

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934** For the quarterly period ended June 30, 2005

OR

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

Commission file number 1-13300

**CAPITAL ONE FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware

54-1719854

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1680 Capital One Drive, McLean, Virginia

22102

(Address of principal executive offices)

(Zip Code)

(703) 720-1000

(Registrant's telephone number, including area code)

(Not Applicable)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of June 30, 2005 there were 263,452,485 shares of the registrant's Common Stock, par value \$.01 per share, outstanding.

**CAPITAL ONE FINANCIAL CORPORATION**  
**FORM 10-Q**  
**INDEX**

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*June 30, 2005*

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**Part I. Financial Information****Item 1. Financial Statements (unaudited)****CAPITAL ONE FINANCIAL CORPORATION****Condensed Consolidated Balance Sheets****(Dollars in thousands, except share and per share data) (unaudited)**

	June 30 2005	December 31 2004
<b>Assets:</b>		
Cash and due from banks	\$ 581,267	\$ 327,517
Federal funds sold and resale agreements	1,283,015	773,695
Interest-bearing deposits at other banks	721,806	309,999
Cash and cash equivalents	2,586,088	1,411,211
Securities available for sale	9,522,515	9,300,454
Consumer loans	38,610,787	38,215,591
Less: Allowance for loan losses	(1,405,000)	(1,505,000)
Net loans	37,205,787	36,710,591
Accounts receivable from securitizations	4,890,933	4,081,271
Premises and equipment, net	782,372	817,704
Interest receivable	274,547	252,857
Goodwill	739,889	352,157
Other	993,836	821,010
Total assets	<b>\$56,995,967</b>	<b>\$53,747,255</b>
<b>Liabilities:</b>		
Interest-bearing deposits	\$26,521,031	\$25,636,802
Senior and subordinated notes	6,692,311	6,874,790
Other borrowings	9,692,941	9,637,019
Interest payable	252,677	237,227
Other	3,425,226	2,973,228
Total liabilities	<b>46,584,186</b>	<b>45,359,066</b>
<b>Stockholders' Equity:</b>		
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; 265,039,159 and 248,354,259 shares issued as of June 30, 2005 and December 31, 2004, respectively	2,650	2,484
Paid-in capital, net	3,783,074	2,711,327
Retained earnings	6,620,729	5,596,372
Cumulative other comprehensive income	75,024	144,759
Less: Treasury stock, at cost; 1,586,674 and 1,520,962 shares as of June 30, 2005 and December 31, 2004, respectively	(69,696)	(66,753)
Total stockholders' equity	<b>10,411,781</b>	<b>8,388,189</b>
Total liabilities and stockholders' equity	<b>\$56,995,967</b>	<b>\$53,747,255</b>

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
<b>INTEREST INCOME:</b>				
Consumer loans, including past-due fees	\$1,190,098	\$ 1,019,076	\$2,374,134	\$ 2,054,093
Securities available for sale	91,245	76,081	181,409	139,797
Other	70,557	56,789	132,625	122,787
Total interest income	1,351,900	1,151,946	2,688,168	2,316,677
<b>Interest Expense:</b>				
Deposits	279,438	244,978	543,463	484,490
Senior and subordinated notes	104,593	124,809	219,073	249,227
Other borrowings	95,366	71,142	192,608	139,921
Total interest expense	479,397	440,929	955,144	873,638
Net interest income	872,503	711,017	1,733,024	1,443,039
Provision for loan losses	291,600	242,256	551,231	485,924
Net interest income after provision for loan losses	580,903	468,761	1,181,793	957,115
<b>Non-Interest Income:</b>				
Servicing and securitizations	1,024,629	868,041	1,976,231	1,785,710
Service charges and other customer-related fees	360,410	368,469	761,596	722,962
Interchange	132,068	117,329	255,508	222,924
Other	64,889	42,225	104,640	107,602
Total non-interest income	1,581,996	1,396,064	3,097,975	2,839,198
<b>Non-interest Expense:</b>				
Salaries and associate benefits	442,101	419,695	875,602	844,087
Marketing	277,034	253,838	588,793	508,985
Communications and data processing	138,916	108,191	281,735	225,297
Supplies and equipment	83,661	74,582	170,107	162,903
Occupancy	40,209	70,494	58,110	109,213
Other	353,696	302,012	689,102	603,223
Total non-interest expense	1,335,617	1,228,812	2,663,449	2,453,708
Income before income taxes	827,282	636,013	1,616,319	1,342,605
Income taxes	296,164	228,626	578,639	484,412
Net income	\$ 531,118	\$ 407,387	\$1,037,680	\$ 858,193
Basic earnings per share	\$ 2.10	\$ 1.74	\$ 4.18	\$ 3.68
Diluted earnings per share	\$ 2.03	\$ 1.65	\$ 4.02	\$ 3.48
Dividends paid per share	\$ 0.03	\$ 0.03	\$ 0.05	\$ 0.05

See Notes to Condensed Consolidated Financial Statements.

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

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Cumulative Other	Treasury Stock	Total stockholder's Equity
<b>Balance, December 31, 2003</b>	236,352,914	\$ 2,364	\$1,937,302	\$4,078,508	\$ 83,158	\$ (49,521)	\$ 6,051,811
Comprehensive income:							
Net income				858,193			858,193
Other comprehensive loss, net of income tax benefit:							
Unrealized losses on securities, net of income tax benefit of \$72,431					(126,991)		(126,991)
Foreign currency translation adjustments					9,095		9,095
Unrealized gains on cash flow hedging instruments, net of income taxes of \$17,962					30,371		30,371
Other comprehensive loss					(87,525)		(87,525)
Comprehensive income							770,668
Cash dividends—\$.05 per share				(12,678)			(12,678)
Issuances of common and restricted stock, net of forfeitures	(73,015)	(1)	12,167			93	12,259
Exercise of stock options and related tax benefits	6,539,166	65	334,014				334,079
Amortization of compensation expense for restricted stock awards			44,725				44,725
Common stock issuable under incentive plan			20,193				20,193
<b>Balance, June 30, 2004</b>	242,819,065	\$ 2,428	\$2,348,401	\$4,924,023	\$ (4,367)	\$ (49,428)	\$ 7,221,057
<b>Balance, December 31, 2004</b>	248,354,259	\$ 2,484	\$2,711,327	\$5,596,372	\$ 144,759	\$ (66,753)	\$ 8,388,189
Comprehensive income:							
Net income				1,037,680			1,037,680
Other comprehensive loss, net of income tax benefits:							
Unrealized losses on securities, net of income tax benefit of \$4,858					(7,935)		(7,935)
Foreign currency translation adjustments					(66,430)		(66,430)
Unrealized gains on cash flow hedging instruments, net of income taxes of \$4,010					4,630		4,630
Other comprehensive loss					(69,735)		(69,735)
Comprehensive income							967,945
Cash dividends—\$.05 per share				(13,323)			(13,323)
Purchases of treasury stock						(2,943)	(2,943)
Issuances of common and restricted stock, net of forfeitures	11,309,024	113	759,903				760,016
Exercise of stock options, and related tax benefits	5,375,876	53	238,834				238,887
Amortization of compensation expense for restricted stock awards			44,796				44,796
Common stock issuable under incentive plan			28,214				28,214
<b>Balance, June 30, 2005</b>	265,039,159	\$ 2,650	\$3,783,074	\$6,620,729	\$ 75,024	\$ (69,696)	\$ 10,411,781

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30	
	2005	2004
<b>Operating Activities:</b>		
Net income	\$ 1,037,680	\$ 858,193
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	551,231	485,924
Depreciation and amortization	196,516	197,401
(Reparation) impairment of long-lived assets, net	(14,938)	34,703
Losses on sales of securities available for sale	5,403	20,941
Gains on sales of auto loans	(6,618)	(24,405)
Losses on repurchases of senior notes	12,444	—
Stock plan compensation expense	73,010	64,918
Changes in assets and liabilities, net of effects from purchase of companies acquired:		
Increase in interest receivable	(21,690)	(20,053)
(Increase) decrease in accounts receivable from securitizations	(449,751)	774,166
(Increase) decrease in other assets	(82,558)	254,221
Increase in interest payable	12,906	278
Increase in other liabilities	160,653	83,884
Net cash provided by operating activities	<b>1,474,288</b>	<b>2,730,171</b>
<b>Investing Activities:</b>		
Purchases of securities available for sale	(1,410,129)	(5,011,254)
Proceeds from maturities of securities available for sale	574,659	706,085
Proceeds from sales of securities available for sale	578,065	984,134
Proceeds from sale of automobile loans	257,230	600,917
Proceeds from securitization of consumer loans	4,008,213	5,946,510
Net increase in consumer loans	(5,013,440)	(9,134,567)
Principal recoveries of loans previously charged off	229,161	230,616
Additions of premises and equipment, net	(31,403)	(119,130)
Net payments for companies acquired	(470,694)	—
Net cash used for investing activities	<b>(1,278,338)</b>	<b>(5,796,689)</b>
<b>Financing Activities:</b>		
Net increase in interest-bearing deposits	884,229	1,762,424
Net (decrease) increase in other borrowings	(501,391)	88,599
Issuances of senior notes	1,262,035	998,190
Maturities of senior notes	(876,567)	(295,000)
Repurchases of senior notes	(648,840)	—
(Purchases) issuances of treasury stock	(2,943)	93
Dividends paid	(13,323)	(12,678)
Net proceeds from issuances of common stock	760,016	12,166
Proceeds from exercise of stock options	115,711	252,601
Net cash provided by financing activities	<b>978,927</b>	<b>2,806,395</b>
Increase (decrease) in cash and cash equivalents	1,174,877	(260,123)
Cash and cash equivalents at beginning of period	1,411,211	1,980,282
Cash and cash equivalents at end of period	<b>\$ 2,586,088</b>	<b>\$ 1,720,159</b>

See Notes to Condensed Consolidated Financial Statements.

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

**Note 1: Significant Accounting Policies**

***Business***

The condensed consolidated financial statements include the accounts of Capital One Financial Corporation (the "Corporation") and its subsidiaries. The Corporation is a diversified financial services 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 deposit products, Capital One, F.S.B. (the "Savings Bank"), which offers consumer and commercial lending and consumer deposit products and Capital One Auto Finance, Inc. ("COAF") which offers automobile and other motor vehicle financing products. Capital One Services, Inc. ("COSI"), another subsidiary of the Corporation, provides various operating, administrative and other services to the Corporation and its subsidiaries. The Corporation and its subsidiaries are collectively referred to as the "Company."

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Operating results for the six months ended June 30, 2005 are not necessarily indicative of the results for the year ending December 31, 2005.

The notes to the consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2004 should be read in conjunction with these condensed consolidated financial statements.

All significant intercompany balances and transactions have been eliminated.

***Stock-Based Compensation***

Prior to 2003, the Company applied 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. No compensation cost has been recognized for the Company's fixed stock options for years prior to 2003, as the exercise price of all such options equals or exceeds the market value of the underlying common stock on the date of grant. Effective January 1, 2003, the Company adopted the expense recognition provisions of SFAS No. 123, prospectively to all awards granted, modified, or settled after January 1, 2003. Typically, awards under the Company's plans vest over a three year period. Therefore, cost related to stock-based compensation included in net income for 2005, 2004 and 2003 is less than that which would have been recognized if the fair value method had been applied to all awards since the original effective date of SFAS 123. The effect on net income and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period is presented in the table below.

Pro Forma Information	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2005	2004	2005	2004
Net income, as reported	\$ 531,118	\$ 407,387	\$ 1,037,680	\$ 858,193
Stock-based employee compensation expense included in reported net income	26,632	17,966	46,688	35,261
Stock-based employee compensation expense determined under fair value based method <sup>(1)</sup>	(31,161)	(50,184)	(55,921)	(100,815)
Pro forma net income	\$ 526,589	\$ 375,169	\$ 1,028,447	\$ 792,639
<b>Earnings per share:</b>				
Basic – as reported	\$ 2.10	\$ 1.74	\$ 4.18	\$ 3.68
Basic – pro forma	\$ 2.08	\$ 1.60	\$ 4.14	\$ 3.40
Diluted – as reported	\$ 2.03	\$ 1.65	\$ 4.02	\$ 3.48
Diluted – pro forma	\$ 1.99	\$ 1.51	\$ 3.94	\$ 3.20

<sup>(1)</sup>Includes amortization of compensation expense for current year stock option grants and prior year stock option grants over the stock options' vesting period.

The fair value of the options granted during the three and six months ended June 30, 2005 and 2004 was estimated at the date of grant using a Black-Scholes option-pricing model with the weighted average assumptions described below.

Assumptions	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2005	2004	2005	2004
Dividend yield	.14%	.15%	.14%	.15%
Volatility factors of expected market price of stock	44%	47%	53%	58%
Risk-free interest rate	3.67%	2.50%	4.20%	2.22%
Expected option lives (in years)	3.2	2.2	4.9	2.8

## Note 2: Segments

The Company maintains three distinct operating segments: U.S. Card, Auto Finance, and Global Financial Services. The U.S. Card segment consists of domestic credit card lending activities. The Auto Finance segment consists of automobile and other motor vehicle financing activities. The Global Financial Services segment consists of international lending activities, small business lending, installment loans, home loans, healthcare financing and other diversified activities. The U.S. Card, Auto Finance and Global Financial Services segments are considered reportable segments based on quantitative thresholds applied to the managed loan portfolio for reportable segments provided by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and are disclosed separately. The Other category includes the Company's liquidity portfolio, emerging businesses not included in the reportable segments, investments in external companies, and various non-lending activities. The Other category also includes the net impact of transfer pricing, certain unallocated expenses and gains/losses related to the securitization of assets.

As management makes decisions on a managed portfolio basis within each segment, information about reportable segments is provided on a managed basis. An adjustment to reconcile the managed financial information to the reported financial information in the consolidated financial statements is provided. This adjustment reclassifies a portion of net interest income, non-interest income and provision for loan losses into non-interest income from servicing and securitization.

The Company maintains its books and records on a legal entity basis for the preparation of financial statements in conformity with GAAP. The following tables present information prepared from the Company's internal management information system, which is maintained on a line of business level through allocations from the consolidated financial results.

For the Three Months Ended June 30, 2005

	U.S. Card	Auto Finance	Global Financial Services	Other	Total Managed	Securitization Adjustments	Total Reported
Net interest income	\$ 1,151,692	\$ 285,744	\$ 411,825	\$ (18,959)	\$ 1,830,302	\$ (957,799)	\$ 872,503
Non-interest income	846,720	6,964	265,499	25,577	1,144,760	437,236	1,581,996
Provision for loan losses	539,211	20,330	256,766	(4,144)	812,163	(520,563)	291,600
Non-interest expenses	794,012	124,584	378,278	38,743	1,335,617	—	1,335,617
Income tax provision (benefit)	232,816	51,728	15,621	(4,001)	296,164	—	296,164
Net income (loss)	\$ 432,373	\$ 96,066	\$ 26,659	\$ (23,980)	\$ 531,118	\$ —	\$ 531,118
Loans receivable	\$46,408,912	\$ 14,520,216	\$22,053,145	\$ (30,921)	\$82,951,352	\$(44,340,565)	\$38,610,787

For the Three Months Ended June 30, 2004

	U.S. Card	Auto Finance	Global Financial Services	Other	Total Managed	Securitization Adjustments	Total Reported
Net interest income	\$ 1,124,099	\$ 195,974	\$ 338,192	\$ (72,795)	\$ 1,585,470	\$ (874,453)	\$ 711,017
Non-interest income	816,034	22,666	185,488	(12,890)	1,011,298	384,766	1,396,064
Provision for loan losses	519,569	54,908	159,001	(1,535)	731,943	(489,687)	242,256
Non-interest expenses	820,424	81,345	295,117	31,926	1,228,812	—	1,228,812
Income tax provision (benefit)	216,051	29,659	23,471	(40,555)	228,626	—	228,626
Net income (loss)	\$ 384,089	\$ 52,728	\$ 46,091	\$ (75,521)	\$ 407,387	\$ —	\$ 407,387
Loans receivable	\$45,247,444	\$ 9,383,432	\$18,722,812	\$ 13,664	\$73,367,352	\$(38,816,009)	\$34,551,343

For the Six Months Ended June 30, 2005

	U.S. Card	Auto Finance	Global Financial Services	Other	Total Managed	Securitization Adjustments	Total Reported
Net interest income	\$ 2,402,330	\$ 535,251	\$ 824,558	\$ (113,077)	\$ 3,649,062	\$ (1,916,038)	\$ 1,733,024
Non-interest income	1,626,135	18,303	499,340	72,383	2,216,161	881,814	3,097,975
Provision for loan losses	1,028,247	112,643	445,082	(517)	1,585,455	(1,034,224)	551,231
Non-interest expenses	1,630,154	238,349	729,754	65,192	2,663,449	—	2,663,449
Income tax provision (benefit)	479,522	70,897	51,975	(23,755)	578,639	—	578,639
Net income (loss)	\$ 890,542	\$ 131,665	\$ 97,087	\$ (81,614)	\$ 1,037,680	\$ —	\$ 1,037,680
Loans receivable	\$46,408,912	\$ 14,520,216	\$22,053,145	\$ (30,921)	\$82,951,352	\$(44,340,565)	\$38,610,787

	U.S. Card	Auto Finance	Global Financial Services	Other	Total Managed	Securitization Adjustments	Total Reported
Net interest income	\$ 2,324,676	\$ 385,172	\$ 670,081	\$(117,381)	\$ 3,262,548	\$ (1,819,509)	\$ 1,443,039
Non-interest income	1,585,090	46,096	362,814	31,834	2,025,834	813,364	2,839,198
Provision for loan losses	1,054,848	135,090	312,438	(10,307)	1,492,069	(1,006,145)	485,924
Non-interest expenses	1,650,349	165,878	574,977	62,504	2,453,708	—	2,453,708
Income tax provision (benefit)	433,645	46,908	48,454	(44,595)	484,412	—	484,412
Net income (loss)	\$ 770,924	\$ 83,392	\$ 97,026	\$ (93,149)	\$ 858,193	\$ —	\$ 858,193
Loans receivable	\$45,247,444	\$9,383,432	\$18,722,812	\$ 13,664	\$73,367,352	\$(38,816,009)	\$34,551,343

During the three months ended June 30, 2005 and 2004, the Company recognized non-interest expense of \$26.0 million and \$56.0 million, respectively for employee termination and facility consolidation charges related to continued cost reduction initiatives. Of this amount, \$10.9 million and \$49.9 million were allocated to the U.S. Card segment, \$7.5 million and \$5.1 million were allocated to the Global Financial Services segment, \$7.3 million and \$0.5 million were allocated to the Auto Finance Segment and the remaining balances were held in the Other category for the three months ended June 30, 2005 and 2004, respectively.

During the six months ended June 30, 2005 and 2004, the Company recognized non-interest expense of \$49.7 million and \$56.0 million, respectively for employee termination and facility consolidation charges related to continued cost reduction initiatives. Of this amount, \$27.7 million and \$49.9 million were allocated to the U.S. Card segment, \$13.1 million and \$5.1 million were allocated to the Global Financial Services segment, \$8.2 million and \$0.5 million were allocated to the Auto Finance Segment and the remaining balances were held in the Other category for the six months ended June 30, 2005 and 2004, respectively.

In the first quarter 2005, the Company closed on the sale of its Tampa, Florida facilities. The ultimate sales price was greater than the impaired value of the held-for-sale property, and as such, the Company reversed \$18.8 million of its previously recorded impairment in Occupancy expense. Of this amount, \$17.4 million was allocated to the U.S. Card segment, \$1.3 million was allocated to the Global Financial Services segment, and the balance was held in the Other category.

During the three months ended June 30, 2005 and 2004, the Company sold auto loans of \$257.7 million and \$322.7 million, respectively. These transactions resulted in pre-tax gains allocated to the Auto Finance segment, inclusive of allocations related to funds transfer pricing, of \$4.5 million and \$12.5 million for the three months ended June 30, 2005 and 2004, respectively. In addition, the Company recognized an additional \$2.5 million in gains related to prior period sales of auto receivables for the three month period ended June 30, 2005.

During the six months ended June 30, 2005 and 2004, the Company sold auto loans of \$257.7 million and \$582.4 million, respectively. These transactions resulted in pre-tax gains allocated to the Auto Finance segment, inclusive of allocations related to funds transfer pricing, of \$4.5 million and \$25.8 million for the six months ended June 30, 2005 and 2004, respectively. In addition, the Company recognized an additional \$5.0 million in gains related to prior period sales of auto receivables for the six month period ended June 30, 2005.

During the three months ended June 30, 2005, the Company completed the acquisition of Key Bank's non-prime auto loan portfolio, adding \$635.3 million in managed loans to the Auto Finance segment.

**Note 3: Capitalization**

In May 2005, the Company issued 10.4 million shares of common stock resulting in proceeds of \$747.5 million in accordance with the settlement provisions of the forward purchase contracts of its mandatory convertible debt securities (the "Upper DECs") issued in April of 2002. The number of shares was based on the average closing price of \$71.77 for the Company's stock calculated over the twenty trading days prior to the settlement.

In May 2005, the Company issued \$500.0 million of ten year 5.50% fixed rate senior notes through its shelf registration statement.

In March 2005, COAF entered into a revolving warehouse credit facility collateralized by a security interest in certain auto loan assets (the "Capital One Auto Loan Facility II"). The Capital One Auto Loan Facility II has the capacity to issue up to \$750.0 million in secured notes. The Capital One Auto Loan Facility II has a renewal date of March 27, 2006. The facility does not have a final maturity date. Instead, the participant may elect to renew the commitment for another set period of time. Interest on the facility is based on commercial paper rates.

In February of 2005, pursuant to the original terms of the Upper Decs mandatory convertible securities issued in April of 2002, the Company completed a remarketing of approximately \$704.5 million aggregate principal amount of its 6.25% senior notes due May 17, 2007. As a result of the remarketing, the annual interest rate on the senior notes was reset to 4.738%. Following the remarketing, the Company extinguished \$585.0 million of the remarketed senior notes using the proceeds from the issuance of \$300.0 million of seven year 4.80% fixed rate senior notes and \$300.0 million of twelve year 5.25% fixed rate senior notes. The Company recognized a \$12.4 million loss on the extinguishment of the remarketed senior notes.

**Note 4: Comprehensive Income**

Comprehensive income for the three months ended June 30, 2005 and 2004, respectively was as follows:

	Three Months Ended June 30	
	2005	2004
<b>Comprehensive Income:</b>		
Net income	\$ 531,118	\$ 407,387
Other comprehensive income (loss), net of tax	5,282	(151,775)
Total comprehensive income	\$536,400	\$ 255,612

**Note 5: Earnings Per Share**

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

	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
<b>Numerator:</b>				
Net income	\$ 531,118	\$ 407,387	\$ 1,037,680	\$ 858,193
<b>Denominator:</b>				
Denominator for basic earnings per share – Weighted-average shares	252,585	234,732	248,305	233,377
<b>Effect of dilutive securities:</b>				
Stock options	6,602	10,341	7,757	10,813
Restricted stock	2,477	2,518	2,384	2,312
Dilutive potential common shares	9,079	12,859	10,141	13,125
Denominator for diluted earnings per share – Adjusted weighted-average shares	261,664	247,591	258,446	246,502
<b>Basic earnings per share</b>	<b>\$ 2.10</b>	<b>\$ 1.74</b>	<b>\$ 4.18</b>	<b>\$ 3.68</b>
<b>Diluted earnings per share</b>	<b>\$ 2.03</b>	<b>\$ 1.65</b>	<b>\$ 4.02</b>	<b>\$ 3.48</b>

**Note 6: Goodwill**

The following table provides a summary of the goodwill.

	Auto Finance	Global Financial Services	Total
Balance at December 31, 2004	\$218,957	\$133,200	\$352,157
Additions	110,493	282,456	392,949
Foreign currency translation	—	(5,217)	(5,217)
Balance at June 30, 2005	\$329,450	\$410,439	\$739,889

During the first quarter of 2005, the Company closed the acquisitions of Onyx Acceptance Corporation, a specialty auto loan originator; Hfs Group, a United Kingdom based home equity broker; InsLogic, an insurance brokerage firm, and eSmartloan, a U.S. based online originator of home equity loans and mortgages, which created approximately \$392.9 million of goodwill, in the aggregate.

The results of operations for the businesses acquired during the first quarter of 2005 were included in the Company's Consolidated Statement of Income beginning at the dates of acquisition.

**Note 7: Commitments and Contingencies****Litigation relating to MasterCard and Visa**

Over the past several years, MasterCard and Visa, as well as several of their member banks, have been involved in several different lawsuits challenging various practices of MasterCard and Visa.

In 1998, the United States Department of Justice filed an antitrust lawsuit against the associations, alleging, among other things, that the associations had violated antitrust law and engaged in unfair practices by not allowing member banks to issue cards from competing brands (such as American Express and Discover). In 2001, a New York district court entered judgment in favor of the Department of Justice and ordered the associations, among other things, to repeal these policies. The United States Second Court of Appeals affirmed the district court and, on October 4, 2004, the United States Supreme Court denied certiorari in the case.

After the Supreme Court denied certiorari, American Express Travel Related Services Company, Inc., on November 15, 2004, filed a lawsuit against the associations and several member banks under United States federal antitrust law. The lawsuit alleges, among other things, that the associations and member banks implemented and enforced illegal exclusionary agreements that prevented member banks from issuing American Express and Discover cards. The complaint, among other things, requests civil monetary damages, which could be trebled. Capital One Bank; Capital One, F.S.B.; and Capital One Financial Corp. are named defendants.

The associations filed motions to dismiss on January 14, 2005. The bank defendants, including the Capital One defendants, moved to dismiss portions of the complaint on February 18, 2005. In addition, in March 2005, at the Court's request, the parties submitted summaries of their respective arguments on whether the doctrine of "collateral estoppel" would allow American Express to use certain findings and conclusions in the earlier Department of Justice action against Visa and MasterCard in the present litigation.

On April 14, 2005, the Court denied aspects of the defendants' motions to dismiss, took other aspects of those motions under advisement, and ruled that, at this stage in the litigation, collateral estoppel was not available to American Express.

On June 22, 2005, five entities purporting to represent a class of retail merchants filed a lawsuit against the associations and several member banks under United States federal antitrust law. The lawsuit alleges, among

other things, that the associations and member banks conspired to fix the level of interchange fees. The complaint, among other things, requests civil monetary damages, which could be trebled. Capital One Bank; Capital One, F.S.B.; and Capital One Financial Corp. are named defendants.

The Company believes that it has meritorious defenses with respect to these cases and intends to defend the cases vigorously. At the present time, management is not in a position to determine whether the resolution of these cases will have a material adverse effect on either the consolidated financial position of the Company or the Company's results of operations in any future reporting period.

#### **Other Pending and Threatened Litigation**

In addition, the Company also commonly is subject to various pending and threatened legal actions relating to the conduct of its normal business activities. In the opinion of management, the ultimate aggregate liability, if any, arising out of any such pending or threatened legal actions will not be material to the consolidated financial position or results of operations of the Company.

#### **Note 8: Impairment or Disposal of Long-Lived of Assets**

During the first quarter of 2005, the Company closed on the sale of its Tampa, Florida facilities. The Company had previously classified the property as held-for sale and recognized an impairment charge of \$44.9 million in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The ultimate sales price was greater than the recorded impaired value, and as such, the Company reversed \$18.8 million of its previously recorded impairment in Occupancy expense during the quarter.

#### **Note 9: Subsequent events**

On August 3, 2005, the shareholders of Hibernia voted on and approved the Agreement and Plan of Merger, dated March 6, 2005, between the Company and Hibernia Corporation, pursuant to which Hibernia will merge with and into Capital One Financial Corporation, pending the necessary regulatory approval and satisfaction of other closing conditions.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**(Dollars in thousands) (yields and rates presented on an annualized basis)**

**I. Introduction**

Capital One Financial Corporation (the "Corporation") is a diversified financial services company whose subsidiaries market a variety of financial products and services. The Corporation's principal subsidiaries are Capital One Bank (the "Bank") which currently offers credit card products and takes retail deposits, Capital One, F.S.B. (the "Savings Bank"), which offers consumer and commercial lending and consumer deposit products and Capital One Auto Finance, Inc. ("COAF") which offers automobile and other motor vehicle financing products. Capital One Services, Inc. ("COSI"), another subsidiary of the Corporation, provides various operating, administrative and other services to the Corporation and its subsidiaries. The Corporation and its subsidiaries are hereafter collectively referred to as the "Company". The Company became a financial holding company on May 27, 2005. As of June 30, 2005, the Company had 48.9 million accounts and \$83.0 billion in managed consumer loans outstanding and was one of the largest providers of MasterCard and Visa credit cards in the United States.

The Company's profitability is affected by the net interest income and non-interest income generated on earning assets, consumer usage and payment patterns, credit quality, levels 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, overlimit and other fee income, collectively "fees"), cross sell, interchange and gains on the securitizations of loans. Loan securitization transactions qualifying as sales under accounting principles generally accepted in the United States ("GAAP") remove the loan receivables from the consolidated balance sheet; however, the Company continues to both own and service the related accounts. The Company generates earnings from its managed loan portfolio that includes both on-balance sheet and off-balance sheet loans. Interest income, fees, interchange and recoveries in excess of the interest paid to investors and charge-offs generated from off-balance sheet loans are recognized as servicing and securitizations income.

The Company's primary expenses are the costs of funding assets, provision for loan losses, operating expenses (including associate salaries and benefits), marketing expenses and income taxes. Marketing expenses (e.g., advertising, printing, credit bureau costs and postage) to implement the Company's product strategies are expensed as incurred while the revenues resulting from acquired accounts are recognized over their life. 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.

**II. Significant Accounting Policies**

See the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004, Part I, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a summary of the Company's significant accounting policies.

**III. Reconciliation to GAAP Financial Measures**

The Company's consolidated financial statements prepared in accordance with GAAP are referred to as its "reported" financial statements. Loans included in securitization transactions which qualified as sales under GAAP have been removed from the Company's "reported" balance sheet. However, servicing fees, finance charges, and other fees, net of charge-offs, and interest paid to investors of securitizations are recognized as servicing and securitizations income on the "reported" income statement.

The Company's "managed" consolidated financial statements reflect adjustments made related to effects of securitization transactions qualifying as sales under GAAP. The Company generates earnings from its "managed" loan portfolio which includes both the on-balance sheet loans and off-balance sheet loans. The Company's "managed" income statement takes the components of the servicing and securitizations income generated from the securitized portfolio and distributes the revenue and expense to appropriate income statement line items from which it originated. For this reason, the Company believes the "managed" consolidated financial statements and related managed metrics to be useful to stakeholders.

(Dollars in thousands)	As of and for the Three Months Ended June 30, 2005		
	Total Reported	Securitization Adjustments <sup>(1)</sup>	Total Managed <sup>(2)</sup>
<b>Income Statement Measures</b>			
Net interest income	\$ 872,503	\$ 957,799	\$ 1,830,302
Non-interest income	\$ 1,581,996	\$ (437,236)	\$ 1,144,760
Total revenue	\$ 2,454,499	\$ 520,563	\$ 2,975,062
Provision for loan losses	\$ 291,600	\$ 520,563	\$ 812,163
Net charge-offs	\$ 324,047	\$ 520,563	\$ 844,610
<b>Balance Sheet Measures</b>			
Consumer loans	\$ 38,610,787	\$ 44,340,565	\$ 82,951,352
Total assets	\$ 56,995,967	\$ 43,761,307	\$ 100,757,274
Average consumer loans	\$ 38,237,463	\$ 43,234,365	\$ 82,471,828
Average earning assets	\$ 51,693,930	\$ 42,380,839	\$ 94,074,769
Average total assets	\$ 56,962,652	\$ 43,677,152	\$ 100,639,804
30+ day delinquencies	\$ 1,399,552	\$ 1,493,307	\$ 2,892,859

<sup>(1)</sup> Includes adjustments made related to the effects of securitization transactions qualifying as sales under GAAP and adjustments made to reclassify to "managed" loans outstanding the collectible portion of billed finance charge and fee income on the investors' interest in securitized loans excluded from loans outstanding on the "reported" balance sheet in accordance with Financial Accounting Standards Board Staff Position, "Accounting for Accrued Interest Receivable Related to Securitized and Sold Receivables under FASB Statement 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," issued in April 2003.

<sup>(2)</sup> The managed loan portfolio does not include auto loans which have been sold in whole loan sale transactions where the Company has retained servicing rights.

#### IV. Management Summary

##### Summary of Quarter ending June 30, 2005

The second quarter of 2005 was marked by continued strength in diversified profitability and loan growth, as well as overall credit quality.

For the three months ended June 30, 2005, net income increased 30% to \$531.1 million and diluted earnings per share increased 23% to \$2.03 per share compared to the same period in the prior year. This was driven by growth in revenues resulting from the year over year growth of the Company's managed loan portfolio and was supported by continued improvement in asset quality metrics. The growth in reported loans increased the overall provision expense, however this was offset by continued improvements in the net charge-off rate and 30+ day delinquency rate reflecting the Company's continued bias toward originating higher credit quality loans in U.S. Card and steady loan growth in the Global Financial Services and Auto Finance segments, which typically exhibit lower levels of loan losses, as well as a favorable credit environment. The growth in revenues was offset by higher marketing spend and operating expenses. However, operating expense as a percentage of average managed loans continued to decline, reflecting the improved operating efficiencies of the Company.

The Company's return on managed average assets of 2.11% reflects the strength of the Company's bottom-line earnings.

The U.S. Card segment continues to be the largest contributor to net income; however, the Auto Finance and Global Financial Services segments combined provided a consistent contribution of 23% to net income for the second quarter 2005, compared to 24% for the second quarter 2004. The Auto Finance and Global Financial Services segments accounted for 44% of managed loans at June 30, 2005 compared with 38% at June 30, 2004.

The Company continues to grow profitably while maintaining a strong balance sheet. Total assets continue to grow according to expectations, capital ratios remain well above the regulatory "well capitalized" thresholds, and the Company continues to maintain significant levels of liquidity.

#### **Q2 2005 Significant Events**

On May 17, 2005, the Company issued 10.4 million shares of common stock in accordance with the settlement provisions of the forward purchase contracts related to the mandatory convertible debt securities (the "Upper DECs") issued in April of 2002. The issuance provided \$747.5 million in cash proceeds.

On April 28, 2005, the Company filed a declaration with the Federal Reserve Bank of Richmond electing to become a "financial holding company" under the Gramm-Leach-Bliley Act amendments of the Bank Holding Company Act of 1956 (the "BHCA"). The election became effective on May 27, 2005, thereby allowing the Company the authority to engage in certain activities that are not permissible under the BHCA for bank holding companies, including the authority under the BHCA to acquire all of the subsidiaries of Hibernia Corporation.

In April and May of 2005, the Company completed the acquisition of Key Bank's non-prime auto loan portfolio, adding \$635.3 million in managed loans. The purchase will strengthen the Company's non-prime auto loan growth platform and dealer channels as Key Bank's data, dealer relationships and sales staff are fully leveraged upon integration.

During the second quarter of 2005, the Company recognized \$26.0 million in employee termination and facility consolidation charges related to cost reduction initiatives associated with the restructuring program announced in 2004.

#### **V. Financial Summary**

Table 1 provides a summary view of the consolidated income statement and selected metrics for the Company at and for the three and six month periods ended June 30, 2005 and 2004.

**TABLE 1 – FINANCIAL SUMMARY**

(Dollars in thousands)	As of and for the Three Months Ended June 30			As of and for the Six Months Ended June 30		
	2005	2004	Change	2005	2004	Change
<b>Earnings (Reported):</b>						
Net interest income	\$ 872,503	\$ 711,017	\$ 161,486	\$ 1,733,024	\$ 1,443,039	\$ 289,985
Non-interest income	1,581,996	1,396,064	185,932	3,097,975	2,839,198	258,777
Total Revenue <sup>(1)</sup>	2,454,499	2,107,081	347,418	4,830,999	4,282,237	548,762
Provision for loan losses	291,600	242,256	49,344	551,231	485,924	65,307
Marketing	277,034	253,838	23,196	588,793	508,985	79,808
Operating expenses	1,058,583	974,974	83,609	2,074,656	1,944,723	129,933
Income before taxes	827,282	636,013	191,269	1,616,319	1,342,605	273,714
Income taxes	296,164	228,626	67,538	578,639	484,412	94,227
Net income	531,118	407,387	123,731	1,037,680	858,193	179,487
<b>Common Share Statistics:</b>						
Basic EPS	\$ 2.10	\$ 1.74	\$ 0.36	\$ 4.18	\$ 3.68	\$ 0.50
Diluted EPS	2.03	1.65	0.38	4.02	3.48	0.54
<b>Selected Balance Sheet Data:</b>						
Reported loans (period end)	\$38,610,787	\$34,551,343	\$ 4,059,444	\$38,610,787	\$34,551,343	\$ 4,059,444
Managed loans (period end)	82,951,352	73,367,352	9,584,000	82,951,352	73,367,352	9,584,000
Reported loans (average)	38,237,463	33,290,487	4,946,976	38,253,636	33,084,006	5,169,630
Managed loans (average)	82,471,828	72,327,220	10,144,608	82,114,830	71,737,754	10,377,076
Allowance for loan losses	1,405,000	1,425,000	(20,000)	1,405,000	1,425,000	(20,000)
<b>Selected Company Metrics (Reported):</b>						
Return on average assets (ROA)	3.73%	3.26%	0.47	3.67%	3.51%	0.16
Return on average equity (ROE)	23.80	23.47	0.33	24.66	25.64	(0.98)
Net charge-off rate	3.39	3.72	(0.33)	3.42	3.94	(0.52)
30+ day delinquency rate	3.62	3.91	(0.29)	3.62	3.91	(0.29)
Net interest margin	6.75	6.22	0.53	6.75	6.43	0.32
Revenue margin	18.99	18.44	0.55	18.81	19.07	(0.26)
<b>Selected Company Metrics (Managed):</b>						
Return on average assets (ROA)	2.11%	1.84%	0.27	2.08%	1.98%	0.10
Net charge-off rate	4.10	4.42	(0.32)	4.11	4.62	(0.51)
30+ day delinquency rate	3.49	3.76	(0.27)	3.49	3.76	(0.27)
Net interest margin	7.78	7.65	0.13	7.82	7.99	(0.17)
Revenue margin	12.65	12.53	0.12	12.56	12.95	(0.39)

<sup>(1)</sup> In accordance with the Company's finance charge and fee revenue recognition policy, the amounts billed to customers but not recognized as revenue were \$259.8 million and \$263.5 for the three months ended June 30, 2005 and 2004, respectively, and \$503.7 million and \$549.0 million for the six months ended June 30, 2005 and 2004, respectively.

**Summary of Reported Statement of Income**

The following is a detailed description of the financial results reflected in Table 1 – Financial Summary. Additional information is provided in section XIV, Tabular Summary as detailed in the sections below.

All quarterly comparisons are made between the three month period ended June 30, 2005 and the three month period ended June 30, 2004, unless otherwise indicated.

All year to date comparisons are made between the six month period ended June 30, 2005 and the six month period ended June 30, 2004, unless otherwise indicated.

### *Net Interest Income*

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

For the three and six month periods ended June 30, 2005, reported net interest income increased 23% and 20%, respectively. These increases were primarily the result of growth in reported average earning assets, increases in earning asset yields and reductions in the cost of funds. The 38 and 15 basis point increases in the earning asset yields for the three and six month periods ended June 30, 2005, respectively, were primarily the result of a 21 basis point increase in the reported loan yield for the second quarter. The increase in loan yield for the second quarter resulted from the overall rising interest rate environment combined with improved collectibility of finance charges billed to customers. The reduction in the cost of funds was primarily driven by the replacement of maturing unsecured debt with new lower cost issuances.

For additional information, see section XIV, Tabular Summary, Table A (Statements of Average Balances, Income and Expense, Yields and Rates) and Table B (Interest Variance Analysis).

### *Non-Interest Income*

Non-interest income is comprised of servicing and securitizations income, service charges and other customer-related fees, interchange income, and other non-interest income.

For the three and six month periods ended June 30, 2005, reported non-interest income increased 13% and 9%, respectively. The quarterly increase was primarily related to increases in servicing and securitization income, interchange income, and other non-interest income, partially offset by a decrease in service charges and other customer-related fees. The year-to-date increase was primarily the result of an increase in servicing and securitization income, service charges and other customer-related fees and interchange income.

Servicing and securitizations income represents servicing fees, excess spread and other fees relating to consumer loan receivables sold through securitization and other sale transactions, as well as gains and losses resulting from those transactions and fair value adjustments of the retained interests. Servicing and securitization income increased 18% and 11% for the three and six month periods ended June 30, 2005, respectively. These increases were primarily the result of 14% increases in both the second quarter and year-to-date average off-balance sheet loan portfolios, increases in excess spread and fair value adjustments of the retained interests. In addition, businesses acquired during 2005 contributed \$50.2 million and \$64.4 million to servicing and securitization income for the three and six month periods ended June 30, 2005, respectively.

Service charges and other customer-related fees decreased 2% in the second quarter of 2005 and increased 5% in the first half of 2005 while quarter-to-date and year-to-date average reported loan portfolios increased 15% and 16%, respectively. The lower growth in service charges and other customer-related fee income when compared to reported loan growth is reflective of the reported loan growth being concentrated in lower fee generating diversification businesses.

Interchange income, net of costs related to the Company's rewards programs, increased 13% and 15% for the three and six month periods ended June 30, 2005, respectively, primarily due to growth in the reported loan portfolio and increased purchase volumes. Costs related to the Company's rewards programs increased \$16.6 million and \$26.3 million for the three and six month periods ended June 30, 2005, respectively. The increases in rewards expense were due to increases in purchase volumes and the expansion of the rewards programs.

Other non-interest income includes, among other items, gains and losses on sales of securities, gains and losses associated with hedging transactions, service provider revenue generated by the Company's healthcare finance business, gains on the sale of auto loans and mortgage loans and income earned related to purchased charged-off loan portfolios. Other non-interest income increased 54% for the second quarter of 2005. This increase was primarily related to \$12.5 million in revenue contributed from businesses that were acquired in 2005 and a \$20.6 million increase in revenue related to a reduction in losses on the sale of securities. These increases were partially offset by a \$7.0 million reduction in revenue due to fewer gains on the sale of auto loans recognized in the second quarter of 2005. For the six month period ended June 30, 2005, other non-interest income remained relatively consistent with the same period of the prior year but included a \$17.8 million decrease in revenue related to a reduction in gains on the sale of auto loans, offset by a \$17.8 million increase in revenue contributed from the businesses acquired in 2005.

#### *Provision for loan losses*

The provision for loan losses increased 20% and 13% for the three and six month periods ended June 30, 2005, respectively. These increases were a result of 12% growth in the reported loan portfolio and increases in charge-offs resulting from the new bankruptcy legislation that will be effective during the fourth quarter of 2005. These increases were partially offset by the reported loan growth being concentrated in higher credit quality loans, improved auto recoveries and overall improved economic conditions. Improvement in these factors was evidenced by improved credit quality metrics; the reported 30+ day delinquency rate declined 29 basis points over the prior year, and the reported net charge-off rate declined 33 and 51 basis points for the three and six month periods ended June 30, 2005, respectively.

#### *Non-interest expense*

Non-interest expense consists of marketing and operating expenses. The 9% and 16% increases in marketing expense for the three and six month periods ended June 30, 2005, respectively, reflect origination opportunities in our diversification businesses.

Operating expenses for the three and six month periods ended June 30, 2005, included \$47.2 million and \$86.7 million, respectively, in expenses related to businesses acquired during the first quarter of 2005. In addition, \$26.0 million and \$30.9 million in employee termination and facility consolidation expenses related to the corporate-wide cost reduction initiatives announced in 2004 were included in operating expenses for the three and six month periods ended June 30, 2005, compared to \$56.0 million for the same periods in the prior year. Exclusive of the aforementioned items, operating expenses increased 7% and 4% for the three and six month periods ending June 30, 2005, respectively. This increase was the result of 13% managed loan growth, offset by improved operating efficiencies. These improvements were evidenced by 26 and 37 basis point declines in operating expenses as a percentage of average managed loans for the three and six months ended June 30, 2005, respectively.

#### *Income taxes*

The Company's effective tax rate was 35.8% for both the three and six month periods ended June 30, 2005, compared to 36.0% and 36.1% for the same periods in the prior year. The slight decline in the effective tax rate was due to the Company investment in synthetic fuel tax credits and other tax planning activities.

#### ***Consumer Loan Portfolio Summary***

The Company analyzes its financial performance on a managed consumer loan portfolio basis. The managed consumer loan portfolio is comprised of on-balance sheet and off-balance sheet loans. The Company has

retained servicing rights for its securitized loans and receives servicing fees in addition to the excess spread generated from the off-balance sheet loan portfolio.

The 14% growth in the average managed loan portfolio for both the three and six months periods ended June 30, 2005, was concentrated in higher credit quality, lower yielding loans when compared to the same periods in the prior year. This is primarily the result of loan diversification within and beyond U.S. credit cards. The diversification businesses of Auto Finance and Global Financial Services together contributed 86% and 83% of the average managed loan growth for the respective periods.

For additional information, see section XIV, Tabular Summary, Table C (Managed Consumer Loan Portfolio).

#### *Asset Quality*

The Company's credit risk profile is managed to maintain strong risk adjusted returns and diversification across the full credit spectrum and in each of its consumer lending products. Certain consumer lending products have, in some cases, higher expected delinquency and charge-off rates. The costs associated with higher delinquency and charge-off rates are considered in the pricing of individual products.

#### Delinquencies

The Company believes delinquencies to be an indicator of loan portfolio credit quality at a point in time. 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.

The reduction in reported and managed 30+ day delinquency rates was due to the Company's continued asset diversification within and beyond U.S. credit cards with a continued focus on originating higher credit quality loans, improved collections experience and an overall improvement in economic conditions.

For additional information, see section XIV, Tabular Summary, Table D (Delinquencies).

#### 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 principal recoveries. The Company generally charges off credit card loans at 180 days past the due date, and charges off other consumer loans at the earlier of 120 days past the due date or upon repossession of collateral. Costs to recover previously charged-off accounts are recorded as collection expenses in non-interest expense.

As with the decline in delinquency rates, the reduction in reported and managed net charge-off rates can be attributed to the Company's continued asset diversification within and beyond U.S. credit cards with a continued focus on originating higher credit quality loans, improved collections experience and an overall improvement in economic conditions.

For additional information, see section XIV, Tabular Summary, Table E (Net Charge-offs).

#### Allowance for Loan Losses

The allowance for loan losses is maintained at an amount estimated to be sufficient to absorb probable losses, net of principal 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, for all relevant periods, the allowance for loan losses was adequate to cover anticipated losses in the total reported consumer loan portfolio under then current conditions, met applicable legal and regulatory guidance and was consistent with GAAP. There can be no assurance as to future credit losses that may be incurred in connection with the Company's consumer loan portfolio, nor can there be any assurance that the loan loss allowance that has been established by the Company will be sufficient to absorb such future credit losses. The allowance is a general allowance applicable to the reported consumer loan portfolio. The amount of allowance necessary is determined primarily based on a migration analysis of delinquent and current accounts and forward loss curves. 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; forecasting uncertainties and size of credit risks; the degree of risk inherent in the composition of the loan portfolio; economic conditions; legal and regulatory guidance; credit evaluations and underwriting policies; seasonality; and the value of collateral supporting the loans.

The allowance for loan losses decreased \$35.0 million in the second quarter and \$100.0 million in the first half of 2005. Although there was growth in the reported loan portfolio, the impact of the loan growth on the allowance was more than offset by the increasing weight in our reported loan portfolio of lower loss auto assets, improved recoveries outlook for auto loans and improvements in late stage delinquencies.

For additional information, see section XIV, Tabular Summary, Table F (Summary of Allowance for Loan Losses).

#### Finance Charge and Fee Revenue Recognition

The Company recognizes earned finance charges and fee income on loans according to the contractual provisions of the credit arrangements. When the Company does not expect full payment of finance charges and fees, it does not accrue the estimated uncollectible portion as income (hereafter the "suppression amount"). To calculate the suppression amount, the Company first estimates the uncollectible portion of finance charge and fee receivables using a formula based on historical account migration patterns and current delinquency status. This formula is consistent with that used to estimate the allowance related to expected principal losses on reported loans. The suppression amount is calculated by adding any current period change in the estimate of the uncollectible portion of finance charge and fee receivables to the amount of finance charges and fees charged-off (net of recoveries) during the period. The Company subtracts the suppression amount from the total finance charges and fees billed during the period to arrive at total reported revenue.

The amount of finance charges and fees suppressed were \$259.8 million and \$503.7 million for the three and six months ended June 30, 2005, respectively, compared to \$263.5 million and \$549.0 million for the three and six months ended June 30, 2004, respectively. The reduction in the suppression amount was driven by higher expectations of collectibility resulting from improved credit performance. Actual payment experience could differ significantly from management's assumption, resulting in higher or lower future finance charge and fee income.

#### **VI. Reportable Segment Summary**

The Company manages its business as three distinct operating segments: U.S. Card, Auto Finance and Global Financial Services. The U.S. Card, Auto Finance and Global Financial Services segments are considered reportable segments based on quantitative thresholds applied to the managed loan portfolio for reportable segments provided by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

As management makes decisions on a managed portfolio basis within each segment, information about reportable segments is provided on a managed basis.

The Company maintains its books and records on a legal entity basis for the preparation of financial statements in conformity with GAAP. The following table presents information prepared from the Company's internal management information system, which is maintained on a line of business level through allocations from legal entities.

All quarterly comparisons are made between the three month period ended June 30, 2005 and the three month period ended June 30, 2004, unless otherwise indicated. All year to date comparisons are made between the six month period ended June 30, 2005 and the six month period ended June 30, 2004, unless otherwise indicated.

**US Card Segment**

**TABLE 2 – U.S. CARD**

(Dollars in thousands)	As of and for the		As of and for the	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
<b>Earnings (Managed Basis)</b>				
Net interest income	\$ 1,151,692	\$ 1,124,099	\$ 2,402,330	\$ 2,324,676
Non-interest income	846,720	816,034	1,626,135	1,585,090
Total revenue	1,998,412	1,940,133	4,028,465	3,909,766
Provision for loan losses	539,211	519,569	1,028,247	1,054,848
Non-interest expense	794,012	820,424	1,630,154	1,650,349
Income before taxes	665,189	600,140	1,370,064	1,204,569
Income taxes	232,816	216,051	479,522	433,645
Net income	\$ 432,373	\$ 384,089	\$ 890,542	\$ 770,924
<b>Selected Metrics (Managed Basis)</b>				
Period end loans	\$46,408,912	\$45,247,444	\$46,408,912	\$45,247,444
Average loans	46,504,945	45,162,763	47,027,255	45,365,141
Net charge-off rate	4.90%	5.19%	4.81%	5.30%
30+ day delinquency rate	3.60	3.95	3.60	3.95

The U.S. Card segment consists of domestic consumer credit card lending activities. The U.S. Card segment continued to provide earnings growth primarily as a result of year over year loan growth, improved credit quality and improved operating efficiencies.

The increase in second quarter U.S. Card segment net income was the result of higher revenues and lower non-interest expense, offset by higher provision expense. Total revenues grew 3% in the second quarter, which was consistent with average loan growth of 1% in addition to an increase in loan yields and higher purchase volumes. The provision for loan losses increased 4% for the three month period ended June 30, 2005, primarily related to loan growth and an expected increase in charge-offs related to bankruptcies, partially offset by improvements in asset credit quality metrics. The 29 and 35 basis point reductions in the net charge-off and 30+ day delinquency rates are due to an increased concentration of higher credit quality loans in the loan portfolio compared to the prior year periods and improved economic conditions. Non-interest expenses decreased 3% in the second quarter primarily as a result of a \$39.0 million reduction in the allocation of severance and facility consolidation charges related to the Company's corporate-wide cost reduction initiatives announced in 2004.

The increase in net income for the first half of 2005 was the result of higher revenues combined with lower provision and non-interest expense. Total revenue grew 3%, in the first half of 2005 while the average loan portfolio grew 4%, however the loan growth was concentrated in higher credit quality, lower fee generating loans. The provision for loan losses decreased 3% as a result of improvements in the asset credit quality metrics. The 49 and 35 basis point reductions in the net charge-off and 30+ day delinquency rates are due to an increased concentration of higher credit quality loans in the portfolio and improved economic conditions. Non-interest expense decreased 1% in the first half of 2005 primarily as a result of a \$22.2 million reduction in the allocation of severance and facility consolidations charges related to the Company's corporate-wide cost reduction initiatives announced in 2004.

### Auto Finance Segment

TABLE 3 – AUTO FINANCE

(Dollars in thousands)	As of and for the		As of and for the	
	Three Months Ended June 30,	2004	Six Months Ended June 30,	2004
<b>Earnings (Managed Basis)</b>				
Net interest income	\$ 285,744	\$ 195,974	\$ 535,251	\$ 385,172
Non-interest income	6,964	22,666	18,303	46,096
Total revenue	292,708	218,640	553,554	431,268
Provision for loan losses	20,330	54,908	112,643	135,090
Non-interest expense	124,584	81,345	238,349	165,878
Income before taxes	147,794	82,387	202,562	130,300
Income taxes	51,728	29,659	70,897	46,908
Net income	\$ 96,066	\$ 52,728	\$ 131,665	\$ 83,392
<b>Selected Metrics (Managed Basis)</b>				
Period end loans	\$14,520,216	\$9,383,432	\$14,520,216	\$9,383,432
Average loans	13,993,998	9,111,521	13,414,580	8,853,950
Net charge-off rate	1.74%	2.53%	2.28%	3.31%
30+ day delinquency rate	4.09	5.59	4.09	5.59

The Auto Finance segment consists of automobile and other motor vehicle financing activities.

Auto Finance segment net income for the three and six month periods ended June 30, 2005 increased as a result of increases in revenue combined with decreases in the provision for loan losses, offset partially by increases in non-interest expense. The 34% and 28% increases in revenue for the three and six month periods ended June 30, 2005, respectively, were due primarily to growth in the quarter-to-date and year-to-date average loan portfolios of 54% and 52%, respectively, partially offset by decreases in recognized gains on the sale of auto loans compared to the same periods in the prior year. The significant loan growth was a result of \$2.8 billion in loans from the Onyx acquisition in the first quarter 2005 and \$635.3 million in loans from the Key Bank non-prime loan portfolio acquisition in the second quarter 2005. Period end loan growth, exclusive of 2005 acquisitions, was 18%, reflecting significant growth in originations. The decreases in the provision for loan losses were a reflection of continued improvements in the asset quality metrics and improved recoveries outlook, slightly offset by the growth in the loan portfolio. The reduction in the net charge-off and 30+ day delinquency rates is due to improvements in auto recoveries and improved economic conditions. Non-interest expense increased 53% and 44% for the three and six month periods ended June 30, 2005, respectively, which is consistent with the growth in the portfolio as a result of the drivers mentioned above.

### Global Financial Services Segment

TABLE 4 – GLOBAL FINANCIAL SERVICES

(Dollars in thousands)	As of and for the		As of and for the	
	Three Months Ended June 30,	2004	Six Months Ended June 30,	2004
<b>Earnings (Managed Basis)</b>				
Net interest income	\$ 411,825	\$ 338,192	\$ 824,558	\$ 670,081
Non-interest income	265,499	185,488	499,340	362,814
Total revenue	677,324	523,680	1,323,898	1,032,895
Provision for loan losses	256,766	159,001	445,082	312,438
Non-interest expense	378,278	295,117	729,754	574,977
Income before taxes	42,280	69,562	149,062	145,480
Income taxes	15,621	23,471	51,975	48,454
Net income	\$ 26,659	\$ 46,091	\$ 97,087	\$ 97,026
<b>Selected Metrics (Managed Basis)</b>				
Period end loans	\$22,053,145	\$18,722,812	\$22,053,145	\$18,722,812
Average loans	21,971,839	18,102,982	21,664,828	17,573,123
Net charge-off rate	3.89%	3.43%	3.72%	3.51%
30+ day delinquency rate	2.93	2.50	2.93	2.50

The Global Financial Services segment consists of international lending activities, small business lending, installment loans, home loans, healthcare financing and other diversified activities.

Global Financial Services segment net income decreased for the second quarter 2005 as a result of increases in provision and non-interest expense, partially offset by an increase in revenue. Revenues, exclusive of contributions from businesses acquired during the first quarter of 2005, increased 22% for the second quarter 2005 as a result of 21% growth in average loans. The provision for loan losses increased 61% for the second quarter of 2005 as a result of growth in the portfolio combined with deteriorating credit quality metrics in the U.K. The net charge-off and 30+ day delinquency rates increased 46 and 43 basis points, respectively, primarily related to a downturn in the consumer credit cycle in the U.K. and the expansion of the U.K. loan portfolio. Non-interest expense, exclusive of the additional expenses associated with the businesses acquired in 2005, increased 14% primarily due to loan growth, as well as increases in collection staffing expense in the U.K.

Global Financial Services segment net income for the first half of the year was consistent with the same period in the prior year. The first half of 2005 saw increases in provision and non-interest expense, partially offset by an increase in revenue. Revenues, exclusive of contributions from businesses acquired during the first quarter of 2005, increased 23% for the first half of 2005 as a result of 23% growth in average loans. The provision for loan losses increased 42% for the first half of 2005 as a result of growth in the portfolio

combined with deteriorating credit quality metrics in the U.K. The net charge-off and 30+ day delinquency rates increased 21 and 43 basis points, respectively, primarily related to a downturn in the consumer credit cycle in the U.K. and expansion of the U.K. loan portfolio. Non-interest expense, exclusive of the additional expenses associated with the businesses acquired in 2005, increased 14% primarily due to loan growth as well as increases in collection staffing expense in the U.K.

## VII. Funding

The Company has established access to a variety of funding sources. Table 5 illustrates the Company's unsecured funding sources and its two auto securitization warehouses.

**TABLE 5 – FUNDING AVAILABILITY AS OF JUNE 30, 2005**

(Dollars or dollar equivalents in millions)	Effective/ Issue Date	Availability (1)(5)	Outstanding	Final Maturity <sup>(4)</sup>
Senior and Subordinated Global Bank Note Program <sup>(2)</sup>	1/03	\$ 1,800	\$ 4,180	—
Senior Domestic Bank Note Program <sup>(3)</sup>	4/97	—	\$ 229	—
Credit Facility	6/04	\$ 750	—	6/07
Capital One Auto Loan Facility I	—	\$ 4,128	\$ 222	—
Capital One Auto Loan Facility II	3/05	\$ 750	—	—
Corporation Shelf Registration	7/02	\$ 842	N/A	—

(1) All funding sources are non-revolving except for the Credit Facility and the Capital One Auto Loan Facilities. Funding availability under the credit facilities is subject to compliance with certain representations, warranties and covenants. Funding availability under all other sources is subject to market conditions.

(2) The notes issued under the Senior and Subordinated Global Bank Note Program may have original terms of thirty days to thirty years from their date of issuance. This program was updated in June 2005.

(3) The notes issued under the Senior Domestic Bank Note Program have original terms of one to ten years. The Senior Domestic Bank Note Program is no longer available for issuances.

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

(5) Availability does not include unused conduit capacity related to securitization structures of \$4.9 billion at June 30, 2005.

The Senior and Subordinated Global Bank Note Program gives the Bank the ability to issue securities to both U.S. and non-U.S. lenders and to raise funds in U.S. and foreign currencies, subject to conditions customary in transactions of this nature.

Prior to the establishment of the Senior and Subordinated Global Bank Note Program, the Bank issued senior unsecured debt through an \$8.0 billion Senior Domestic Bank Note Program. The Bank did not renew the Senior Domestic Bank Note Program for future issuances following the establishment of the Senior and Subordinated Global Bank Note Program.

In June 2004, the Company terminated its Domestic Revolving and Multicurrency Credit Facilities and replaced them with a new revolving credit facility ("Credit Facility") providing for an aggregate of \$750.0 million in unsecured borrowings from various lending institutions to be used for general corporate purposes. The Credit Facility is available to the Corporation, the Bank, the Savings Bank, and Capital One Bank (Europe), plc, subject to covenants and conditions customary in transactions of this type. The Corporation's availability has been increased to \$500.0 million under the Credit Facility. All borrowings under the Credit Facility are based upon varying terms of London Interbank Offering Rate ("LIBOR").

In April 2002, COAF entered into a revolving warehouse credit facility collateralized by a security interest in certain auto loan assets (the "Capital One Auto Loan Facility I"). As of June 30, 2005, the Capital One Auto Loan Facility I had the capacity to issue up to \$4.4 billion in secured notes. The Capital One Auto Loan

Facility I has multiple participants each with a separate renewal date. The facility does not have a final maturity date. Instead, each participant may elect to renew the commitment for another set period of time. Interest on the facility is based on commercial paper rates.

In March 2005, COAF entered into a revolving warehouse credit facility collateralized by a security interest in certain auto loan assets (the "Capital One Auto Loan Facility II"). As of June 30, 2005, the Capital One Auto Loan Facility II had the capacity to issue up to \$750.0 million in secured notes. The Capital One Auto Loan Facility II has a renewal date of March 27, 2006. The facility does not have a final maturity date. Instead, the participant may elect to renew the commitment for another set period of time. Interest on the facility is based on commercial paper rates.

As of June 30, 2005, the Corporation had one effective shelf registration statement under which the Corporation from time to time may offer and sell senior or subordinated debt securities, preferred stock, common stock, common equity units and stock purchase contracts.

In May 2005, the Company issued \$500.0 million of ten year 5.50% fixed rate senior notes through its shelf registration.

In February 2005, the Company completed a remarketing of approximately \$704.5 million aggregate principal amount of its 6.25% senior notes due May 17, 2007. As a result of the remarketing, the annual interest rate on the senior notes was reset to 4.738%. The remarketing was conducted pursuant to the original terms of the Uppers Decs mandatory convertible securities issued in April of 2002. Subsequently in February 2005, the Company extinguished \$585.0 million principal amount of the remarketed senior notes and issued in its place \$300.0 million of seven year 4.80% fixed rate senior notes and \$300.0 million of twelve year 5.25% fixed rate senior notes.

On May 17, 2005, the Company issued 10.4 million shares of common stock in accordance with the settlement provisions of the forward purchase contracts related to the mandatory convertible debt securities (the "Upper DECs") issued in April of 2002. The issuance provided \$747.5 million in cash proceeds.

The Company continues to expand its retail deposit gathering efforts through both direct and broker marketing channels. The Company uses its data analysis 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 June 30, 2005, the Company had \$26.5 billion in interest-bearing deposits, of which \$2.5 billion were held in foreign banking offices and \$10.8 billion represented large denomination certificates of \$100 thousand or more with original maturities up to ten years.

Table 6 shows the maturities of domestic time certificates of deposit in denominations of \$100 thousand or greater (large denomination CDs) as of June 30, 2005.

**TABLE 6 – MATURITIES OF LARGE DENOMINATION CERTIFICATES – \$100,000 OR MORE**

(Dollars in thousands)	June 30, 2005	
	Balance	Percent
Three months or less	\$ 1,294,215	12.02%
Over 3 through 6 months	1,239,567	11.52
Over 6 through 12 months	1,576,797	14.65
Over 12 months through 10 years	6,654,453	61.81
<b>Total</b>	<b>\$10,765,032</b>	<b>100.00%</b>

## VIII. Off-Balance Sheet Arrangements

### *Off-Balance Sheet Securitizations*

The Company actively engages in off-balance sheet securitization transactions of loans for funding purposes. The Company receives proceeds from third party investors for securities issued from the Company's securitization vehicles, which are collateralized by transferred receivables from the Company's portfolio. Securities outstanding totaling \$43.9 billion as of June 30, 2005, represent undivided interests in the pools of consumer loan receivables that are sold in underwritten offerings or in private placement transactions.

The securitization of consumer loans is a significant source of liquidity for the Company. Maturity terms of the existing securitizations vary from 2005 to 2019 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 Company believes that it has the ability to continue to utilize off-balance sheet securitization arrangements as a source of liquidity; however, a significant reduction or termination of the Company's off-balance sheet securitizations could require the Company to draw down existing liquidity and/or to obtain additional funding through the issuance of secured borrowings or unsecured debt, the raising of additional deposits or the slowing of asset growth to offset or to satisfy liquidity needs.

### *Recourse Exposure*

The credit quality of the receivables transferred 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, cash reserve accounts and accrued interest and fees on the investor's share of the pool of receivables. Some of these credit enhancements are retained by the seller and are referred to as retained residual interests. The Company's retained residual interests are generally restricted or subordinated to investors' interests and their value is subject to substantial credit, repayment and interest rate risks on transferred assets if the off-balance sheet loans are not paid when due. Securitization investors and the trusts only have recourse to the retained residual interests, not the Company's assets. See the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004, Part I, Item 8 "Financial Statements and Supplementary Data—Notes to the Consolidated Financial Statements—Note 18" for quantitative information regarding retained interests.

### *Collections and Amortization*

Collections of interest and fees received on 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, in general, to the Company. Under certain conditions, some of the cash collected may be retained to ensure future payments to investors. For amortizing securitizations, amounts collected in excess of the amount that is used to pay the above amounts are generally remitted to the Company, but may be paid to investors in further reduction of their outstanding principal. See the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004, Part I, Item 8 "Financial Statements and Supplementary Data—Notes to the Consolidated Financial Statements—Note 18" for quantitative information regarding revenues, expenses and cash flows that arise from securitization transactions.

Securitization transactions may amortize earlier than scheduled due to certain early amortization triggers, which would accelerate the need for funding. Additionally, early amortization would have a significant impact on the ability of the Bank and Savings Bank to meet regulatory capital adequacy requirements as all off-balance sheet loans experiencing such early amortization would be recorded on the balance sheet and accordingly would require incremental regulatory capital. As of June 30, 2005, no early amortization events related to its off-balance sheet securitizations have occurred.

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***Funding Commitments Related to Synthetic Fuel Tax Credit Transaction***

In June 2004, the Corporation established and consolidated Capital One Appalachian LLC (“COAL”). COAL is a special purpose entity established to invest a 24.9% minority ownership interest in a limited partnership. The partnership was established to operate a facility which produces a coal-based synthetic fuel that qualifies for tax credits pursuant to Section 29 of the Internal Revenue Code. COAL purchased its interest in the partnership from a third party paying \$2.1 million in cash and agreeing to pay an estimated \$115.0 million comprised of fixed note payments, variable payments and the funding of its 24.9% share of the operating losses of the partnership. Actual total payments will be based on the amount of tax credits generated by the partnership through the end of 2007. In exchange, COAL will receive an estimated \$137.7 million in tax benefits resulting from a combination of deductions, allocated partnership operating losses, and tax credits. The Corporation has guaranteed COAL’s commitments to both the partnership and the third party. As of June 30, 2005, the Company has recorded \$37.9 million in tax benefits and had an estimated remaining commitment for fixed note payments, variable payments and the funding of its 24.9% share of the operating losses of the partnership of \$84.7 million.

**IX. Capital*****Capital Adequacy***

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

The most recent notifications received from the regulators categorized the Bank and the Savings Bank as “well-capitalized.” As of June 30, 2005, the Company’s, the Bank’s and the Savings Bank’s capital exceeded all minimum regulatory requirements to which they were subject, and there were no conditions or events since the notifications discussed above that management believes would have changed either the Company, the Bank or the Savings Bank’s capital category.

**TABLE 7 – REGULATORY CAPITAL RATIOS**

	Regulatory Filing Basis Ratios	Applying Subprime Guidance Ratios	Minimum for Capital Adequacy Purposes	To Be “Well-Capitalized” Under Prompt Corrective Action Provisions
<b>June 30, 2005</b>				
<i>Capital One Financial Corp <sup>(1)</sup></i>				
Tier 1 Capital	19.59%	17.08%	4.00%	N/A
Total Capital	22.09	19.40	8.00	N/A
Tier 1 Leverage	17.40	17.40	4.00	N/A
<i>Capital One Bank</i>				
Tier 1 Capital	14.26%	11.56%	4.00%	6.00%
Total Capital	18.39	15.11	8.00	10.00
Tier 1 Leverage	10.88	10.88	4.00	5.00
<i>Capital One, F.S.B.</i>				
Tier 1 Capital	13.05%	11.08%	4.00%	6.00%
Total Capital	14.34	12.36	8.00	10.00
Tier 1 Leverage	12.83	12.83	4.00	5.00
<b>June 30, 2004</b>				
<i>Capital One Bank</i>				
Tier 1 Capital	14.70%	11.75%	4.00%	6.00%
Total Capital	18.95	15.35	8.00	10.00
Tier 1 Leverage	11.60	11.60	4.00	5.00
<i>Capital One, F.S.B.</i>				
Tier 1 Capital	15.40%	12.56%	4.00%	6.00%
Total Capital	16.69	13.84	8.00	10.00
Tier 1 Leverage	14.13	14.13	4.00	5.00

<sup>(1)</sup> The regulatory framework for prompt corrective action is not applicable for bank holding companies.

The Company, the Bank and Savings Bank treat a portion of their loans as “subprime” under the “Expanded Guidance for Subprime Lending Programs” (the “Subprime Guidelines”) issued by the four federal banking agencies that comprise the Federal Financial Institutions Examination Council (“FFIEC”), and have assessed their capital and allowance for loan losses accordingly. Under the Subprime Guidelines, the Company, the Bank and Savings Bank each exceed the minimum capital adequacy guidelines as of June 30, 2005. Failure to meet minimum capital requirements can result in mandatory and possible additional discretionary actions by the regulators that, if undertaken, could have a material effect on the Company’s consolidated financial statements.

For purposes of the Subprime Guidelines, the Company has treated as subprime all loans in the Bank’s and the Savings Bank’s targeted “subprime” programs to customers either with a FICO score of 660 or below or with no FICO score. The Bank and the Savings Bank hold on average 200% of the total risk-based capital charge that would otherwise apply to such assets. This results in higher levels of regulatory capital at the Bank and the Savings Bank. As of June 30, 2005 approximately \$4.5 billion, or 16.0%, of the Bank’s, and \$2.0

billion, or 13.5%, of the Savings Bank's, on-balance sheet assets were treated as subprime for purposes of the Subprime Guidelines.

Additionally, regulatory restrictions exist that limit the ability of the Bank and Savings Bank to transfer funds to the Corporation. As of June 30, 2005, retained earnings of the Bank and the Savings Bank of \$306.7 million and \$359.7 million, respectively, were available for payment of dividends to the Corporation without prior approval by the regulators.

#### ***Dividend Policy***

Although the Company expects to reinvest a substantial portion of its earnings in its business, the Company also intends to continue to pay regular quarterly cash dividends on its common stock. The declaration and payment of dividends, as well as the amount thereof, are 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 Corporation 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 Corporation or its subsidiaries may restrict the ability of the Corporation's subsidiaries to pay dividends to the Corporation or the ability of the Corporation to pay dividends to its stockholders.

#### **X. Business Outlook**

This business outlook section summarizes the Company's expectations for earnings for 2005, and its primary goals and strategies for continued growth. The statements contained in this section are based on management's current expectations and do not take into account any acquisitions, including the pending acquisition of Hibernia (except for diluted earnings per share guidance), that might occur during the year. Certain statements are forward looking, and therefore actual results could differ materially from those in our forward looking statements. Factors that could materially influence results are set forth throughout this section and below in the Risk Factors section.

#### ***Expected Earnings***

The Company expects diluted earnings per share results between \$6.60 and \$7.00 in 2005, inclusive of the acquisition of Hibernia Corporation, which represents an increase of between 6% and 13% over its diluted earnings per share of \$6.21 in 2004. The expected diluted earnings per share results for 2005 include the impact of issuing 10.4 million shares of common stock under the forward purchase contracts in May 2005 related to the Upper DEC's mandatory convertible securities issued in April of 2002, as well as pro rata Institution Brokers' Estimate System earnings for Hibernia and the corresponding 37.7 million shares consideration for the acquisition, which is expected to close on or around September 1, 2005.

The Company's 2005 earnings per share estimate is based on its expectations for continued strong earnings in its U.S. Card segment and increasing combined earnings contributions from its diversified business segments.

The Company's earnings are a function of its revenues (net interest income and non-interest income), consumer usage, payment and attrition patterns, the credit quality and growth rate of its earning assets (which affect fees, charge-offs and provision expense) and the Company's marketing and operating expenses. Specific factors likely to affect the Company's 2005 earnings are the portion of its loan portfolio it holds in higher credit quality assets, changes in consumer payment behavior, the competitive, legal, regulatory and reputational environment and the level of investments and growth in its businesses.

The Company expects to achieve these results based on the continued success of its business strategies and its current assessment of the competitive, regulatory and funding market environments that it faces (each of which is discussed elsewhere in this document), as well as the expectation that the geographies in which the Company competes will not experience significant consumer credit quality erosion, as might be the case in an economic downturn or recession.

### ***Managed Revenue Margin***

The Company expects its managed revenue margin (defined as managed net interest income plus managed non-interest income divided by average managed earning assets) to be modestly lower over time as a result of the Company's continuing diversification efforts and its bias towards higher credit quality assets. As a result of their product features, these assets may generate lower fee and interest revenues as a percentage of average loan balance than the Company's current portfolio. However, expenses as a percentage of average assets are also expected to decline, thereby supporting overall returns. Auto Finance and Global Financial Services segments' assets are growing at a faster than average rate. Such assets typically generate lower losses and higher average balances than those of the Company as a whole, thereby generating lower provision, operating and marketing expenses as a percentage of average managed loans. Efforts are also underway to control the level of operating expenses throughout the Company.

### ***Marketing Investment***

The Company expects its marketing investment, including brand expenditures, to be approximately \$1.4 billion in 2005, exclusive of Hibernia, subject to market opportunities. The Company believes the branded franchise that it is building strengthens and enables its current and future direct marketing strategies across product lines. The Company cautions, however, that an increase or decrease in marketing expense does not necessarily correlate to a comparable increase or decrease in loan balances or accounts as a result of, among other factors, the long-term nature of brand building, customer attrition and utilization patterns, variations in customer response rates and shifts over time in targeting consumers and/or products that have varying marketing acquisition costs.

The Company expects to deploy its marketing across its various products depending on the competitive dynamics of the various markets in which it participates. The Company expects to adjust its marketing allocations from time to time to target specific product lines that it believes offer attractive response rates and opportunities.

Due to the nature of competitive market dynamics and therefore the limited periods of opportunity identified by the Company's testing processes, marketing expenditures may fluctuate significantly from quarter to quarter. Marketing is often back-loaded, aligned with the seasonality of card spending and borrowing. Additionally, a significant minority of the Company's marketing is related to brand, which is supporting product roll outs and direct marketing, and building a long-term strategic asset for Capital One. The Company expects its marketing costs as a percentage of average managed loans to decline over time as its diversification businesses grow at a faster rate than its U.S. Card business.

### ***Operating Cost Trends***

The Company believes that a successful focus on managing operating costs is a critical component of its financial outlook. The Company measures operating efficiency using a variety of metrics which vary by specific department or business unit. Nevertheless, the Company believes that overall annual operating costs as a percentage of managed loans (defined as all non-interest expense less marketing, divided by average managed loans) is an appropriate gauge of the operating efficiency of the Company as a whole. As the

Company continues its rigorous cost management program and to grow its Auto Finance and Global Financial Services segments' assets more quickly than the U.S. Card average, the Company expects operating costs as a percentage of its average managed loans to decline over time as a result of efficiency gains related to, among other things, servicing higher balance, higher credit quality assets.

#### ***Managed Loan Growth***

The Company expects managed loan growth to be in the lower end of its 12% to 15% target in 2005, exclusive of Hibernia, with a higher growth rate in its diversification segments than in its U.S. Card segment.

#### ***Managed Delinquencies and Net Charge-offs***

The Company's managed net charge-off rate improved during 2004 and the first six months of 2005 as a result of its continued asset diversification beyond U.S. Card, a continued bias toward originating higher credit quality loans, improved collections experience and improving economic conditions. The Company does not expect to continue to realize improvement at the same rate. The Company expects its quarterly managed charge-off rate will stay below 4.25% in 2005, exclusive of Hibernia, with quarterly variations.

The Company's managed delinquency rate remained stable during the first half of 2005. Generally, fluctuations in delinquency levels can have several effects, including changes in the amounts of past-due and overlimit fees assessed (lower delinquencies typically cause lower assessments), changes to the non-accrued amounts for finance charges and fees (lower delinquencies typically decrease non-accrued amounts), increased or decreased collections expenses, and/or changes in the reported allowance for loan losses and the associated provision expenses. The Company's allowance for loan losses in a given period is a function of reported charge-offs in the period, the delinquency status of reported loans and other factors, such as the Company's assessment of general economic conditions and the amount of outstanding loans added to the reported balance sheet during the period.

The Company expects a net allowance build in 2005, inclusive of the allowance release in the first half of 2005, related to the seasonal increase in loans and credit metrics, and exclusive of Hibernia. The outlook is based on current and expected reported charge-off and delinquency rates, as well as expected reported loan growth, a higher growth rate in its diversification businesses than its U.S. Card business, and a continuation of current economic conditions. This outlook is sensitive to general economic conditions, employment trends, and bankruptcy trends, in addition to growth of the Company's reported loans.

#### ***Return on Managed Assets***

The Company expects that its return on managed assets will be between 1.7% and 1.8% for the full year of 2005, exclusive of Hibernia, with some quarterly variability, similar to 2004, as modest declines in revenue margin are more than offset by declines in provision and non-interest expenses as a percentage of managed loans.

The Company's objective is to continue diversifying its consumer finance activities, which may include expansion into additional geographic markets, other consumer loan products and/or additional branch banking businesses. In each business line, the Company expects to apply its proprietary marketing capabilities. The Company continues to seek to identify new product and new market opportunities, and to make investment decisions based on the Company's intensive testing and analysis.

The Company's lending products and other products are subject to intense competitive pressures that management anticipates will continue to increase as the lending markets mature, and it could affect the

economics of decisions that the Company has made or will make in the future in ways that it did not anticipate, test or analyze.

### ***U.S. Card Segment***

The Company's U.S. Card segment consisted of \$46.4 billion of U.S. consumer credit card loans as of June 30, 2005, marketed to consumers across the full credit spectrum. The Company's strategy for its U.S. Card segment is to offer compelling, value-added products to its customers.

The competitive environment is currently intense for credit card products. Industry mail volume has increased substantially in recent years, resulting in declines in response rates to the Company's new customer solicitations over time. Additionally, the increase in other consumer loan products, such as home equity loans, puts pressure on growth throughout the credit card industry. These competitive pressures are continuing to increase as a result of, among other things, increasing consolidation within the industry. The industry's response to this competitive pressure has been to increase mail volumes to record levels, and in some parts of the market, most notably the lower and middle parts of the prime segment, offer extremely low up front pricing that appears to make profitability heavily dependent on penalty repricing well beyond "go to" rates. The Company is choosing to limit its marketing in those selected segments because it believes the prevailing pricing practices will compromise both economic returns and customer loyalty over the long term for the sake of short term growth. Instead, the Company is focusing its efforts where it sees better opportunities to deliver profitable growth and create long term customer loyalty, such as in reward cards. Despite this intense pressure, the Company continues to believe that its marketing capabilities will enable it to originate new credit card accounts that exceed the Company's return on investment requirements and to generate a loan growth rate in the low single digits in 2005.

The Company's credit card products marketed to consumers with less established or higher risk credit profiles continue to experience steady mail volume and increased pricing competition. These products generally feature higher annual percentage rates, lower credit lines, and annual membership fees. These products produce revenues more quickly than higher credit quality loans. The Company's strategy has been, and is expected to continue to be, to offer on these accounts, competitive annual percentage rates and annual membership fees appropriate to the risk they present.

### ***Auto Finance Segment***

The Company's Auto Finance segment consisted of \$14.5 billion of U.S. auto loans as of June 30, 2005, marketed across the full credit spectrum, via direct and dealer marketing channels.

The Company believes that its strong risk management skills, increasing operating scale, full credit spectrum product offerings and multi-channel marketing approach will enable it to continue to increase market share in the Auto Finance industry.

The Company expects that in 2005 the Auto Finance segment will continue to grow loans at a faster pace than the U.S. Card segment.

### ***Global Financial Services Segment***

The Global Financial Services segment consisted of \$22.1 billion of loans as of June 30, 2005, including international lending activities, small business lending, installment loans, home loans, healthcare financing and other diversified activities. The second quarter's loan growth was negatively affected by foreign currency exchange rates in the U.K. in the amount of \$463.0 million.

Deteriorating consumer credit in the U.K. has put pressure on GFS earnings in the second quarter of 2005. The Company expects continued profit pressure from a tough credit environment in the U.K. Despite this pressure, the Company continues to expect profitable long term growth from its U.K. business.

The products contained within the Global Financial Services segment play a key role in the asset diversification strategy of the Company, and thus the Company expects the Global Financial Services segment will grow its loan portfolio and profits at a faster pace than the U.S. Card segment.

## **XI. Supervision and Regulation**

### ***General***

The Corporation is a bank holding company (“BHC”) under Section 3 of the Bank Holding Company Act of 1956, as amended (the “BHC Act”) (12 U.S.C. § 1842). The Corporation is subject to the requirements of the BHC Act, including limiting its nonbanking activities to those that are permissible for a BHC. Such activities include those that are so closely related to banking as to be incident thereto such as consumer lending and other activities that have been approved by the Federal Reserve Board (the “Federal Reserve”) by regulation or order. Certain servicing activities are also permissible for a BHC if conducted for or on behalf of the BHC or any of its affiliates. Impermissible activities for BHCs include activities that are related to commerce such as retail sales of nonfinancial products. Under Federal Reserve policy, the Corporation is expected to act as a source of financial and managerial strength to any banks that it controls, including the Bank and Savings Bank, and to commit resources to support them.

On May 27, 2005, the Corporation became a “financial holding company” under the Gramm-Leach-Bliley Act amendments to the BHC Act (the “GLBA”). The GLBA removed many of the restrictions on the activities of BHCs that become financial holding companies. A financial holding company, and the non-bank companies under its control, are permitted to engage in activities considered financial in nature (including, for example, insurance underwriting, agency sales and brokerage, securities underwriting, dealing and brokerage and merchant banking activities); incidental to financial activities; or complementary to financial activities if the Federal Reserve determines that they pose no risk to the safety or soundness of depository institutions or the financial system in general.

The Corporation’s election to become a financial holding company under the GLBA certifies that the Bank and the Savings Bank meet certain criteria, including capital, management and Community Reinvestment Act requirements. If, after it becomes a financial holding company, the Corporation were to fail to continue to meet the criteria for financial holding company status, it could, depending on which requirements it failed to meet, face restrictions on new financial activities or acquisitions and/or be required to discontinue existing activities that are not generally permissible for bank holding companies.

The Bank is a banking corporation chartered under Virginia law and a member of the Federal Reserve System, the deposits of which are insured by the Bank Insurance Fund of the Federal Deposit Insurance Corporation (the “FDIC”). In addition to regulatory requirements imposed as a result of the Bank’s international operations (discussed below), the Bank is subject to comprehensive regulation and periodic examination by the Bureau of Financial Institutions of the Virginia State Corporation Commission (the “Bureau of Financial Institutions”), the Federal Reserve, the FRB-R and the FDIC.

The Savings Bank is a federal savings bank chartered by the Office of Thrift Supervision (the “OTS”) and is a member of the Federal Home Loan Bank System. Its deposits are insured by the Savings Association Insurance Fund of the FDIC. The Savings Bank is subject to comprehensive regulation and periodic examination by the OTS and the FDIC.

The Corporation is also registered as a financial institution holding company under Virginia law and as such is subject to periodic examination by Virginia's Bureau of Financial Institutions. The Corporation's automobile financing activities, conducted by COAF and its subsidiaries, fall under the scrutiny of the state agencies having supervisory authority under applicable sales finance laws or consumer finance laws in most states. The Corporation also faces regulation in the international jurisdictions in which it conducts business.

#### ***Basel Committee***

On May 11, 2004, the Basel Committee on Banking Supervision (the "Committee") announced that it has achieved consensus on the new Basel Capital Accord ("Basel II"), which proposes establishment of a new framework of capital adequacy for banking organizations; the Committee published the text of the framework on July 26, 2004. Despite the release of the Basel II framework, it is not clear at this time whether and in what manner the new accord will be adopted by bank regulators with respect to banking organizations that they supervise and regulate. In April 2005, federal banking regulators in the United States announced a delay in their release of proposed rulemaking in this regard. Proposed rulemaking in the United States is now expected in late 2005, and final rules are expected to become effective prior to January 1, 2007, when banks to which the rules will apply must begin parallel running of the new capital regulations and the existing capital regulations. This timeline continues to be subject to change.

Although the Committee's stated intent is that Basel II will not change the amount of overall capital in the global banking system, adoption of the proposed new accord could require individual banking organizations, including the Company, to increase the minimum level of capital held. The Company will continue to closely monitor regulatory action on this matter and assess the potential impact to the Company.

#### ***International Regulation***

The Office of Fair Trading (the "OFT") is carrying out an industry wide investigation into alleged unfair contract terms in lending agreements and questioning how the Company calculates default charges, such as late, overlimit and returned check fees, in the U.K. The OFT asserts that the Unfair Terms in Consumer Contracts Regulations 1999 render unenforceable consumer lending agreement terms relating to default charges to the extent that the charge is disproportionately high in relation to the actual cost of the default to the Company. The OFT must seek an agreement with the Company to change its practice or, if this is not possible, obtain a court injunction to prevent the continued use of the alleged unfair term. In February 2005, the Company received a letter from the OFT indicating the OFT is challenging the basis on which the Company calculates its default charges in the U.K. In July 2005, the OFT issued a press release regarding its industry wide investigation and sent a further letter to the Company. The OFT has invited the Company to respond within three months in order to address the OFT's concerns and reach an agreement with the OFT regarding the Company's default charges. If the parties cannot reach agreement by the end of that period, the OFT could seek to pursue a court injunction, as discussed above. In the event the OFT's view prevails, the Company's default charges in the U.K. could be significantly reduced. In addition, should the OFT prevail in its challenge, there is the possibility that the Company may also be subject to claims from Customers seeking reimbursement of default charges. The Company is assessing the OFT challenge and cannot state what its eventual outcome will be. Any potential impact could vary based on business strategies or other actions the Company takes to attempt to limit the impact.

#### ***Interstate Taxation***

Several states have passed legislation which attempts to tax the income from interstate financial activities, including credit cards, derived from accounts held by local state residents. Based on the volume of our business in these states and the nature of the legislation passed to date, we currently believe that this development will not materially affect our financial condition.

## **XII. Enterprise Risk Management**

Risk is an inherent part of the Company's business and activities. The Company has an ongoing Enterprise Risk Management ("ERM") program designed to ensure appropriate and comprehensive oversight and management of risk. The ERM program operates at all levels in the Company: first, at the most senior levels with the Board of Directors and senior management committees that oversee risk and risk management practices; second, in the centralized departments headed by the Chief Enterprise Risk Officer and the Chief Credit Officer that establish risk management methodologies, processes and standards; and third, in the individual business areas throughout the Company which own the management of risk and perform ongoing identification, assessment and response to risks. The Company's Corporate Audit Services department also assesses risk and the related quality of internal controls and quality of risk management through its audit activities. To facilitate the effective management of risk, the Company utilizes a risk and control framework that includes eight categories of risk: credit, liquidity, market, operational, legal, strategic, reputation and compliance. For additional information on the Company's ERM program, see the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004, Part I, Item 1, "Enterprise Risk Management".

### **XIII. Risk Factors**

This Quarterly Report on Form 10-Q contains forward-looking statements. We also may make written or oral forward-looking statements in our periodic reports to the Securities and Exchange Commission on Forms 10-K and 8-K, in our annual report to shareholders, in our proxy statements, in our offering circulars and prospectuses, in press releases and other written materials and in statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include information relating to our future earnings per share, growth in managed loans outstanding, product mix, segment growth, managed revenue margin, funding costs, operations costs, employment growth, marketing expense, delinquencies and charge-offs. Forward-looking statements also include statements using words such as "expect," "anticipate," "hope," "intend," "plan," "believe," "estimate" or similar expressions. We have based these forward-looking statements on our current plans, estimates and projections, and you should not unduly rely on them.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions, including the risks discussed below. Our future performance and actual results may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should carefully consider the factors discussed below in evaluating these forward-looking statements.

This section highlights specific risks that could affect our business and us. Although we have tried to discuss key factors, please be aware that other risks may prove to be important in the future. New risks may emerge at any time and we cannot predict such risks or estimate the extent to which they may affect our financial performance. In addition to the factors discussed elsewhere in this report, among the other factors that could cause actual results to differ materially are the following:

#### **We Face Intense Competition in All of Our Markets**

We face intense competition from many other providers of credit cards and other consumer financial products and services. In particular, in our credit card activities, we compete with international, national, regional and local bank card issuers, with other general purpose credit or charge card issuers, and to a certain extent, issuers of smart cards and debit cards. We also compete with providers of other types of financial services and consumer loans such as home equity lines and other mortgage related products that offer consumers debt consolidation. We face similar competitive markets in our auto financing, small business lending, home loan

lending and installment loan activities as well as in our international markets. Thus, the cost to acquire new accounts will continue to vary among product lines and may rise. Other credit card companies may compete with us for customers by offering lower initial interest rates and fees, higher credit limits and/or customer services or product features that are more attractive than those we offer. Because customers generally choose credit card issuers (or other sources of financing) based on price (primarily interest rates and fees), credit limit and other product features, customer loyalty is limited. In addition, intense competition may lead to product and pricing practices that may adversely impact long-term customer loyalty; the Company may choose to not engage in such practices, which may adversely impact its ability to compete, particularly in the short term. Increased competition has resulted in, and may continue to cause, a decrease in credit card response rates and reduced productivity of marketing dollars invested in certain lines of business. Competition may also have an impact on customer attrition as our customers accept offers from other credit card lenders and/or providers of other consumer lending products, such as home equity financing.

Our diversified lending businesses, including auto lending, small business lending, home loan lending and installment loans business also compete on a similar variety of factors, including price, product features and customer service. These businesses may also experience a decline in marketing efficiency and/or customer attrition. In addition, some of our competitors may be substantially larger than we are, which may give those competitors advantages, including a more diversified product and customer base, operational efficiencies, broad-based local distribution capabilities, lower-cost funding and more versatile technology platforms. These competitors may also consolidate with other financial institutions in ways that enhance these advantages and intensify our competitive environment. In addition, the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (the “GLB Act”), which permits greater affiliations between banks, securities firms and insurance companies, may increase competition in the financial services industry.

In such a competitive environment, we may lose entire accounts, or may lose account balances, to competing financial institutions, or find it more costly to maintain our existing customer base. Customer attrition from any or all of our products, together with any lowering of interest rates or fees that we might implement to retain customers, could reduce our revenues and therefore our earnings. We expect that competition will continue to grow more intense with respect to most of our products, including our diversified products and the products we offer internationally.

### **We Face Strategic Risks in Sustaining Our Growth and Pursuing Diversification**

Our growth strategy is threefold. First, we seek to continue to grow our domestic credit card business. Second, we desire to continue to build and grow our automobile finance business. Third, we hope to continue to diversify our business, both geographically and in product mix. We seek to do this by growing our lending businesses, including credit cards, internationally, principally in the United Kingdom and Canada, and by identifying, pursuing and expanding new business opportunities, such as branch banking and other consumer loan products. Our ability to grow is driven by the success of our fundamental business plan, the level of our investments in new businesses or regions and our ability to successfully apply IBS to new businesses. In addition, our revenue may be adversely affected by our continuing diversification and bias toward lower loss assets (because of the potentially lower margins on such accounts). This risk has many components, including:

- *Customer and Account Growth.* Our growth is highly dependent on our ability to retain existing customers and attract new ones, grow existing and new account balances, develop new market segments and have sufficient funding available for marketing activities to generate these customers and account balances. Our ability to grow and retain customers is also dependent on customer satisfaction, which may be adversely affected by factors outside of our control, such as postal service and other marketing and customer service channel disruptions and costs.

- *Product and Marketing Development.* Difficulties or delays in the development, production, testing and marketing of new products or services, which may be caused by a number of factors including, among other things, operational constraints, technology functionality, regulatory and other capital requirements and legal difficulties, will affect the success of such products or services and can cause losses arising from the costs to develop unsuccessful products and services, as well as decreased capital availability. In addition, customers may not accept the new products and services offered.
- *Diversification Risk.* An important element of our strategy is our effort to continue diversifying beyond our U.S. Credit Card portfolio. Our ability to successfully diversify is impacted by a number of factors, including: identifying appropriate acquisition targets, executing on acquisition transactions, developing strategies to grow our existing diversification business, and the Company's financial ability to undertake these diversification activities. In addition, part of our diversification strategy has been to grow internationally. Our growth internationally faces additional challenges, including limited access to information, differences in cultural attitudes toward credit, changing regulatory and legislative environments, political developments, exchange rates and differences from the historical experience of portfolio performance in the United States and other countries

### **We May Experience Increased Delinquencies and Credit Losses**

Like other credit card lenders and providers of consumer and other financing, we face the risk that our customers will not repay their loans. A customer's failure to repay is generally preceded by missed payments. In some instances, a customer may declare bankruptcy prior to missing payments, although this is not generally the case. Customers who declare bankruptcy frequently do not repay credit card or other loans. Where we have collateral, we attempt to seize it when customers default on their loans. The value of the collateral may not equal the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from our customers. Rising delinquencies and rising rates of bankruptcy are often precursors of future charge-offs and may require us to increase our allowance for loan losses. Higher charge-off rates and an increase in our allowance for loan losses may hurt our overall financial performance if we are unable to raise revenue to compensate for these losses, may adversely impact the performance of our securitizations, and may increase our cost of funds.

Our ability to assess the credit worthiness of our customers may diminish. We market our products to a wide range of customers including those with less experience with credit products and those with a history of missed payments. We select our customers, manage their accounts and establish prices and credit limits using proprietary models and other techniques designed to accurately predict future charge-offs. Our goal is to set prices and credit limits such that we are appropriately compensated for the credit risk we accept for both high and low risk customers. We face a risk that the models and approaches we use to select, manage, and underwrite our customers may become less predictive of future charge-offs due to changes in the competitive environment or in the economy. Intense competition, a weak economy, or even falling interest rates can adversely affect our actual charge-offs and our ability to accurately predict future charge-offs. These factors may cause both a decline in the ability and willingness of our customers to repay their loans and an increase in the frequency with which our lower risk customers defect to more attractive, competitor products. In our auto finance business, declining used-car prices reduce the value of our collateral and can adversely affect charge-offs. We attempt to mitigate these risks by continually improving our approach to predicting future charge-offs and by evaluating potential adverse scenarios. Nonetheless, there can be no assurance that we will be able to accurately predict charge-offs, and our failure to do so may adversely affect our profitability and ability to grow.

The trends that caused the reduction of charge-offs over the course of 2004 and the first part of 2005 may not continue. During that time, we increased the proportion of lower-risk borrowers in our portfolio and increased the proportion of lower risk asset classes, like auto loans, relative to credit cards. In addition, in 2004 and the first part of 2005, our managed loan portfolio continued to grow. Especially in the credit card business, higher growth rates cause lower charge-off rates in the near term. This is primarily driven by lower charge-offs in the first six to eight months of the life of a pool of new accounts. Finally, although the U.S. economy has been improving, there can be no assurance that these trends will continue in the future.

We hold an allowance for expected losses inherent in our existing reported loan portfolio as provided for by the applicable accounting rules. There can be no assurance, however, that such allowances will be sufficient to account for actual losses. We record charge-offs according to accounting practices consistent with accounting and regulatory guidelines and rules. These guidelines and rules, including among other things, the FFIEC Account Management Guidance, could change and cause our charge-offs to increase for reasons unrelated to the underlying performance of our portfolio. Unless offset by other changes, this could reduce our profits.

### **We Face Risk From Economic Downturns**

Delinquencies and credit losses in the consumer finance industry generally increase during economic downturns or recessions. Likewise, consumer demand may decline during an economic downturn or recession. Accordingly, an economic downturn (either local or national), can hurt our financial performance as accountholders default on their loans or, in the case of credit card accounts, carry lower balances and reduce credit card purchase activity. Furthermore, because our business model is to lend across the credit spectrum, we make loans to lower credit quality customers. These customers generally have higher rates of charge-offs and delinquencies than do higher credit quality customers. Additionally, as we increasingly market our cards internationally, an economic downturn or recession outside the United States also could hurt our financial performance.

### **Reputational Risk and Social Factors May Impact our Results**

Our ability to originate and maintain accounts is highly dependent upon consumer and other external perceptions of our business practices or our financial health. Adverse perceptions regarding our business practices or our financial health could damage our reputation in both the customer and funding markets, leading to difficulties in generating and maintaining accounts as well as in financing them. Adverse developments with respect to the consumer or other external perceptions regarding the practices of our competitors, or our industry as a whole, may also adversely impact our reputation. In addition, adverse reputational impacts on third parties with whom we have important relationships, such as our independent auditors, may also adversely impact our reputation. Adverse impacts on our reputation, or the reputation of our industry, may also result in greater regulatory and/or legislative scrutiny, which may lead to laws or regulations that change or constrain the manner in which we engage with our customers and the products we offer them. Adverse reputational impacts or events may also increase our litigation risk. See “We Face the Risk of a Complex and Changing Regulatory and Legal Environment”, below. To this end, we carefully monitor internal and external developments for areas of potential reputational risk and have established a Corporate Reputation Committee, a committee of senior management, to assist in evaluating such risks in our business practices and decisions.

In addition, a variety of social factors may cause changes in credit card and other consumer finance use, payment patterns and the rate of defaults by accountholders and borrowers. These social factors include changes in consumer confidence levels, the public’s perception of the use of credit cards and other consumer debt, and changing attitudes about incurring debt and the stigma of personal bankruptcy.

## **We Face Risk Related to the Strength of our Operational, Technology and Organizational Infrastructure**

Our ability to grow and compete is dependent on our ability to build or acquire the necessary operational and technology infrastructure and manage the cost of that infrastructure while we expand. Similar to other large corporations, operational risk can manifest itself at Capital One in many ways, such as errors related to failed or inadequate processes, faulty or disabled computer systems, fraud by employees or persons outside the Company and exposure to external events. We are dependent on our operational infrastructure to help manage these risks. In addition, we are heavily dependent on the strength and capability of our technology systems which we use both to interface with our customers and to manage our internal financial and other systems. Our ability to develop and deliver new products that meet the needs of our existing customers and attract new ones depends on the functionality of our technology systems. Our ability to develop and implement effective marketing campaigns also depends on our technology.

We continuously monitor our operational and technology capabilities and make modifications and improvements when we believe it will be cost effective to do so. In some instances, we may build and maintain these capabilities ourselves. We also outsource some of these functions to third parties. These third parties may experience errors or disruptions that could adversely impact us and over which we may have limited control. As we increase the amount of our infrastructure that we outsource to third parties, we increase our exposure to this risk. We also face risk from the integration of new infrastructure platforms and/or new third party providers of such platforms into our existing businesses. In addition, our ability to run our business in compliance with law is dependent on these infrastructures. In addition to creating a solid infrastructure platform, we are also dependent on recruiting management and operations personnel with the experience to run an increasingly complex business. Although we take steps to retain our existing management talent and recruit new talent as needed, we face a competitive market for such talent and there can be no assurance that we will continue to be able to maintain and build a management team capable of running our increasingly large and complex business.

## **We May Face Limited Availability of Financing, Variation in Our Funding Costs and Uncertainty in Our Securitization Financing**

In general, the amount, type and cost of our funding, including financing from other financial institutions, the capital markets and deposits, directly impacts our expense in operating our business and growing our assets and therefore, can positively or negatively affect our financial results.

A number of factors could make such financing more difficult, more expensive or unavailable on any terms both domestically and internationally (where funding transactions may be on terms more or less favorable than in the United States), including, but not limited to, financial results and losses, changes within our organization, specific events that adversely impact our reputation, changes in the activities of our business partners, disruptions in the capital markets, specific events that adversely impact the financial services industry, counter-party availability, changes affecting our assets, our corporate and regulatory structure, interest rate fluctuations, ratings agencies actions, general economic conditions and the legal, regulatory, accounting and tax environments governing our funding transactions. In addition, our ability to raise funds is strongly affected by the general state of the U.S. and world economies, and may become increasingly difficult due to economic and other factors. Also, we compete for funding with other banks, savings banks and similar companies, some of which are publicly traded. Many of these institutions are substantially larger, have more capital and other resources and have better debt ratings than we do. In addition, as some of these competitors consolidate with other financial institutions, these advantages may increase. Competition from these institutions may increase our cost of funds.

In addition, we are substantially dependent on the securitization of consumer loans, which involves the legal sale of beneficial interests in consumer loan balances and is a unique funding market. Despite the size and relative stability of these markets and our position as a leading issuer, if these markets experience difficulties we may be unable to securitize our loan receivables or to do so at favorable pricing levels. If we were unable to continue to securitize our loan receivables at current levels, we would use alternative funding sources to fund increases in loan receivables and meet our other liquidity needs. If we were unable to find cost-effective and stable alternatives, it could negatively impact our liquidity and potentially subject us to certain risks. These risks would include an increase in our cost of funds, an increase in the allowance for loan losses and the provision for possible credit losses as more loans would remain on our consolidated balance sheet, and lower loan growth.

In addition, the occurrence of certain events may cause the securitization transactions to amortize earlier than scheduled, which would accelerate the need for additional funding. This early amortization could, among other things, 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. See pages 49-51 in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity Risk Management” contained in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2004.

### **We May Experience Changes in Our Debt Ratings**

In general, ratings agencies play an important role in determining, by means of the ratings they assign to issuers and their debt, the availability and cost of wholesale funding. We currently receive ratings from several ratings entities for our secured and unsecured borrowings. As private entities, ratings agencies have broad discretion in the assignment of ratings. A rating below investment grade typically reduces availability and increases the cost of market-based funding, both secured and unsecured. A debt rating of Baa3 or higher by Moody’s Investors Service, or BBB- or higher by Standard & Poor’s and Fitch Ratings, is considered investment grade. Currently, all three ratings agencies rate the unsecured senior debt of the Bank and the Corporation as investment grade. The following chart shows ratings for Capital One Financial Corporation and Capital One Bank as of June 30, 2005. As of that date, the ratings outlooks were as follows:

	<b>Standard &amp; Poor’s</b>	<b>Moody’s</b>	<b>Fitch</b>
Capital One Financial Corporation	BBB-	Baa3	BBB
Capital One Financial Corporation—Outlook	Positive	Positive	Positive
Capital One Bank	BBB	Baa2	BBB
Capital One Bank—Outlook	Positive	Positive	Positive

Because we depend on the capital markets for funding and capital, we could experience reduced availability and increased cost of funding if our debt ratings were lowered. This result could make it difficult for us to grow at or to a level we currently anticipate. The immediate impact of a ratings downgrade on other sources of funding, however, would be limited, as our deposit funding and pricing, as well as some of our unsecured corporate borrowing, is not generally determined by corporate debt ratings.

### **We Face Exposure from Our Unused Customer Credit Lines**

Because we offer our customers credit lines, the full amount of which is most often not used, we have exposure to these unfunded lines of credit. These credit lines could be used to a greater extent than our historical experience would predict. If actual use of these lines were to materially exceed predicted line usage,

we would need to raise more funding than anticipated in our current funding plans. It could be difficult to raise such funds, either at all, or at favorable rates.

### **We Face Market Risk of Interest Rate and Exchange Rate Fluctuations**

Like other financial institutions, we borrow money from institutions and depositors, which we then lend to customers. We earn interest on the consumer loans we make, and pay interest on the deposits and borrowings we use to fund those loans. Changes in these two interest rates affect the value of our assets and liabilities. If the rate of interest we pay on our borrowings increases more than the rate of interest we earn on our loans, our net interest income, and therefore our earnings, could fall. Our earnings could also be hurt if the rates on our consumer loans fall more quickly than those on our borrowings.

However, our goal is to maintain an interest rate position that limits the impact of movements in interest rates to plus or minus 3% of net interest income over a twelve month period. We also seek to minimize foreign exchange fluctuations' impact to a level that is immaterial to the Company's net income. The financial instruments and techniques we use to manage the risk of interest rate and exchange rate fluctuations, such as asset/liability matching and interest rate and exchange rate swaps and hedges and some forward exchange contracts, may not always work successfully or may not be available at a reasonable cost. Furthermore, if these techniques become unavailable or impractical, our earnings could be subject to volatility and decreases as interest rates and exchange rates change.

Changes in interest rates also affect the balances our customers carry on their credit cards and affect the rate of pre-payment for installment loan products. When interest rates fall, there may be more low-rate product alternatives available to our customers. Consequently, their credit card balances may fall and pre-payment rates for installment loan products may rise. We can mitigate this risk by reducing the interest rates we charge or by refinancing installment loan products. However, these changes can reduce the overall yield on our portfolio if we do not adequately provide for them in our interest rate hedging strategies. When interest rates rise, there are fewer low-rate alternatives available to customers. Consequently, credit card balances may rise (or fall more slowly) and pre-payment rates on installment lending products may fall. In this circumstance, we may have to raise additional funds at higher interest rates. In our credit card business, we could, subject to legal and competitive constraints, mitigate this risk by increasing the interest rates we charge, although such changes may increase opportunities for our competitors to offer attractive products to our customers and consequently increase customer attrition from our portfolio. Rising interest rates across the industry may also lead to higher delinquencies as customers face increasing interest payments both on our products and on other loans they may hold. See pages 51-52 in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Interest Rate Risk Management" contained in the Annual Report on Form 10-K for the year ended December 31, 2004.

### **We Face the Risk of a Complex and Changing Regulatory and Legal Environment**

We operate in a heavily regulated industry and are therefore subject to an array of banking, consumer lending and deposit laws and regulations that apply to almost every element of our business. Failure to comply with these laws and regulations could result in financial, structural and operational penalties, including receivership. In addition, efforts to comply with these laws and regulations may increase our costs and/or limit our ability to pursue certain business opportunities. See "Supervision and Regulation" above. Federal and state laws and rules, as well as rules to which we are subject in foreign jurisdictions in which we conduct business, significantly limit the types of activities in which we may engage. For example, federal and state consumer protection laws and rules, and laws and rules of foreign jurisdictions where we conduct business,

limit the manner in which we may offer and extend credit. In addition, we are subject to a wide array of other laws and regulations that govern other aspects of how we conduct our business, such as in the areas of employment and intellectual property. From time to time, the U.S. Congress, the states and foreign governments consider changing these laws and may enact new laws or amend existing laws to regulate further the consumer lending industry or companies in general. Such new laws or rules could limit the amount of interest or fees we can charge, restrict our ability to collect on account balances, or materially affect us or the banking or credit card industries in some other manner. Additional federal, state and foreign consumer protection legislation also could seek to expand the privacy protections afforded to customers of financial institutions and restrict our ability to share or receive customer information.

In addition, banking regulators possess broad discretion to issue or revise regulations, or to issue guidance, which may significantly impact us. For example, the Federal Trade Commission has issued, and will continue to issue, a variety of regulations under the FACT Act of 2003, the Federal Reserve has announced proposed rule-making, and has issued some final rules, and in the UK the Office of Fair Trading is conducting an industry investigation on the calculation of default charges, all of which may impact us. We cannot, however, predict whether and how any new guidelines issued or other regulatory actions taken by the banking or other regulators will be applied to the Bank or the Savings Bank, in what manner such regulations might be applied, or the resulting effect on the Corporation, the Bank or the Savings Bank. There can be no assurance that this kind of regulatory action will not have a negative impact on the Company and/or our financial results.

Finally, we face possible risks from the outcomes of certain industry litigation. In 1998, the United States Department of Justice filed an antitrust lawsuit against the MasterCard and Visa membership associations composed of financial institutions that issue MasterCard or Visa credit or debit cards (“associations”), alleging, among other things, that the associations had violated antitrust law and engaged in unfair practices by not allowing member banks to issue cards from competing brands, such as American Express (“American Express”) and Discover Financial Services, (“Discover”). In 2001, a New York district court entered judgment in favor of the Department of Justice and ordered the associations, among other things, to repeal these policies. The United States Second Court of Appeals affirmed the district court and on October 4, 2004, the United States Supreme Court denied certiorari in the case.

Immediately following the Supreme Court’s decision, Discover filed a lawsuit against the associations under United States federal antitrust law. The suit alleges, among other things, that the associations engaged in anticompetitive business practices aimed at monopolizing the bank card market. The complaint, among other things, requests civil monetary damages, which could be trebled. Neither the Corporation nor any of its entities is a named defendant in this lawsuit.

In addition, on November 15, 2004, American Express Travel Related Services Company, Inc., filed a lawsuit against the associations and several member banks under the United States federal antitrust law. Capital One Bank; Capital One, F.S.B.; and Capital One Financial Corporation are named defendants. On June 22, 2005, certain merchants filed a lawsuit against the associations and several member banks under United States federal antitrust law. Capital One Bank; Capital One, F.S.B.; and Capital One Financial Corporation are named defendants. See Item 1 “Financial Statements—Notes to the Condensed Consolidated Financial Statements—Note 7” contained in the Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.

Also, several merchants have filed class action suits, which have been consolidated, against the associations under federal antitrust law relating to certain debit card products. In April 2003, the associations agreed to settle the suit in exchange for payments to plaintiffs by MasterCard of \$1 billion and Visa of \$2 billion, both over a ten-year period, and for changes in policies and interchange rates for debit cards. Certain merchant plaintiffs have opted out of the settlements and have commenced separate suits. Additionally, consumer class action suits with claims mirroring the merchants’ allegation have been filed in several courts. Finally, the associations, as well as member banks, continue to face additional lawsuits regarding policies, practices, products and fees.

With the exception of the antitrust lawsuit brought by certain merchants on June 22, 2005 and the American Express antitrust lawsuit, the Company and its affiliates are not parties to the suits against the associations described above and therefore will not be directly liable for any amount related to any possible or known settlements, the suits filed by merchants who have opted out of the settlements of those suits, or the class action suits pending in state and federal courts. However, the banks are member banks of MasterCard and Visa and thus may be affected by settlements or suits relating to these issues. In addition, it is possible that the scope of these suits may expand and that other member banks, including the Company, may be brought into the suits or future suits. Given the complexity of the issues raised by these suits and the uncertainty regarding: (i) the outcome of these suits, (ii) the likelihood and amount of any possible judgment against the associations or the member banks, (iii) the likelihood and the amount and validity of any claim against the associations' member banks, including the Company, and (iv) the effects of these suits, in turn, on competition in the industry, member banks, and interchange and association fees, we cannot determine at this time the long-term effects of these suits on us.

#### **Fluctuations in Our Expenses and Other Costs May Hurt Our Financial Results**

Our expenses and other costs, such as operating and marketing expenses, directly affect our earnings results. In light of the extremely competitive environment in which we operate, and because the size and scale of many of our competitors provides them with increased operational efficiencies, it is important that we are able to successfully manage such expenses. Many factors can influence the amount of our expenses, as well as how quickly they grow. For example, further increases in postal rates or termination of our negotiated service arrangement with the United States Postal Service could raise our costs for postal service. As our business develops, changes or expands, additional expenses can arise from management of outsourced services, asset purchases, structural reorganization, a reevaluation of business strategies and/or expenses to comply with new or changing laws or regulations. Other factors that can affect the amount of our expenses include legal and administrative cases and proceedings, which can be expensive to pursue or defend. In addition, changes in accounting fluctuations can significantly affect how we calculate expenses and earnings.

#### **We Face Risks Related to our Proposed Merger with Hibernia Corporation**

Completion of the proposed merger is subject to the satisfaction of various conditions, including the receipt of approval from the Hibernia stockholders and the receipt of various regulatory approvals and authorizations. There is no assurance that all of the various conditions will be satisfied, or that the merger will be completed on the proposed terms and schedule. Additionally, when and if the merger is completed, we face the risks that the businesses may not be integrated successfully and that the cost savings and other synergies from the transaction may not be fully realized, or may take longer to realize than expected. Finally, uncertainties or disruptions related to the transaction may make it more difficult to maintain relationships with customers, employees or suppliers.



**TABLE A – STATEMENTS OF AVERAGE BALANCES, INCOME AND EXPENSE, YIELDS AND RATES**

Table A provides average balance sheet data and an analysis of net interest income, net interest spread (the difference between the yield on earning assets and the cost of interest-bearing liabilities) and net interest margin for the three and six months ended June 30, 2005 and 2004.

	Three Months Ended June 30					
	2005			2004		
(Dollars in thousands)	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
<b>Assets:</b>						
Earning assets						
Consumer loans <sup>(1)</sup>						
Domestic	\$33,879,516	\$1,075,592	12.70%	\$29,765,214	\$ 920,758	12.37%
International	4,357,947	114,506	10.51	3,525,273	98,318	11.16
Total	38,237,463	1,190,098	12.45	33,290,487	1,019,076	12.24
Securities available for sale	9,592,645	91,245	3.80	9,291,237	76,081	3.28
Other						
Domestic	2,509,554	52,220	8.32	2,358,697	43,018	7.30
International	1,354,268	18,337	5.42	764,975	13,771	7.20
Total	3,863,822	70,557	7.30	3,123,672	56,789	7.27
Total earning assets	51,693,930	\$1,351,900	10.46	45,705,396	\$1,151,946	10.08
Cash and due from banks	661,023			648,479		
Allowance for loan losses	(1,439,532)			(1,494,236)		
Premises and equipment, net	807,871			907,957		
Other	5,239,360			4,252,519		
Total assets	\$56,962,652			\$50,020,115		
<b>Liabilities and Equity:</b>						
Interest-bearing liabilities						
Deposits						
Domestic	\$23,754,986	\$ 245,094	4.13%	\$22,260,973	\$ 224,213	4.03%
International	2,636,247	34,344	5.21	1,687,181	20,765	4.92
Total	26,391,233	279,438	4.24	23,948,154	244,978	4.09
Senior and subordinated notes	6,987,888	104,593	5.99	7,380,437	124,809	6.76
Other borrowings						
Domestic	10,824,232	95,254	3.52	8,487,287	71,137	3.35
International	14,723	112	3.04	740	5	2.70
Total	10,838,955	95,366	3.52	8,488,027	71,142	3.35
Total interest-bearing liabilities	44,218,076	\$ 479,397	4.34	39,816,618	\$ 440,929	4.43
Other	3,819,233			3,260,219		
Total liabilities	48,037,309			43,076,837		
Equity	8,925,343			6,943,278		
Total liabilities and equity	\$56,962,652			\$50,020,115		
Net interest spread			6.12%			5.65%
Interest income to average earning assets			10.46%			10.08%
Interest expense to average earning assets			3.71			3.86
Net interest margin			6.75%			6.22%

<sup>(1)</sup> Interest income includes past-due fees of approximately \$192,897 and \$189,100 for the three months ended June 30, 2005 and 2004, respectively.

## Six Months Ended June 30

(Dollars in thousands)	2005			2004		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
<b>Assets:</b>						
Earning assets						
Consumer loans <sup>(1)</sup>						
Domestic	\$33,872,031	\$2,134,954	12.61%	\$29,696,924	\$1,868,526	12.58%
International	4,381,605	239,180	10.92	3,387,082	185,567	10.96
Total	38,253,636	2,374,134	12.41	33,084,006	2,054,093	12.42
Securities available for sale	9,623,370	181,409	3.77	8,195,094	139,797	3.41
Other						
Domestic	2,193,293	96,375	8.79	2,755,160	91,134	6.62
International	1,289,985	36,250	5.62	874,209	31,653	7.24
Total	3,483,278	132,625	7.61	3,629,369	122,787	6.77
Total earning assets	51,360,284	\$2,688,168	10.47	44,908,469	\$2,316,677	10.32
Cash and due from banks	1,055,882			575,532		
Allowance for loan losses	(1,475,040)			(1,544,068)		
Premises and equipment, net	818,472			912,085		
Other	4,838,233			4,007,547		
Total assets	\$56,597,831			\$48,859,565		
<b>Liabilities and Equity:</b>						
Interest-bearing liabilities						
Deposits						
Domestic	\$23,471,479	\$ 478,161	4.07%	\$21,794,369	\$ 442,452	4.06%
International	2,553,543	65,302	5.11	1,676,064	42,038	5.02
Total	26,025,022	543,463	4.18	23,470,433	484,490	4.13
Senior and subordinated notes	6,946,848	219,073	6.31	7,325,663	249,227	6.80
Other borrowings						
Domestic	10,789,257	192,322	3.57	8,160,121	139,902	3.43
International	14,018	286	4.08	916	19	4.15
Total	10,803,275	192,608	3.57	8,161,037	139,921	3.43
Total interest-bearing liabilities	43,775,145	\$ 955,144	4.36	38,957,133	\$ 873,638	4.49
Other	4,407,611			3,209,165		
Total liabilities	48,182,756			42,166,298		
Equity	8,415,075			6,693,267		
Total liabilities and equity	\$56,597,831			\$48,859,565		
Net interest spread			6.11%			5.83%
Interest income to average earning assets			10.47%			10.32%
Interest expense to average earning assets			3.72			3.89
Net interest margin			6.75%			6.43%

<sup>(1)</sup> Interest income includes past-due fees of approximately \$403,559 and \$396,345 for the six months ended June 30, 2005 and 2004, respectively.

**TABLE B- INTEREST VARIANCE ANALYSIS**

(Dollars in thousands)	Three Months Ended June 30, 2005 vs. 2004			Six Months Ended June 30, 2005 vs. 2004		
	Increase (Decrease)	Change due to <sup>(1)</sup> Volume Yield/Rate		Increase (Decrease)	Change due to <sup>(1)</sup> Volume Yield/Rate	
<b>Interest Income:</b>						
Consumer loans						
Domestic	\$154,834	\$130,084	\$ 24,750	\$266,428	\$263,151	\$ 3,277
International	16,188	49,567	(33,379)	53,613	55,625	(2,012)
Total	171,022	153,713	17,309	320,041	322,442	(2,401)
Securities available for sale	15,164	2,535	12,629	41,612	25,961	15,651
Other						
Domestic	9,202	2,872	6,330	5,241	(43,855)	49,096
International	4,566	24,113	(19,547)	4,597	22,400	(17,803)
Total	13,768	13,515	253	9,838	(12,576)	22,414
Total interest income	199,954	155,345	44,609	371,491	337,236	34,255
<b>Interest Expense:</b>						
Deposits						
Domestic	20,881	15,317	5,564	35,709	34,161	1,548
International	13,579	12,300	1,279	23,264	22,424	840
Total	34,460	25,644	8,816	58,973	53,287	5,686
Senior notes	(20,216)	(6,397)	(13,819)	(30,154)	(12,497)	(17,657)
Other borrowings						
Domestic	24,117	20,415	3,702	52,420	46,669	5,751
International	107	106	1	267	268	(1)
Total	24,224	20,535	3,689	52,687	46,909	5,778
Total interest expense	38,468	94,534	(56,066)	81,506	144,415	(62,909)
Net interest income <sup>(1)</sup>	\$161,486	\$ 97,961	\$ 63,525	\$289,985	\$215,015	\$ 74,970

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

**TABLE C—MANAGED CONSUMER LOAN PORTFOLIO**

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

(Dollars in thousands)	Three Months Ended June 30	
	2005	2004
<b>Period-End Balances:</b>		
Reported consumer loans:		
Domestic	\$ 34,593,512	\$ 31,080,395
International	4,017,275	3,470,948
Total	38,610,787	34,551,343
Securitization adjustments:		
Domestic	37,930,458	33,671,814
International	6,410,107	5,144,195
Total	44,340,565	38,816,009
Managed consumer loan portfolio:		
Domestic	72,523,970	64,752,209
International	10,427,382	8,615,143
Total	\$ 82,951,352	\$ 73,367,352
<b>Average Balances:</b>		
Reported consumer loans:		
Domestic	\$ 33,879,516	\$ 29,765,214
International	4,357,947	3,525,273
Total	38,237,463	33,290,487
Securitization adjustments:		
Domestic	37,816,214	34,221,627
International	6,418,151	4,815,106
Total	44,234,365	39,036,733
Managed consumer loan portfolio:		
Domestic	71,695,730	63,986,841
International	10,776,098	8,340,379
Total	\$ 82,471,828	\$ 72,327,220
	Six Months Ended June 30,	
	2005	2004
<b>Average Balances:</b>		
Reported consumer loans:		
Domestic	\$ 33,872,031	\$ 29,696,924
International	4,381,605	3,387,082
Total	38,253,636	33,084,006
Securitization adjustments:		
Domestic	37,665,242	33,892,007
International	6,195,952	4,761,741
Total	43,861,194	38,653,748
Managed consumer loan portfolio:		
Domestic	71,537,273	63,588,931
International	10,577,557	8,148,823
Total	\$ 82,114,830	\$ 71,737,754

**TABLE D – DELINQUENCIES**

Table D shows the Company's consumer loan delinquency trends for the periods presented on a reported and managed basis.

(Dollars in thousands)	2005		June 30, 2004	
	Loans	% of Total Loans	Loans	% of Total Loans
<b>Reported:</b>				
Loans outstanding	\$38,610,787	100.00%	\$34,551,343	100.00%
Loans delinquent:				
30-59 days	739,705	1.92	684,513	1.98
60-89 days	301,974	0.78	295,066	0.85
90-119 days	172,150	0.44	168,609	0.49
120-149 days	99,206	0.26	116,887	0.34
150 or more days	86,517	0.22	85,894	0.25
<b>Total</b>	<b>\$ 1,399,552</b>	<b>3.62%</b>	<b>\$ 1,350,969</b>	<b>3.91%</b>
Loans delinquent by geographic area:				
Domestic	\$ 1,298,283	3.75%	\$ 1,273,255	4.10%
International	101,269	2.52	77,714	2.24
<b>Managed:</b>				
Loans outstanding	\$82,951,352	100.00%	\$73,367,352	100.00%
Loans delinquent:				
30-59 days	1,302,901	1.57	1,206,122	1.64
60-89 days	630,898	0.76	609,552	0.83
90-119 days	423,919	0.51	405,484	0.55
120-149 days	288,842	0.35	296,918	0.41
150 or more days	246,299	0.30	238,182	0.33
<b>Total</b>	<b>\$ 2,892,859</b>	<b>3.49%</b>	<b>\$ 2,756,258</b>	<b>3.76%</b>

**TABLE E—NET CHARGE-OFFS**

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

(Dollars in thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
<b>Reported:</b>				
Average loans outstanding	\$38,237,463	\$33,290,487	\$38,253,636	\$33,084,006
Net charge-offs	324,048	309,787	654,318	652,178
Net charge-offs as a percentage of average loans outstanding	3.39%	3.72%	3.42%	3.94%
<b>Managed:</b>				
Average loans outstanding	\$82,471,828	\$72,327,220	\$82,114,830	\$71,737,754
Net charge-offs	844,610	799,474	1,688,541	1,658,323
Net charge-offs as a percentage of average loans outstanding	4.10%	4.42%	4.11%	4.62%

**TABLE F—SUMMARY OF ALLOWANCE FOR LOAN LOSSES**

Table F sets forth the activity in the allowance for loan losses for the periods indicated.

(Dollars in thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2005	2004	2005	2004
Balance at beginning of period	\$1,440,000	\$1,495,000	\$1,505,000	\$1,595,000
Provision for loan losses:				
Domestic	236,576	207,540	449,265	432,820
International	55,024	34,716	101,966	53,104
Total provision for loan losses	291,600	242,256	551,231	485,924
Other	(2,552)	(2,469)	3,087	(3,746)
Charge-offs:				
Domestic	(392,264)	(389,188)	(791,811)	(815,641)
International	(45,673)	(36,155)	(91,668)	(67,153)
Total charge-offs	(437,937)	(425,343)	(883,479)	(882,794)
Recoveries:				
Domestic	103,227	103,493	207,594	208,549
International	10,662	12,063	21,567	22,067
Total recoveries	113,889	115,556	229,161	230,616
Net charge-offs	(324,048)	(309,787)	(654,318)	(652,178)
Balance at end of period	\$1,405,000	\$1,425,000	\$1,405,000	\$1,425,000
Allowance for loan losses to loans at period-end	3.64%	4.12%	3.64%	4.12%
Allowance for loan losses by geographic distribution:				
Domestic	\$1,232,438	\$1,301,264	\$1,232,438	\$1,301,264
International	172,562	123,736	172,562	123,736

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**Item 3. Quantitative and Qualitative Disclosure of Market Risk**

The information called for by this item is provided under the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004, Item 7A "Quantitative and Qualitative Disclosures about Market Risk". No material changes have occurred during the three month period ended June 30, 2005.

**Item 4. Controls and Procedures**

The Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, of the effectiveness of the design and operation of the Corporation's disclosure controls and internal controls and procedures as of June 30, 2005 pursuant to Exchange Act Rules 13a-14 and 13a-15. These controls and procedures for financial reporting are the responsibility of the Corporation's management. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in alerting them in a timely manner to material information relating to the Corporation (including consolidated subsidiaries) required to be included in the Corporation's periodic filings with the Securities and Exchange Commission. The Corporation has established a Disclosure Committee consisting of members of senior management to assist in this evaluation.

## Part II Other Information

### Item 1. Legal Proceedings

The information required by Item 1 is included in this Quarterly Report under the heading “Notes to Condensed Consolidated Financial Statements – Note 7 – Commitments and Contingencies.”

### Item 2. Changes in Securities, Uses of Proceeds and Issuer Purchases of Equity Securities.

Period	(a) Total Number of Shares Purchased <sup>(1)</sup>	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans
April 1-30, 2005	—	—	N/A	N/A
May 1-31, 2005	7,751	\$ 71.18	N/A	N/A
June 1-30, 2005	42,178	\$ 77.21	N/A	N/A
Total	49,929	\$ 76.28	N/A	N/A

<sup>(1)</sup> Shares purchased represent share swaps made in connection with stock option exercises and the withholding of shares to cover taxes on restricted stock lapses.

### Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- 4.1 Copy of 5.50% Senior Notes, due 2015, of Capital One Financial Corporation
- 31.1 Certification of Richard D. Fairbank
- 31.2 Certification of Gary L. Perlin
- 32.1 Certification\* of Richard D. Fairbank
- 32.2 Certification\* of Gary L. Perlin

(b) Reports on Form 8-K:

On April 20, 2005, the Company filed under Item 2.02 —“Results of Operations and Financial Condition”, Item 7.01 —“Regulation FD Disclosure”, Item 8.01 – “Other Events”, and Item 9.01—“Financial Statements, Pro Forma Financial Information and Exhibits” of Form 8-K, on Exhibit 99.1, a copy of its earnings press release for the first quarter 2005 that was issued April 20, 2005. This release, which is required under Item 2.02, “Results of Operations and Financial Condition,” has been included under Item 7.01 pursuant to interim reporting guidance provided by the SEC. Additionally, the Company furnished the information in Exhibit 99.2, First Quarter Earnings Presentation for the quarter ended March 31, 2005.

On April 20, 2005, the Company furnished under Item 7.01—“Regulation FD Disclosure” and Item 9.01 – “Financial Statements, Pro Forma Financial Information and Exhibits” of Form 8-K on Exhibit 99.1 the Monthly Charge-off and Delinquency Statistics—March 2005 for the month ended March 31, 2005.

On May 4, 2005, the Company filed under Item 1.01—“Entry into a Material Definitive Agreement”, Item 5.05 – “Amendments to the Registrant’s Code of Ethics, or Waiver of a Provision of the Code of Ethics”, and Item 9.01 – “Financial Statements, Pro Forma Financial Information and Exhibits” of Form 8-K, on Exhibit 99.1 a copy of the Capital One 2005 Directors Compensation Plan Summary, on Exhibit 99.2 Amendment No. 1 to the Credit Agreement dated April 29, 2004, and on Exhibit 99.3 a copy of the Capital One Code of Business Conduct and Ethics.

On May 11, 2005, the Company furnished under Item 7.01—“Regulation FD Disclosure” and Item 9.01 – “Financial Statements, Pro Forma Financial Information and Exhibits” of Form 8-K, on Exhibit 99.1 the Monthly Charge-off and Delinquency Statistics—April 2005 for the month ended April 30, 2005.

On June 9, 2005, the Company furnished under Item 8.01—“Other Events” and Item 9.01 – “Financial Statements, Pro Forma Financial Information and Exhibits” of Form 8-K on Exhibit 99.1 the Preliminary Unaudited Pro Forma Condensed Combined Financial Information.

On June 10, 2005, The Company furnished under Item 7.01—“Regulation FD Disclosure” and Item 9.01 – “Financial Statements, Pro Forma Financial Information and Exhibits” of Form 8-K on Exhibit 99.1 the Monthly Charge-off and Delinquency Statistics—May 2005 for the month ended May 31, 2005.

\*Information in this furnished herewith shall not be deemed to be “filed” for the purposes of Section 18 of the 1934 Act or otherwise subject to the liabilities of that section.

**SIGNATURES**

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

**CAPITAL ONE FINANCIAL CORPORATION**

(Registrant)

Date: August 4, 2005

/s/ GARY L. PERLIN

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Gary L. Perlin  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer  
and duly authorized officer  
of the Registrant)

THIS IS A SECURITY IN GLOBAL FORM WITHIN THE MEANING OF THE SENIOR INDENTURE REFERRED TO HEREINAFTER.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (THE "DEPOSITORY") TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF THE DEPOSITORY OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL SECURITY SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE SENIOR INDENTURE REFERRED TO ON THE REVERSE HEREOF.

CUSIP No. 14040 HAM 7

ISIN No. US 14040 HAM 79

No. R-1

Principal Amount \$500,000,000

CAPITAL ONE FINANCIAL CORPORATION

5.50% SENIOR NOTES DUE JUNE 1, 2015

Capital One Financial Corporation, a Delaware corporation (the "Company"), for value received, hereby promises to pay to Cede & Co. or registered assigns the principal sum of FIVE HUNDRED MILLION United States Dollars, at the Company's office or agency for said purposes, on June 1, 2015.

Interest Payment Dates: December 1 and June 1

Regular Record Dates: November 15 and May 15

Reference is made to the further provisions set forth on the reverse hereof, including the definitions of certain capitalized terms. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Security shall not be valid or obligatory until the certificate of authentication hereon shall have been duly signed by the Trustee acting under the Senior Indenture.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated: May 24, 2005

CAPITAL ONE FINANCIAL CORPORATION

By: /s/ Stephen Linehan

Name: Stephen Linehan  
Title: Senior Vice President and Treasurer

Attest By: /s/ Jean Traub

Name: Jean Traub  
Title: Assistant Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities issued under the within-mentioned Senior Indenture.

Dated: May 24, 2005

BNY MIDWEST TRUST COMPANY,  
as Trustee

By: /s/ Daniel G. Donovan

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Authorized Signatory

Capital One Financial Corporation

5.50% Senior Notes Due June 1, 2015

This Security is one of a duly authorized issue of debt securities of the Company, of the series hereinafter specified, all issued or to be issued under a Senior Indenture, dated as of November 1, 1996 (the "Senior Indenture"), and duly executed and delivered by the Company to BNY Midwest Trust Company, as successor to Harris Trust and Savings Bank, as trustee (hereinafter, the "Trustee"). Reference to the Senior Indenture and the Officer's Certificate thereunder establishing the terms of this Security is hereby made for a description of the respective rights and duties thereunder of the Trustee, the Company and the Holders of the Securities. This Security is one of a series designated as the "5.50% Senior Notes Due June 1, 2015" of the Company (hereinafter called the "Notes"), issued under the Senior Indenture. Each Holder by accepting a Note, agrees to be bound by all terms and provisions of the Senior Indenture, as amended from time to time, applicable to the Notes.

Neither the Senior Indenture nor the Notes limit or otherwise restrict the amount of indebtedness which may be incurred or other securities which may be issued by the Company. The Notes issued under the Senior Indenture are direct, unsecured obligations of the Company and will mature on June 1, 2015. The Notes rank on parity with all other unsecured, unsubordinated indebtedness of the Company.

The Company promises to pay interest on the principal amount of this Note at the rate per annum shown above. The Company will pay interest semi-annually in arrears on December 1 and June 1 of each year (each an "interest payment date"), commencing on December 1, 2005. Interest on the Note will accrue from May 24, 2005 or from the most recent December 1 or June 1, as the case may be, to which interest on the Notes has been paid or duly provided for, until payment of said principal sum has been made or duly provided for. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The Company will pay interest to the Person in whose name this Note is registered at the close of business on November 15 or May 15, as the case may be, next preceding the applicable interest payment date, except that the Company will pay interest payable at the maturity date of this Note to the Person or Persons to whom principal is payable. The Company will pay interest in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts. The Company will make payments in respect of Notes in global form (including principal and interest) to the Holder thereof or a nominee of the Holder, by wire transfer of immediately available funds as of the close of business on the date such payments are due.

If the Company defaults in the payment of interest due on any interest payment date after taking into account any applicable grace period, such defaulted interest shall be paid as set forth in the Senior Indenture.

The Notes are not redeemable prior to maturity.

The Notes are not entitled to any sinking fund.

The Notes are subject to defeasance pursuant to Section 402 of the Senior Indenture.

The provisions in Section 305 of the Senior Indenture are applicable to the Notes.

The Notes are not convertible into common stock of the Company.

In case an Event of Default shall have occurred and be continuing with respect to the Notes, the principal hereof may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Senior Indenture. The Senior Indenture provides that in certain circumstances such declaration and its consequences may be waived by the Holders of not less than a majority in aggregate principal amount of the Notes then Outstanding. However, any such consent or waiver by the Holder shall not affect any subsequent default or impair any right consequent thereon.

The Senior Indenture permits the Company and the Trustee, without the consent of the Holders of the Notes for certain situations and with the consent of not less than two-thirds of the Holders in aggregate principal amount of the Outstanding Notes of each series affected by such supplemental indenture in other situations, to execute supplemental indentures adding to, modifying, or changing various provisions of, the Senior Indenture; provided that no such supplemental indenture, without the consent of the Holder of each Outstanding Note affected thereby, shall (i) change the Stated Maturity of the principal of, or any installment of interest on, the Notes, or reduce the principal amount thereof or the rate of interest thereon, or change the place or currency of payment of principal of, or interest on, the Notes, or impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity thereof; (ii) reduce the percentage in principal amount of the Outstanding Notes, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of the Senior Indenture or certain defaults thereunder and their consequences) provided for in the Senior Indenture, or reduce the requirements of Section 1504 for quorum or voting; or (iii) modify any of the provisions of Sections 902, 513 or 1008 of the Senior Indenture, except to increase any such percentage or provide that certain other provisions of the Senior Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Note affected thereby.

The Company may omit in any particular instance to comply with any term, provision or condition set forth in Section 1005, 1006 or 1007 of the Senior Indenture, if before the time it would have to comply, the Holders of at least a majority in principal amount of the Outstanding Notes, by act of such Holders, either shall waive such compliance in such instance or generally shall have waived compliance with such

term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

No reference herein to the Senior Indenture and no provision of this Note or of the Senior Indenture shall alter or impair the obligations of the Company, which are absolute and unconditional, to pay the principal of, premium, if any, and interest on this Note at the respective times and at the rate herein prescribed.

The Notes are issuable in registered form without coupons in minimum denominations of \$1,000 and any multiple thereof. A Holder may exchange the Notes for a like aggregate principal amount of Notes of other authorized denominations in the manner and subject to the limitations provided in the Senior Indenture.

Upon due presentment for registration of transfer of the Notes at the office or agency for said purpose of the Company, a new Note or Notes of authorized denominations, for a like aggregate principal amount, will be issued to the transferee as provided in the Senior Indenture. No service charge shall be made for any such transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

Prior to due presentation of this Note for registration of transfer, the Company, the Trustee, and any authorized agent of the Company or the Trustee, may deem and treat the Holder hereof as the owner of the Note (whether or not any payment with respect to this Note shall be overdue), for the purpose of receiving payment of, or on account of, the principal hereof and, subject to the provisions herein, interest hereon and for all other purposes, and neither the Company nor the Trustee nor any authorized agent of the Company or the Trustee shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of, or interest on, this Note, for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Senior Indenture or any indenture supplemental thereto, against any incorporator, shareholder, officer or director, as such, past, present or future, of the Company or of any successor corporation, either directly or through the Company or any successor corporation, whether by virtue of any constitution, statute or rule of law or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released.

**THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.**

All terms used in this Note (and not otherwise defined in this Note) that are defined in the Senior Indenture shall have the meanings assigned to them in the Senior Indenture.

**CERTIFICATION FOR  
QUARTERLY REPORT ON FORM 10-Q  
OF CAPITAL ONE FINANCIAL CORPORATION AND CONSOLIDATED SUBSIDIARIES**

I, Richard D. Fairbank, certify that:

1. I have reviewed this quarterly report of Capital One Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
1. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2005

CAPITAL ONE FINANCIAL CORPORATION

By: /s/ RICHARD D. FAIRBANK

Richard D. Fairbank  
Chairman of the Board, Chief Executive  
Officer and President

**CERTIFICATION FOR  
QUARTERLY REPORT ON FORM 10-Q  
OF CAPITAL ONE FINANCIAL CORPORATION AND CONSOLIDATED SUBSIDIARIES**

I, Gary L. Perlin, certify that:

1. I have reviewed this quarterly report of Capital One Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
1. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2005

CAPITAL ONE FINANCIAL CORPORATION

By: /s/ GARY L. PERLIN

Gary L. Perlin  
Executive Vice President and  
Chief Financial Officer

**Certification**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Richard D. Fairbank, Chairman and Chief Executive Officer of Capital One Financial Corporation, a Delaware corporation ("Capital One"), do hereby certify that:

The Quarterly Report on Form 10-Q for the period ended June 30, 2005 (the "Form 10-Q") of Capital One fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Capital One.

Dated: August 4, 2005

By: /s/ RICHARD D. FAIRBANK

Richard D. Fairbank  
Chairman of the Board, Chief Executive  
Officer and President

**Certification**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Gary L. Perlin, Executive Vice President and Chief Financial Officer of Capital One Financial Corporation, a Delaware corporation ("Capital One"), do hereby certify that:

The Quarterly Report on Form 10-Q for the period ended June 30, 2005 (the "Form 10-Q") of Capital One fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Capital One.

Dated: August 4, 2005

By: /s/ GARY L. PERLIN

Gary L. Perlin  
Executive Vice President and  
Chief Financial Officer