analysis

Catherine G. West
Executive Vice President,
U.S. Consumer Operations

David M. Willey
Executive Vice President
and Chief Financial Officer

*Audit Committee

**Compensation Committee

Corporate Information

Corporate Office

2980 Fairview Park Drive, Suite 1300
Falls Church, VA 22042-4525
(703) 205-1000
www.capitalone.com

Annual Meeting

Thursday, April 25, 2002, 10:00 a.m. Eastern Time
Fairview Park Marriott Hotel
3111 Fairview Park Drive
Falls Church, VA 22042

Principal Financial Contact

Paul Paquin
Vice President, Investor Relations
Capital One Financial Corporation
2980 Fairview Park Drive, Suite 1300
Falls Church, VA 22042-4525
(703) 205-1039

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

Common Stock

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

Corporate Registrar/Transfer Agent

Equiserve Trust Company, N.A.
Mail Suite 4964
525 Washington Boulevard
Jersey City, NJ 07310
Telephone: (800) 446-2617
Fax: (201) 222-4892
For hearing impaired: (201) 222-4955
E-mail: equiserve.com
Internet: www.equiserve.com

Independent Auditors

Ernst & Young LLP

Designed and produced by
the Direct Marketing Center
of Capital One:

| | |
|-------------------|--------------------|
| Torrell Armstrong | Financials |
| Roger Bolen | Production Manager |
| Blair Keeley | Creative Director |
| Greg Kirksey | Marketing Manager |
| Sonia Myrick | Editor |
| Brent Nultemeier | Designer |
| Patty O'Toole | Copywriter |
| Katie Roussel | Art Director |

CapitalOne[®]

2980 Fairview Park Drive
Suite 1300
Falls Church, VA 22042-4525
(703) 205-1000

www.capitalone.com