Wired for Innovation

Capital One Financial Corporation

1997 Annual Report

About the Company

Capital One Financial Corporation, headquartered in Falls Church, Virginia, is a financial services company whose principal subsidiaries–Capital One Bank and Capital One, F.S.B.–offer consumer lending products and services and are among the largest credit card issuers in the world. Capital One's subsidiaries collectively have approximately 11.7 million customers and $14.2 billion in managed loans. The Company has nearly 6,000 associates and offices in Richmond, Fredericksburg, and Falls Church, Virginia; Tampa, Florida; Dallas/Fort Worth, Texas; and London and Nottingham, England.

Capital One has grown dramatically due to the success of our proprietary information-based strategy and sophisticated analytical techniques to identify, manage and rapidly exploit business opportunities. The common stock of Capital One Financial Corporation is listed on the New York Stock Exchange under the symbol COF.

Capital One® is a registered trademark of Capital One Financial Corporation.

Page 1 Financial Summary

Page 2 To Our Stockholders

Page 7 Wired for Innovation

Page 16 1997 Financial Presentation

Page 56 Corporate Information

Page 56 Directors and Officers

Financial Summary

(Dollars in thousands, except per share data)	1997	1996	Percent Change
Earnings:			
Net interest income	$ 383,138	$ 365,484	4.83%
Non-interest income	1,069,130	763,424	40.04
Non-interest expense	883,978	713,182	23.95
Net income	189,381	155,267	21.97
Tax rate	38.0%	37.5%	1.33
Per Common Share:			
Basic earnings[(1)]	$ 2.87	$ 2.34	22.65
Diluted earnings[(1)]	2.80	2.32	20.69
Dividends	.32	.32	
Book value as of year-end	13.66	11.16	22.40
Market prices			
Year-end	54 3/16	36	50.52
High	54 3/16	36 5/8	
Low	31 3/8	21 7/8	
Price/Earnings ratio	19.35	15.52	24.68
Ratios:			
Return on average assets	2.88%	2.79%	3.23
Return on average equity	22.98	22.94	.17
Capital to assets	14.00	11.45	22.27
Allowance for loan losses to loans as of year-end	3.76	2.73	37.73
Managed Consumer Loan Data:			
Average reported loans	$ 4,103,036	$ 3,651,908	12.35
Average securitized loans	8,904,146	7,616,553	16.91
Average total managed loans	13,007,182	11,268,461	15.43
Year-end reported loans	4,861,687	4,343,902	11.92
Year-end securitized loans	9,369,328	8,460,067	10.75
Year-end total managed loans	14,231,015	12,803,969	11.15
Year-end total accounts (000s)	11,747	8,586	36.82
Yield	15.73%	14.76%	6.57
Net interest margin	8.86	8.16	8.58
Delinquency rate (30+ days)	6.20	6.24	(.64)
Net charge-off rate	6.59	4.24	55.42
Year-End Reported Data:			
Assets	$ 7,078,279	$ 6,467,445	9.44
Earning assets	6,337,041	5,702,005	11.14
Average assets	6,568,937	5,568,960	17.96
Average earning assets	5,753,997	4,798,987	19.90
Common equity	893,259	740,391	20.65
Associates (FTE's)	5,906	5,740	2.89
Shares outstanding (000s)	65,369	66,325	(1.44)
Common stockholders of record	10,585	14,562	(27.31)

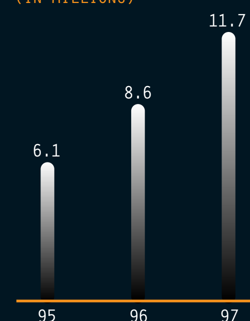
(1) The earnings per share amounts and the price/earnings ratio prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, Earnings Per Share. For further discussion of earnings per share and the impact of Statement 128, see the Notes to Consolidated Financial Statements.

Diluted Earnings Per Share

Year-end Stock Price

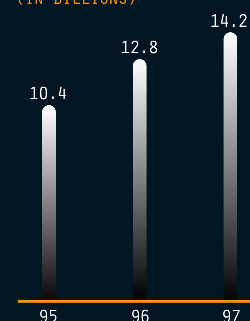
Total Accounts

(in millions)



Managed Loans

(in billions)



To Our Stockholders:

Capital One had a remarkable year. In fact, we set records for every major measure of financial and operating performance: total revenue, net interest income and margin, risk adjusted revenue and margin, non-interest income, net income, earnings per share, return on assets, return on equity, accounts, managed loans and marketing investment.

We added 3.2 million customers, ending the year with 11.7 million accounts. For the third straight year, earnings grew by more than 20% and return on equity exceeded 20%. The price of our stock rose 50% to $54 3/16 at year-end. Since our initial public offering in November 1994, the stock price has more than tripled.

Even more gratifying than the results themselves was the fact that they were achieved in one of the most turbulent years in the history of the credit card industry. In the first half of 1997, as charge-offs and consumer bankruptcies continued an ascent that began a few years ago, several of our competitors either exited the credit card business or retrenched. Capital One's record performance in this challenging climate demonstrates the power of our information-based strategy, our innovation and our financial conservatism.

During 1997 net income rose 22% to $189.4 million, or $2.80 per share (diluted), from $155.3 million, or $2.32 per share (diluted), the previous year. Actually, our financial performance was even stronger. In the fourth quarter, we made several accounting adjustments that take a more conservative approach to charge-offs and the recognition of revenue. Although these adjustments had the effect of reducing earnings, they will serve to strengthen Capital One's financial foundation, which we regard as vital to the Company's long-term success. Our accounting policies remain among the most conservative in the credit card sector.

Total revenue (managed net interest income plus non-interest income) grew 41% to $2.1 billion in 1997 from $1.5 billion in 1996. Managed net interest income increased 28% to $1.3 billion, elevating our net interest margin by 95 basis points to a record 9.24% in the fourth quarter of 1997 compared with the same period in 1996. Managed non-interest income for 1997 grew by 68% to $776 million.

The large increase in Capital One's revenues was fueled by another record-setting year of new account growth. We increased our customer base by 37%. For the second year in a row, our growth rate in accounts was the largest reported by any major card issuer. Because of our continuing concerns about the quality of consumer credit, we deliberately held loan growth to a slower pace, largely through tight controls on underwriting and credit limits. At the end of 1997, Capital One's managed loans totaled $14.2 billion, up 11% from $12.8 billion a year earlier.

Although the economy was booming in 1997, with unemployment at a 24-year low, inflation at an 11-year low and consumer confidence at its highest point in 28 years, the consumer credit sector continued to experience increased charge-offs for the third consecutive year before finally stabilizing in the third quarter of 1997.

Capital One met this challenge with strict underwriting standards on new loans, selective credit-based repricing and targeted initiatives to increase revenues—strategies that significantly increased the profitability of our credit card portfolio. In 1997, our

In one of the credit card industry's most turbulent years, Capital One turned in a record performance.

Richard D. Fairbank
Chairman and
Chief Executive Officer

Nigel W. Morris
President and
Chief Operating Officer

risk adjusted margin (total revenue less net charge-offs as a percentage of average managed earning assets) widened to a record 9.10% from 8.15% at the end of 1996. Risk adjusted margin is a key measure of profitability in the credit card business. Our strong showing in a year when most of our competitors saw declines in risk adjusted margin is one more example of the underlying power of our strategy.

Operating efficiencies increased dramatically, primarily as a result of major technology investments made during the last few years. Operating cost per account fell by 10% during 1997 to $63.32 from $70.59 in the last quarter of 1996.

The Power Behind Our Performance

Capital One's success in 1997 is the latest reward of a pursuit that began a decade ago, when the two of us brought our innovative information-based strategy to the credit card division of Signet Bank. In place of the banking industry's one-size-fits-all approach, we set out to "mass customize" our products, tailoring the terms of each account to the individual's needs and risk profile. We did this by building massive databases of consumer information and by transforming our entire Company into a scientific testing laboratory. We test and customize everything—products, prices, credit lines, account management, retention and collections.

Through mass customization—which we view as the ultimate power tool of marketing—we can deliver the right product to the right customer at the right time and at the right price. Mass customization gives Capital One a way to profitably meet the credit needs of virtually all consumers because it enables us to balance risk and reward in every single account.

This systematic, scientific approach has enabled Capital One to leapfrog the competition, and it continues to power the Company's growth. After ten years of major investments in information

technology, we have created a massive data warehouse (12 trillion bytes and growing) with consumer financial, demographic and lifestyle information to help us customize products. In 1997 we conducted a record number of tests (more than 14,000!) and invested a record $225 million in marketing. And as our strong earnings growth shows, the strategy has been highly effective.

Over the last three years, in keeping with our strategy of mass customization, we have launched a long list of products for consumers across the credit spectrum. We now offer, for example, co-branded cards, affinity cards, lifestyle cards, college student cards, fixed- and variable-rate cards, joint-account and secured cards for consumers with limited or tarnished credit histories, and the low introductory-rate balance-transfer products we pioneered seven years ago. In October, we introduced a Mercedes-Benz Capital One Visa card, which gives us an alliance with one of the world's most prestigious brands and increases our access to a highly desirable group of customers, the 1.2 million Americans who own or lease Mercedes-Benz automobiles. Capital One's recent innovations also include credit cards for consumers in Canada and the United Kingdom, non-card lending products and cellular phone service.

Launched in 1996, Capital One's international ventures exceeded expectations for 1997. In December, we committed $50 million to a new European operations center in Nottingham, England, which will service our U.K. customers and give Capital One a springboard to the Continent. We believe our strengths in scientific testing and mass customization will serve us well in designing products to meet the distinctive customer needs of each country we enter.

Capital One prides itself on constant innovation throughout the Company, and in 1997 our business strategy, technology and operations received top awards from *Beyond Computing* magazine and from Visa. We also ranked number one on *ComputerWorld*'s list of best places to work in the U.S. financial services industry. And we were pleased that *Forbes* magazine recognized our momentum by selecting us for one of the *Forbes* 500 short lists: the 25 "Champs" of strong growth.

Vast Opportunity for Growth

Having conquered the challenges of 1997, Capital One begins 1998 with excitement and confidence, particularly now that the consumer credit picture is starting to brighten. We have set our sights on a fourth consecutive year of earnings growth in excess of 20%.

We see vast opportunity for growth. In the United States, credit cards are increasingly the preferred form of consumer payment, and they are steadily winning market share from other types of consumer borrowing. Capital One now serves nearly one in ten U.S. households, and our customers are using their cards for more and more transactions.

Internationally, we see great potential for Capital One. Many card markets outside the United States resemble the U.S. market of a decade ago, when the banking industry offered every customer the same product regardless of risk or need. We believe the strategy of mass customization we have used to build our U.S. business can be exported with great success, lowering credit costs for the world's consumers and creating long-term value for Capital One stockholders.

The target for 1998: a fourth consecutive year of earnings growth and return on equity exceeding 20%.

We're diversifying beyond financial services and moving into markets outside the United States.

The World Beyond Financial Services

We think of Capital One not as a credit card company or even as only a financial services company but as an information-based marketing company. Although we are still in the early stages of applying our strategy outside the realm of financial services, our first venture, into cellular phone service, continues to show the promise we expected. By the end of 1997, our direct-marketing cellular subsidiary, America One Communications, Inc., was serving customers in 36 states. We plan to add 12 more states in 1998. While America One is still a relatively small business, its experience to date confirms an assertion we have made ever since we developed our information-based strategy ten years ago: the strategy will work well in other information-driven industries.

For example, as disparate as credit cards and cellular phones seem at first glance, they share several key attributes. With credit cards, we buy funds wholesale and lend them retail to consumers. Marketing and customer service are individualized, allowing us to design the right product for each cardholder. And we stimulate card usage and market additional products to the customer. With cellular phone service, we buy airtime wholesale and market it retail. We customize the phone service with various combinations of such features as free minutes, usage rates and monthly fees. And we enhance the value of each ongoing customer relationship through cross-selling and tailored programs to increase cellular phone use.

Diversification beyond financial services appeals to us partly because it will broaden our opportunities and partly because it will reduce Capital One's vulnerability during the inevitable downturns of the consumer credit cycle. We have established a disciplined process for identifying and pursuing new businesses. We concentrate on industries that are large, growing and data-rich. Within these industries, we focus on products and marketing channels that lend themselves to scientific testing and mass customization.

The Rewards of Hiring the Best

From the beginning, Capital One has put a premium on hiring top talent, and the accomplishments of our associates in this challenging year proved the value of the extraordinary time and energy we invest in recruiting the best of the best. Our associates are truly world-class. We asked a great deal of them in 1997, and they delivered. We're grateful — and impressed. We also appreciate the confidence they have expressed by investing in our Company. More than two-thirds of our associates have an equity stake in Capital One — one of the highest proportions in corporate America.

Our senior managers have always been deeply committed to Capital One, and in December 1997, we announced a compensation plan that gives them an even larger personal stake in the Company's success. The two of us have given up all of our salary through the year 2000 in exchange for stock options. The next level of senior executives — 22 in all — will trade up to half of their

Our new compensation plan puts management and stockholders on the same side of the net.

next three annual cash bonuses for stock options. The options for us and our top executives do not vest unless the stock price rises to $84 by December 2000, a compound annual gain of 20% from the date these options were granted. Fifty-eight more managers will forgo cash bonuses in exchange for options that vest in three years. Management responded enthusiastically to the offer, with 95% electing to take part. Details of the compensation plan can be found on page 49, but the salient point is this: senior management, highly confident about the future of Capital One, is on the same side of the net as every other stockholder.

Knowing that big achievements often have small beginnings, we are increasing Capital One's civic involvements and charitable contributions in the communities where we do business. Most of our efforts to date have gone into helping children at risk by fighting hunger, building affordable housing and improving education. In 1997, for example, we gave more than half a million dollars for the opening of Capital One Kids Cafes in Washington D.C., Richmond, Fredericksburg, Tampa and Dallas/Fort Worth. Sponsored by the Second Harvest National Food Bank Network, Kids Cafes give school-age children a safe place to go after school, a hot meal and help with their homework. In addition to the financial support we have provided, we are leveraging our human resources to increase the effectiveness of our participation. On their own, many of Capital One's associates are deeply involved in civic affairs. We salute them for the time and talent they are investing to make their communities better places to live and work.

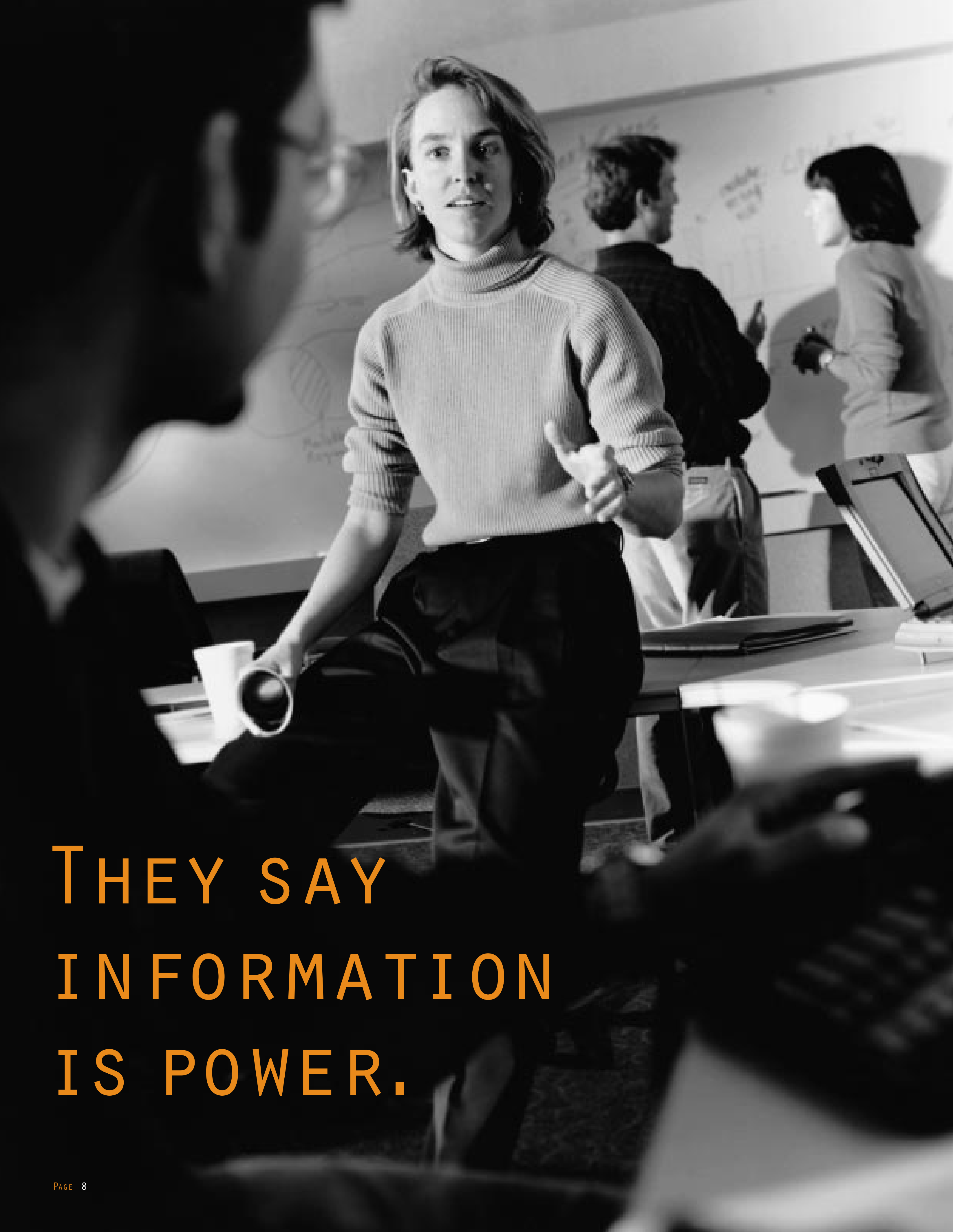
The caliber of our associates is just one reason we are bullish on Capital One. Our information technology is without peer. The organization we have built over the last ten years excels at innovation. We have an increasingly strong consumer franchise and an expanding portfolio of highly profitable products. Financially, our house is in excellent order. The flexibility inherent in our information-based strategy allows us to develop opportunities in multiple industries and around the world. Given these strengths, we have every reason to believe that Capital One will continue to be one of the nation's outstanding growth companies.

Sincerely,

Richard D. Fairbank
Chairman and
Chief Executive Officer

Nigel W. Morris
President and
Chief Operating Officer

Wired for Innovation


They say
information
is power.

We say it isn't—unless you know how to use it.

Capital One's information-based strategy (IBS) is ideal for the Information Age. With cutting-edge information technology and one of the world's largest databases, we can analyze billions of transactions by millions of consumers to test thousands of product ideas. ■ The process identifies winners before we commit major sums to marketing. Constant streams of information show us when an opportunity has peaked. Knowing that good ideas quickly breed competition, we use IBS to move on to new ideas and new products well before the crowd moves in. The vast quantities of data we process daily in servicing our accounts give us an ability to manage credit risk analytically; when conditions change, we can respond quickly. ■ Highly flexible, IBS can be applied to numerous industries and many markets. We have already witnessed signs of success in a new industry (telecommunications) and in two new countries (Canada and the United Kingdom). We expect to translate these early successes into more products for more consumers around the world.

The innovation imperative:

Obsolete your own products

In the Information Age, an age of value-driven consumers and ever-shorter product lifespans, a corporation's only sustainable competitive advantage lies in its capacity for rapid change. The strongest corporations will not be the command-and-control hierarchies that dominated the Industrial Age. They will be ecosystems that thrive on innovation. ■ Innovation is part of Capital One's organizational DNA—fundamental and ubiquitous. Our technology, strategy and marketing are highly malleable, allowing us to innovate at top speed. The innovation never stops. We are constantly identifying new opportunities and creating new products to obsolete even our own products. Throughout the Company, we constantly fine-tune operations to improve efficiency and service. Our large and growing database is a mine of ideas for new products, new services, new markets. ■ Capital One associates are agents of change—empowered to act, rewarded for initiative and skilled at the teamwork that drives rapid, successful innovation.

Their way:
one size fits all

Mass customization is the marketing endgame of the Information Age. Instead of offering a single product that fits some of the needs of some of the people some of the time, mass customization packages product attributes in thousands of combinations, creating something for everyone. Capital One's ability to mass customize is revolutionizing the direct marketing of financial services, and we intend to remain in the vanguard of this revolution as it transforms other industries. ■ Successful mass customization requires an infrastructure of massive scientific testing, huge databases, and extraordinary technical and analytical competence. Capital One's infrastructure, the product of ten years of major investments in talent and technology, positions us strongly, is very difficult to copy and is a major source of competitive advantage. ■ Like IBS itself, mass customization is highly flexible and can be applied to a broad range of products, industries and markets.

Our way: tailor-made

Growth is life. It creates a dynamic, exciting, learning organization full of opportunity. It's the magnet that attracts world-class people who want to push the limits of their own capabilities. And world-class people become the catalysts for even more growth. That's why at Capital One we have defined our mission by the twin beacons of world-class associates and world-class growth. ■ This is not just talk. It is the essence of everything we do. It's why recruiting is our most important business. It's why, like professional sports franchises, we recruit "athletes" with world-class talent and unlimited growth potential. It's why we're focused on investing for the long term, with a strategy that is defined not by its products or markets but by its methodology for creating sustained innovation and growth. ■ And it's working. We're one of the nation's fastest-growing companies, adding customers at a current rate of 10,000 a day. And we are winning a high percentage of the head-to-head recruiting battles for top talent against the leading consulting firms, investment banks, blue-chip corporations and high-tech growth companies around the world. We're on a positive spiral of growth and excellence. Capital One is alive with possibility.

WORLD-CLASS TALENT

World-class growth machine

1997 Financial Presentation

Page 17 Selected Financial & Operating Data

Page 18 Management's Discussion and Analysis of Financial Condition and Results of Operations

Page 37 Selected Quarterly Financial Data

Page 38 Management's Report on Consolidated Financial Statements and Internal Controls Over Financial Reporting

Page 39 Report of Independent Auditors

Page 40 Consolidated Financial Statements

Page 44 Notes to Consolidated Financial Statements

Selected Financial and Operating Data

(Dollars in Thousands, Except Per Share Data)	Year Ended December 31 1997	1996	1995	1994[1]	1993[1]	1992[1]	Five-Year Compound Growth Rate
Income Statement Data:							
Interest income	$ 717,985	$ 660,483	$ 457,409	$ 258,672	$ 259,857	$ 120,630	42.87%
Interest expense	334,847	294,999	249,396	93,695	67,994	29,888	62.13
Net interest income	383,138	365,484	208,013	164,977	191,863	90,742	33.39
Provision for loan losses	262,837	167,246	65,895	30,727	34,030	55,012	36.72
Net interest income after provision for loan losses	120,301	198,238	142,118	134,250	157,833	35,730	27.48
Non-interest income	1,069,130	763,424	553,043	396,902	194,825	121,642	54.45
Non-interest expense[2]	883,978	713,182	497,430	384,325	181,804	108,508	52.12
Income before income taxes	305,453	248,480	197,731	146,827	170,854	48,864	44.27
Income taxes	116,072	93,213	71,220	51,564	60,369	16,614	47.52
Net income	$ 189,381	$ 155,267	$ 126,511	$ 95,263	$ 110,485	$ 32,250	42.48
Dividend payout ratio	10.90%	13.24%	12.55%				
Per Common Share:							
Basic earnings[3] [4]	$ 2.87	$ 2.34	$ 1.93	$ 1.44	$ 1.67	$ .49	
Diluted earnings[3] [4]	2.80	2.32	1.91	1.44	1.67	.49	
Dividends	.32	.32	.24				
Book value as of year-end	13.66	11.16	9.05	7.18			
Average common shares	66,069,897	66,227,631	65,690,838	66,067,250			
Average common and common equivalent shares	67,650,864	67,025,233	66,392,284	66,067,250			
Selected Average Balances:							
Securities	$ 1,650,961	$ 1,147,079	$ 962,624	$ 62,626			
Allowance for loan losses	(132,728)	(83,573)	(69,939)	(66,434)	$ (59,754)	$ (43,767)	24.84%
Total assets	6,568,937	5,568,960	4,436,055	2,629,920	2,289,043	827,093	51.35
Deposits	958,885	1,046,122	769,688	36,248			
Other borrowings	4,350,864	3,623,104	2,952,162	2,287,474	2,148,155	762,762	41.66
Preferred beneficial interests	89,529						
Stockholders'/Division equity[5]	824,077	676,759	543,364	239,616	113,815	51,454	74.14
Selected Year-End Balances:							
Securities	$ 1,475,354	$ 1,358,103	$ 1,244,195	$ 425,570			
Consumer loans	4,861,687	4,343,902	2,921,679	2,228,455	$1,862,744	$1,304,560	
Allowance for loan losses	(183,000)	(118,500)	(72,000)	(68,516)	(63,516)	(55,993)	
Total assets	7,078,279	6,467,445	4,759,321	3,091,980	1,991,207	1,351,802	
Deposits	1,313,654	943,022	696,037	452,201			
Other borrowings	4,428,886	4,525,216	3,301,672	2,062,688	1,791,464	1,266,507	
Preferred beneficial interests	97,664						
Stockholders'/Division equity[5]	893,259	740,391	599,191	474,557	168,879	69,294	
Managed Consumer Loan Data:							
Average reported loans	$ 4,103,036	$ 3,651,908	$ 2,940,208	$ 2,286,684	$2,213,378	$ 772,742	39.64%
Average securitized loans	8,904,146	7,616,553	6,149,070	3,910,739	1,052,187	680,000	67.27
Average total managed loans	13,007,182	11,268,461	9,089,278	6,197,423	3,265,565	1,452,742	55.02
Interest income	2,045,967	1,662,990	1,192,100	733,659	432,521	249,082	52.37
Year-end total managed loans	14,231,015	12,803,969	10,445,480	7,378,455	4,832,400	1,984,560	48.29
Year-end total accounts (000s)	11,747	8,586	6,149	5,049	3,118	1,672	47.69
Yield	15.73%	14.76%	13.12%	11.84%	13.24%	17.15%	
Net interest margin	8.86	8.16	6.27	6.90	9.55	12.63	
Delinquency rate	6.20	6.24	4.20	2.95	2.39	5.30	
Net charge-off rate	6.59	4.24	2.25	1.48	2.09	5.18	
Operating Ratios:							
Return on average assets	2.88%	2.79%	2.85%	3.62%	4.83%	3.90%	
Return on average equity	22.98	22.94	23.28	39.76	97.07	62.68	
Equity to assets (average)	12.55	12.15	12.25	9.11	4.97	6.22	
Allowance for loan losses to loans as of year-end[6]	3.76	2.73	2.85	3.07	3.41	4.29	

(1) The Company's results prior to November 22, 1994, reflect operations as a division of Signet Bank. Prior to November 22, 1994, Signet Banking Corporation, the parent of Signet Bank, had provided significant financial and operational support to the Company.

(2) Non-interest expense includes a $49.0 million ($31.9 million after-tax) nonrecurring charge for computer services termination expense in 1994.

(3) Assumes 66,067,250 shares outstanding prior to November 22, 1994.

(4) The earnings per share amounts prior to 1997 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, Earnings Per Share. For further discussion of earnings per share and the impact of Statement 128, see the Notes to Consolidated Financial Statements.

(5) Division equity reflects an allocation of capital to Capital One Bank as a division for purposes of preparation of the financial statements of the Company. Such allocation is not subject to regulatory minimums.

(6) Excludes consumer loans held for securitization.

Introduction

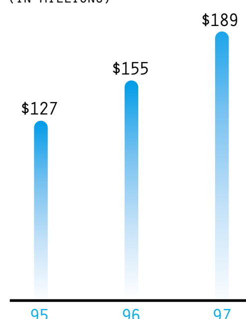
Capital One Financial Corporation (the "Corporation") is a holding company whose subsidiaries provide a variety of products and services to consumers. The principal subsidiaries are Capital One Bank (the "Bank"), which offers credit card products, and Capital One, F.S.B. (the "Savings Bank"), which provides certain consumer lending and deposit services. The Corporation and its subsidiaries are collectively referred to as the "Company." As of December 31, 1997, the Company had 11.7 million customers and $14.2 billion in managed consumer loans outstanding and was one of the largest providers of MasterCard and Visa credit cards in the world.

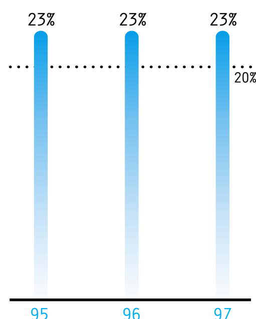
The Company's profitability is affected by the net interest margin and non-interest income earned on earning assets, consumer usage patterns, credit quality, the level of marketing expense and operating efficiency. The Company's revenues consist primarily of interest income on consumer loans and securities,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

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

Earnings Summary

The following discussion provides a summary of 1997 results compared to 1996 results and 1996 results compared to 1995 results. Each component is discussed in further detail in subsequent sections of this analysis.





Year Ended December 31, 1997 Compared to Year ended December 31, 1996

Net income of $189.4 million for the year ended December 31, 1997 increased $34.1 million, or 22%, over net income of $155.3 million in 1996. The increase in net income is primarily the result of an increase in asset and account volumes, offset by a decrease in net interest margin. Net interest income increased $17.7 million, or 5%, as average earning assets increased 20%, offset by a decrease in the net interest margin to 6.66% from 7.62%. The provision for loan losses increased $95.6 million, or 57%, as average reported loans (on-balance sheet loans and loans held for securitization, collectively "reported" loans) increased 12% and the reported charge-off rate increased to 4.83% in 1997 from 3.63% in 1996, as a result of an increase in the average age of the accounts (generally referred to as "seasoning") and general economic trends in consumer credit performance. Non-interest income increased $305.7 million, or 40%, primarily as a result of the increase in average managed accounts of 33%, a 17% increase in average securitized loans, a shift to more fee-based accounts, a change in the timing and amount ("terms") of certain fees charged and the incremental impact of securitization accounting. Increases in salaries and benefits expense of $74.2 million, or 34%, and other non-interest expenses of $96.6 million, or 19%, primarily reflected the incremental cost of operations to manage the growth in the Company's accounts. Average managed consumer loans grew 15% for the year ended December 31, 1997, to $13.0 billion from $11.3 billion for the year ended December 31, 1996, and average managed accounts grew 33% for the same period to 9.9 million from 7.5 million as a result of the continued success of the Company's marketing and account management strategies.

Year Ended December 31, 1996 Compared to Year Ended December 31, 1995

Net income of $155.3 million for the year ended December 31, 1996 increased $28.8 million, or 23%, over net income of $126.5 million in 1995. The increase in net income is primarily a result of an increase in both asset volumes and rates. Net interest income increased $157.5 million, or 76%, as average earning assets increased 23% and the net interest margin increased to 7.62% from 5.35%. The provision for loan losses increased $101.4 million, or 154%, as average reported consumer loans increased 24% and the reported net charge-off rate increased to 3.63% in 1996 from 2.03% in 1995, the result of seasoning. Non-interest income increased $210.4 million, or 38%, primarily due to the increase in average managed consumer loans and a shift to more fee-intensive products. Increases in marketing costs of $59.8 million, or 41%, and other non-interest expenses of $155.9 million, or 44%, reflect the increase in marketing investment in existing and new product opportunities and the cost of operations to build infra-

structure and manage the growth in accounts. Average managed consumer loans grew 24% for the year ended December 31, 1996, to $11.3 billion from $9.1 billion for the year ended December 31, 1995, and average managed accounts grew 30% for the same period to 7.5 million from 5.7 million as a result of the continued success of the Company's marketing and account management strategies.

Managed Consumer Loan Portfolio

The Company analyzes its financial performance on a managed consumer loan portfolio basis. Managed consumer loan data adjusts the balance sheet and income statement to add back the effect of securitizing consumer loans. The Company also evaluates its interest rate exposure on a managed portfolio basis.

The Company's managed consumer loan portfolio is comprised of reported and securitized loans. Securitized loans are not assets of the Company and, therefore, are not shown on the balance sheet.

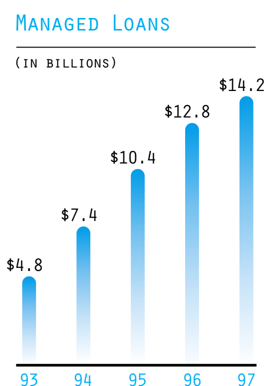
Table 1 summarizes the Company's managed consumer loan portfolio.

Table 1: Managed Consumer Loan Portfolio

	Year Ended December 31				
(In Thousands)	1997	1996	1995	1994	1993
Year-End Balances:					
Consumer loans held for securitization			$ 400,000		
On-balance sheet consumer loans	$ 4,861,687	$ 4,343,902	2,521,679	$2,228,455	$1,862,744
Securitized consumer loans	9,369,328	8,460,067	7,523,801	5,150,000	2,969,656
Total managed consumer loan portfolio	$14,231,015	$12,803,969	$10,445,480	$7,378,455	$4,832,400
Average Balances:					
Consumer loans held for securitization	$ 98,838	$ 699,044	$ 402,602	$ 432,581	$ 393,835
On-balance sheet consumer loans	4,004,198	2,952,864	2,537,606	1,854,103	1,819,543
Securitized consumer loans	8,904,146	7,616,553	6,149,070	3,910,739	1,052,187
Total managed consumer loan portfolio	$13,007,182	$11,268,461	$ 9,089,278	$6,197,423	$3,265,565

As of December 31, 1997, the managed consumer loan portfolio consisted of 62% fixed and 38% variable interest rate loans. The Company's reported consumer loan portfolio as of December 31, 1997 consisted of 58% fixed and 42% variable interest rate loans.

Since 1990, the Company has actively engaged in consumer loan securitization transactions. In June 1996, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"), which was effective January 1, 1997. Under SFAS 125, the Company records gains or losses on the securitization of consumer loan receivables based on the estimated fair value of assets obtained and liabilities incurred in the sale. Gains represent the present value of estimated cash flows the Company has retained over the estimated outstanding period of the receivables. This excess cash flow essentially represents an "interest only" ("I/O") strip, consisting of the excess of finance charges and past-due fees over the sum of the return paid to certificateholders, estimated contractual servicing fees and credit losses. However, exposure to credit losses on the securitized loans is contractually limited to these excess cash flows. The incremental effect of applying the new requirements, was to increase servicing and securitizations income in 1997 by $32.0 million ($19.8 million net of tax). Certain estimates inherent in the determination of the fair value of the I/O strip are influenced by factors outside the Company's control, and as a result, such estimates could materially change in the near term. Any future gains that will be recognized in accordance with SFAS 125 will be dependent on the timing and amount of future securitizations. The Company will continuously assess the performance of new and existing securitization transactions as estimates of future cash flows change.



For securitized loans prior to 1997, interest income, interest expense, service charges and provision for loan losses are included in non-interest income as servicing and securitizations income.

A securitization generally involves the transfer by the Company of the receivables generated by a pool of consumer loan accounts to an entity created for the securitization, generally a trust or other special purpose entity ("the trusts"). Certificates issued ($9.4 billion outstanding as of December 31, 1997) by the trusts represent undivided ownership interests in those receivables transferred into the trusts. The credit quality of the receivables is supported by credit enhancement, which may be in various forms including a letter of credit, a cash collateral guaranty or account, or a subordinated interest in the receivables in the pool. The securitization results in the removal of the receivables, other than the Company's retained interest ("seller's interest"), from the Company's balance sheet for financial and regulatory accounting purposes.

The receivables transferred to a securitization pool include those outstanding in the selected accounts at the time the trusts are formed and those arising under the accounts until the termination of the trusts. The Company also transfers to the trusts the cash collected in payment of principal, interest and fees received and the Company's interest in any collateral.

Certificates representing participation interests in the pool are sold to the public through an underwritten offering or to private investors in private placement transactions. The Company receives the proceeds of the sale. The amount of receivables transferred to the trusts exceeds the initial principal amount of the certificates issued by the trusts to investors. The Company retains an interest in the trusts equal to the amount of the receivables in excess of the principal balance of the certificates. The Company's interest in the trusts varies as the amount of the excess receivables in the trusts fluctuates as the accountholders make principal payments and incur new charges on the selected accounts.

The Company acts as a servicing agent and receives loan servicing fees ranging from .75% to 2.0% per annum of the securitized receivables. As a servicing agent, the Company continues to provide customer service, to collect past-due accounts and to provide all other services typically performed for its customers. Accordingly, its relationship with its customers is not affected by the securitization.

The certificateholders are entitled to receive periodic interest payments at a fixed rate or a floating rate. In general, the Company's floating rate issuances are based on the London InterBank Offered Rate ("LIBOR"). Amounts collected in excess of that needed to pay the rate of interest are used to pay the credit enhancement fee and servicing fee and are available to absorb the investors' share of credit losses.

Certificateholders in the Company's securitization program are generally entitled to receive principal payments either through monthly payments during an amortization period or in one lump sum after an accumulation period. Amortization may begin sooner in certain circumstances, including if the annualized portfolio yield (consisting, generally, of interest and fees) for a three-month period drops below the sum of the certificate rate payable to investors, loan servicing fees and net credit losses during the period or if certain other events occur.

Prior to the commencement of the amortization or accumulation period, all principal payments received on the trusts' receivables are reinvested in new receivables of the selected accounts for the benefit of the trusts. During the amortization period, the investors' share of principal payments is paid to the certificateholders until they are paid in full. During the accumulation period, the investors' share of principal payments is paid into a principal funding account designed to accumulate amounts so that the certificates can be paid in full on the expected final payment date. The trusts continue in existence until all amounts required to be paid to certificateholders of all series are repaid, at which time any remaining receivables and funds held in the trusts will be reassigned to the Company.

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

Table 2: Operating Data and Ratios

(Dollars in Thousands)	Year Ended December 31		
	1997	1996	1995
Reported:			
Average earning assets	$ 5,753,997	$ 4,798,987	$ 3,902,832
Net interest margin(1)	6.66%	7.62%	5.33%
Loan yield	15.11	16.21	13.52
Managed:			
Average earning assets	$14,658,143	$12,415,540	$10,051,902
Net interest margin(1)	8.86%	8.16%	6.27%
Loan yield	15.73	14.76	13.12

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

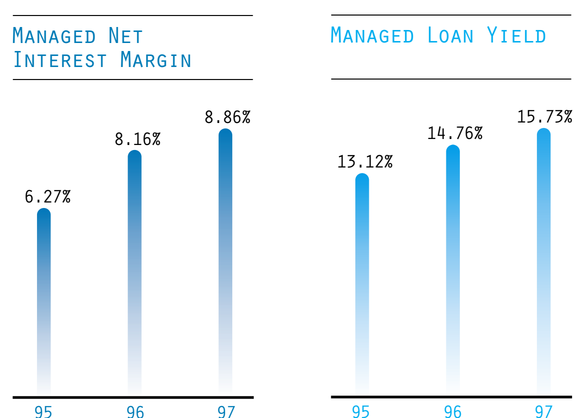
Risk Adjusted Revenue and Margin

In originating its consumer loan portfolio since the early 1990's, the Company has pursued a low introductory interest rate strategy with accounts repricing to higher rates after six to sixteen months from the date of origination ("first generation products"). The amount of repricing is actively managed in an effort to maximize return at the consumer level, reflecting the risk and expected performance of the account. Separately, accounts also may be repriced upwards or downwards based on individual consumer performance. Many of the Company's first generation products have a balance transfer feature under which consumers can transfer balances from their other obligations to the Company. The Company's historic managed loan growth has been principally the result of this balance transfer feature. Industry competitors have continuously solicited the Company's customers with similar low introductory interest rate strategies. Management believes that the competition has put, and will continue to put, additional pressure on low introductory interest rate strategies.

In applying its information-based strategies ("IBS") and in response to competitive pressures during late 1994, the Company began to shift a significant amount of its marketing expense to second generation product opportunities. Second generation products consist of secured card products and other customized card products including affinity and co-branded cards, college student cards and other cards targeted to certain markets that were underserved by the Company's competitors. These products do not have the immediate impact on managed loan balances of the first generation products but typically consist of lower credit limit accounts and balances that build over time. The terms of the second generation products tend to include annual membership fees and higher annual finance charge rates. The profile of the consumers targeted for the second generation products, in some cases, may also tend to result in higher delinquency and consequently higher past-due and overlimit fees as a percentage of loan receivables outstanding than the first generation products.

Although these second generation products have differing characteristics than first generation products, both meet the Company's objective of maximizing revenue for the level of risk undertaken. Management believes that comparable measures for external analysis are the risk adjusted revenue and risk adjusted margin of the portfolio. Risk adjusted revenue is defined as net interest income and non-interest income (exclusive of the impact resulting from the implementation of SFAS 125) less net charge-offs. Risk adjusted margin measures risk adjusted revenue as a percentage of average managed earning assets. It considers not only the loan yield and net interest margin, but also the fee income associated with these products. By deducting net charge-offs, consideration is given to the risk inherent in these differing products.

In the fourth quarter of 1997, the Company modified its methodology for charging off credit card loans (net of any collateral) to 180 days past-due from the prior practice of charging off loans during the next billing cycle after becoming 180 days past-due. As a result, managed net interest income was reduced by $15.1 million and managed non-interest income was reduced by $8.0 million for



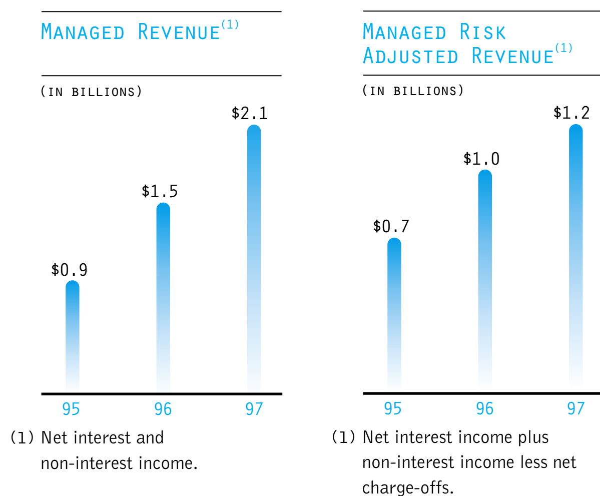
the reversal of previously accrued finance charges and fee income. In addition, this modification increased managed net charge-offs by $47.4 million. Also, in the fourth quarter of 1997, the Company recognized the estimated uncollectible portion of finance charge and fee income receivables which decreased loans by $50.2 million, managed net interest income by $19.8 million and managed non-interest income by $30.4 million. Risk adjusted revenue and risk adjusted margin, without these modifications, would have been $1.3 billion and 8.92%, respectively, in 1997.

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

Table 3: Managed Risk Adjusted Revenue

	Year Ended December 31		
(Dollars in Thousands)	1997	1996	1995
Managed Income Statement:			
Net interest income	$1,299,317	$1,013,557	$ 629,996
Non-interest income[1]	743,516	460,492	276,269
Net charge-offs	(856,704)	(477,732)	(204,828)
Risk adjusted revenue	$1,186,129	$ 996,317	$ 701,437
Ratios[2]:			
Net interest margin	8.86%	8.16%	6.27%
Non-interest income	5.07	3.71	2.75
Net charge-offs	(5.84)	(3.85)	(2.04)
Risk adjusted margin	8.09%	8.02%	6.98%

(1) Excludes the $32 million pre-tax incremental impact on credit card securitizations income resulting from the implementation of SFAS 125 in 1997.
(2) As a percentage of average managed earning assets.



(1) Net interest and non-interest income.

(1) Net interest income plus non-interest income less net charge-offs.

Net Interest Income

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

Net interest income for the year ended December 31, 1997 was $383.1 million, compared to $365.5 million for 1996, representing an increase of $17.6 million, or 5%. Average earning assets increased 20% to $5.8 billion for the year ended December 31, 1997 from $4.8 billion in 1996. The reported net interest margin decreased to 6.66% in 1997 from 7.62% in 1996 and was primarily attributable to a 110 basis point decrease in the yield on consumer loans to 15.11% for the year ended December 31, 1997 from 16.21% for 1996. The yield on consumer loans decreased due to the securitization and, as a result, removal from the balance sheet of higher yielding second generation products during the fourth quarter of 1996 and a $24.4 million reduction in reported consumer loan income as a result of modifications in the charge-off policy and finance charge and fee income recognition previously discussed. These decreases were offset by an increase in the amount of past-due fees charged from both a change in terms and an increase in the delinquency rate as compared to 1996.

The managed net interest margin for the year ended December 31, 1997 increased to 8.86% from 8.16% for the year ended December 31, 1996. This increase was primarily the result of a 97 basis point increase in consumer loan yield for the year ended December 31, 1997 offset by an 11 basis point increase in borrowing costs for the same period, as compared to 1996. The increase in consumer loan yield to 15.73% for the year ended December 31, 1997 from 14.76% in 1996 principally reflected the 1997 repricing of introductory rate loans, changes in product mix and the increase in past-due fees charged on delinquent accounts noted above. The average rate paid on borrowed funds increased slightly to 5.95% for the year ended December 31, 1997 from 5.84% in 1996 primarily reflecting a relatively steady short-term interest rate environment during 1997 and 1996.

Net interest income for the year ended December 31, 1996 was $365.5 million compared to $208.0 million for 1995, representing an increase of $157.5 million, or 76%. Net interest income increased as a result of growth in earning assets and an increase in the net interest margin. Average earning assets increased 23% for the year ended December 31, 1996 to $4.8 billion from $3.9 billion for the year ended December 31, 1995. The reported net interest margin increased to 7.62% in 1996 from 5.35% in 1995 primarily attributable to a 269 basis point increase in the yield on consumer loans and a 38 basis point decrease in the cost of funds. The yield

on consumer loans increased to 16.21% for the year ended December 31, 1996 from 13.52% for the year ended December 31, 1995. The yield increase was impacted by the repricing of introductory rate loans to higher rates in accordance with their respective terms, changes in product mix to higher yielding, second generation products and the increase in the amount of past-due fees from both a change in terms and an increase in the delinquency rate. The average rate paid on borrowed funds decreased to 6.32% for the year ended December 31, 1996 from 6.70% in 1995 primarily reflecting decreases in short-term market rates from year to year.

The managed net interest margin for the year ended December 31, 1996 increased to 8.16% from 6.27% for the year ended December 31, 1995. This increase was primarily the result of a 164 basis point increase in consumer loan yield for the year ended December 31, 1996 and a reduction of 46 basis points in borrowing costs for the same period, as compared to 1995. The increase in consumer loan yield to 14.76% for the year ended December 31, 1996 from 13.12% in 1995 principally reflected the 1996 repricing of introductory rate loans, changes in product mix and the increase in past-due fees charged on delinquent accounts as noted above. Additionally, the decrease in the average rate paid on managed interest-bearing liabilities to 5.84% for the year ended December 31, 1996 versus 6.30% for the year ended December 31, 1995, reflected decreases in short-term market rates from year to year.

Table 4 provides average balance sheet data, an analysis of net interest income, net interest spread (the difference between the yield on earning assets and the cost of interest-bearing liabilities) and net interest margin for each of the years ended December 31, 1997, 1996 and 1995.

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

	Year Ended December 31								
	1997			1996			1995		
(Dollars in Thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets:									
Earning assets									
Consumer loans[1]	$4,103,036	$619,785	15.11%	$3,651,908	$592,088	16.21%	$2,940,208	$397,654	13.52%
Federal funds sold and resale agreements	293,119	16,423	5.60	394,939	21,293	5.39	453,797	26,832	5.91
Other	1,357,842	81,777	6.02	752,140	47,102	6.26	508,827	32,923	6.47
Total earning assets	5,753,997	$717,985	12.48%	4,798,987	$660,483	13.76%	3,902,832	$457,409	11.72%
Cash and due from banks	(2,636)			40,698			9,309		
Allowance for loan losses	(132,728)			(83,573)			(69,939)		
Premises and equipment, net	181,610			156,441			123,472		
Other assets	768,694			656,407			470,381		
Total assets	$6,568,937			$5,568,960			$4,436,055		
Liabilities and Equity:									
Interest-bearing liabilities									
Deposits	$ 958,885	$ 41,932	4.37%	$1,046,122	$ 56,272	5.38%	$ 769,688	$ 49,547	6.44%
Other borrowings	631,876	39,066	6.18	454,899	28,509	6.27	1,028,075	66,214	6.44
Senior and deposit notes	3,718,988	253,849	6.83	3,168,205	210,218	6.64	1,924,087	133,635	6.95
Total interest-bearing liabilities	5,309,749	$334,847	6.31%	4,669,226	$294,999	6.32%	3,721,850	$249,396	6.70%
Other liabilities	345,582			222,975			170,841		
Total liabilities	5,655,331			4,892,201			3,892,691		
Preferred beneficial interests	89,529								
Equity	824,077			676,759			543,364		
Total liabilities and equity	$6,568,937			$5,568,960			$4,436,055		
Net interest spread			6.17%			7.44%			5.02%
Interest income to average earning assets			12.48			13.76			11.72
Interest expense to average earning assets			5.82			6.14			6.39
Net interest margin			6.66%			7.62%			5.33%

(1) Interest income includes past-due fees on loans of approximately $132,297, $94,393 and $50,384 for the years ended December 31, 1997, 1996 and 1995, respectively.

Interest Variance Analysis

Net interest income is affected by changes in the average interest rate earned on earning assets and the average interest rate paid on interest-bearing liabilities. In addition, net interest income is affected by changes in the volume of earning assets and interest-bearing liabilities. Table 5 sets forth the dollar amount of the increases (decreases) in interest income and interest expense resulting from changes in the volume of earning assets and interest-bearing liabilities and from changes in yields and rates.

Table 5: Interest Variance Analysis

	Year Ended December 31					
	1997 vs. 1996			1996 vs. 1995		
	Increase	Change Due to[1]		Increase	Change Due to[1]	
(In Thousands)	(Decrease)	Volume	Yield/Rate	(Decrease)	Volume	Yield/Rate
Interest Income:						
Consumer loans	$ 27,697	$ 69,924	$(42,227)	$194,434	$106,761	$ 87,673
Federal funds sold and resale agreements	(4,870)	(5,676)	806	(5,539)	(3,297)	(2,242)
Other	34,675	36,545	(1,870)	14,179	16,127	(1,948)
Total interest income	57,502	123,085	(65,583)	203,074	117,398	85,676
Interest Expense:						
Deposits	(14,340)	(4,422)	(9,918)	6,725	15,788	(9,063)
Other borrowings	10,557	10,947	(390)	(37,705)	(35,967)	(1,738)
Senior and deposit notes	43,631	37,446	6,185	76,583	82,799	(6,216)
Total interest expense	39,848	40,394	(546)	45,603	60,520	(14,917)
Net interest income[1]	$ 17,654	$ 67,129	$(49,475)	$157,471	$ 55,920	$101,551

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

Servicing and Securitizations Income

Servicing and securitizations income in 1997 includes gains on sale of consumer loans recognized under the provisions of SFAS 125; the excess of interest and fee income earned over loan losses and interest paid on investor certificates for consumer loan balances securitized prior to January 1, 1997 and other fees earned relating to securitized loans. In absence of new securitization transactions, once the entire securitized consumer loan portfolio consists of transfers measured under SFAS 125, the aggregate gains recognized under SFAS 125 will approximate the excess servicing income recognized under the accounting method used prior to the implementation of SFAS 125. The incremental effect in 1997 of implementing SFAS 125 on servicing and securitizations income was $32.0 million.

The increase in servicing and securitizations income of $222.5 million, or 48%, to $682.3 million for the year ended December 31, 1997 from $459.8 million for 1996 was due to a number of factors, including the incremental effect of the implementation of SFAS 125 mentioned above, a 17% increase in average securitized loans and increases in net interest income and non-interest income, offset by increased charge-offs on securitized loans. Net interest income on securitized loans increased $268.1 million, or 41%, for the year ended December 31, 1997 as compared to the prior year, as a result of loan growth and an increase in the securitized portfolio's net interest margin to 10.29% for the year ended December 31, 1997 from 8.51% for 1996. This increase in net interest margin is the result of an increase in the yield on securitized loans of 196 basis points for the year ended December 31, 1997, which was a result of the securitization of second generation products and an increase in the amount of past-due fees charged as a result of both a change in terms and an increase in the delinquency rate on securitized loans from year to year. Non-interest income on serviced and securitized loans, excluding the incremental impact of SFAS 125, increased $199.8 million, or 127%, for the year ended December 31, 1997 from 1996, as a result of loan and account growth, the securitization of second generation products and changes in the terms of overlimit fees charged. Charge-offs of securitized loans for the year ended December 31, 1997 increased $317.7 million, or 92%, compared to 1996 due to the increase in average securitized loans, continued seasoning of accounts and general economic trends in consumer credit performance.

Servicing and securitizations income increased $49.9 million, or 12%, to $459.8 million for the year ended December 31, 1996 from $409.9 million in 1995, primarily due to increases in net interest income on securitized credit card loans offset by increased charge-offs on such loans. Average securitized credit card loans increased

24% for the year ended December 31, 1996 compared to 1995. Net interest income on securitized loans increased $226.1 million, or 54%, to $648.1 million for the year ended December 31, 1996 from $422.0 million for the year ended December 31, 1995, primarily as a result of loan growth and an increase in the securitized portfolio's net interest margin to 8.51% in 1996 versus 6.86% in 1995. This increase in net interest margin was the result of an increase in yield on securitized loans of 114 basis points for the year ended December 31, 1996, which was a result of repricing introductory rate accounts, and decreased cost of funds on securitized loans of 51 basis points as short-term rates declined from the prior year. Charge-offs on securitized loans for the year ended December 31, 1996 increased $199.9 million, or 138%, compared to the prior year due to the increase in average securitized loans, worsening consumer credit and seasoning of the portfolio.

Other Non-Interest Income

Interchange income decreased $2.4 million, or 5%, to $49.0 million for the year ended December 31, 1997 from $51.4 million in 1996 as a result of the securitization of a higher percentage of more fee-intensive second generation products in 1997 compared with 1996.

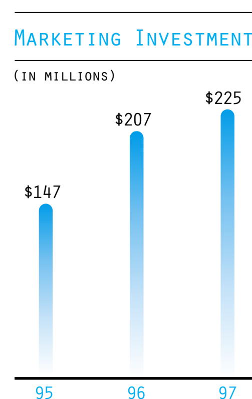
Other reported non-interest income, excluding interchange, increased to $337.8 million, or 34%, for the year ended December 31, 1997 compared to $252.2 million for the year ended December 31, 1996. This increase was due to a 33% increase in the average number of accounts for the year ended December 31, 1997 from 1996 and changes in the terms of overlimit fees charged.

Managed other non-interest income increased $283.0 million, or 61%, exclusive of the impact resulting from the implementation of SFAS 125, for the year ended December 31, 1997, primarily due to loan and account growth of second generation products and changes in the terms of overlimit fees charged.

Other reported non-interest income increased to $303.6 million, or 112%, for the year ended December 31, 1996 compared to $143.1 million for the year ended December 31, 1995. The increase in other non-interest income was due to a 30% increase in the average number of accounts for the year ended December 31, 1996 from 1995, an increase in charge volume, a shift to more fee intensive second generation products and changes in the terms of overlimit fees charged.

Non-Interest Expense

Non-interest expense for the year ended December 31, 1997 increased $170.8 million, or 24%, to $884.0 million from $713.2 million for the year ended December 31, 1996. Contributing to the increase in non-interest expense was salaries and associate benefits expense, which increased $74.1 million, or 34%, to $289.3 million in 1997 compared to $215.2 million in 1996. This increase reflected additional staff associated with the cost of operations to manage the growth in accounts and $17.0 million in additional expense associated with the Company's associate stock plans. Also contributing to the increase in non-interest expense was marketing expense which increased $18.2 million, or 9%, to $224.8 million in 1997 from $206.6 million in 1996. Marketing expense represents the cost to select, print and mail the Company's product offerings to potential and existing consumers utilizing its IBS and account management techniques. All other non-interest expenses increased $78.4 million, or 27%, to $369.8 million in 1997 compared to $291.4 million in 1996. The increase in other non-interest expenses was primarily a result of a 33% increase in the average number of accounts for the year ended December 31, 1997, which resulted in a corresponding increase in infrastructure and other operational costs, offset by efficiencies gained from improved processes and investments in information technology.



Non-interest expense for the year ended December 31, 1996 increased $215.8 million, or 43%, to $713.2 million from $497.4 million for the year ended December 31, 1995. Contributing to the increase in non-interest expense were marketing expenses which increased $59.8 million, or 41%, to $206.6 million in 1996 from $146.8 million in 1995. All other non-interest expenses increased $156.0 million, or 44%, to $506.6 million for the year ended December 31, 1996 from $350.6 million in 1995. The increase in other non-interest expense, including salaries and associate benefits, was primarily a result of a 30% increase in the average number of accounts for the year ended December 31, 1996. Other factors impacting 1996 non-interest expense levels include a product mix shift to more service-intensive, second generation accounts, additional staff associated with building infrastructure, an increase in charge volume and an increase in certain costs associated with information systems enhancements.

The Year 2000 compliance issue, which is common to most companies, concerns the improper storage and manipulation of date fields within software applications, systems, databases and hardware. In April 1996, the Company formed a Year 2000 project team to identify software systems and computer-related devices that require modification for the Year 2000. A project plan has been developed, and is well under way, with goals and target dates. The Company expects to have all systems and applications in place and fully tested by the end of 1998, allowing time in 1999 for any systems refinements that may be needed.

The Company could also be affected to the extent that other entities not affiliated with the Company are impacted by the Year 2000 issue. The Company has initiated formal communications with its critical third party service providers to determine the extent to which the Company is vulnerable to those third parties' failure to remediate their own Year 2000 issues. There is no guarantee that these other companies will be successful in addressing their Year 2000 issues.

The Company has incurred expenses throughout 1997 and 1996 related to this project and will continue to incur expenses over the next year. Costs to modify computer systems have been, and will continue to be, expensed as incurred and are not expected to have a material impact on the Company's future financial results or condition.

Income Taxes

The Company's income tax rate was 38% for the year ended December 31, 1997 as compared to 37.5% for 1996 and includes both state and federal income tax components.

Asset Quality

The asset quality of a portfolio is generally a function of the initial underwriting criteria used, seasoning of the accounts, levels of competition, account management activities and demographic concentration, as well as general economic conditions. The average age of the accounts is also an important indicator of the delinquency and loss levels of the portfolio. Accounts tend to exhibit a rising trend of delinquency and credit losses as they season. As of December 31, 1997, 53% of managed accounts, representing 43% of the total managed loan balance, were less than 18 months old. Accordingly, it is likely that the Company's managed loan portfolio will experience increased levels of delinquency and credit losses as the average age of the Company's accounts increases.

Another factor contributing to the expectation of a rising rate of delinquency and credit losses is a shift in the product mix. As discussed in "Risk Adjusted Revenue and Margin," certain second generation products have, in some cases, higher delinquency and higher charge-off rates. In the case of secured card loans, collateral, in the form of cash deposits, reduces any ultimate charge-offs. The costs associated with higher delinquency and charge-off rates are considered in the pricing of individual products.

During 1997, general economic conditions for consumer credit continued to worsen as industry levels of charge-offs (including bankruptcies) and delinquencies both increased. These trends have impacted the Company's 1997 results.

Delinquencies

Table 6 shows the Company's consumer loan delinquency trends for the years presented as reported for financial statement purposes and on a managed basis. The entire balance of an account is contractually delinquent if the minimum payment is not received by the payment due date. However, the Company generally continues to accrue interest considered to be collectible until the loan is charged off. Delinquencies not only have the potential to impact earnings if the account charges off, they also are costly in terms of the personnel and other resources dedicated to resolving the delinquencies.

The 30-plus day delinquency rate for the reported consumer loan portfolio decreased to 5.51% as of December 31, 1997, from 6.08% as of December 31, 1996. The decrease in 1997 reported delinquency reflects the modification in the Company's methodology for charging off credit card loans (net of any collateral) to 180 days past-due from the prior practice of charging off loans during the next billing cycle after becoming 180 days past-due. In addition, in the fourth quarter of 1997, the Company recognized the estimated uncollectible portion of finance charge and fee income receivables. As of December 31, 1997, the reported consumer loan portfolio's delinquency rate without these modifications would have been 6.28%.

The 30-plus day delinquency rate for the managed consumer loan portfolio was 6.20% as of December 31, 1997, down from 6.24% as of December 31, 1996, while the dollar amount of delinquent managed consumer loans increased approximately $82.9 million. As of December 31, 1997, the managed consumer loan portfolio's delinquency rate, without the modifications in charge-off policy and finance charge and fee income recognition, would have been 6.97%. The managed consumer loan portfolio's delinquency rate as of December 31, 1997 principally reflected the continued seasoning of accounts and consumer loan balances, the increased presence of second generation products, general economic trends in consumer credit performance and the modifications in charge-off policy and finance charge and fee income recognition.

Net Charge-Offs

Net charge-offs include the principal amount of losses (excluding accrued and unpaid finance charges, fees and fraud losses) less current period recoveries. In the fourth quarter of 1997, the Company

Table 6: Delinquencies[1]

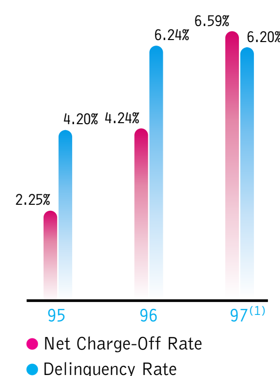
	December 31									
	1997		1996		1995		1994		1993	
(Dollars in Thousands)	Loans	% of Total Loans	Loans	% of Total Loans	Loans	% of Total Loans	Loans	% of Total Loans	Loans	% of Total Loans
Reported:										
Loans outstanding	$ 4,861,687	100.00%	$ 4,343,902	100.00%	$ 2,921,679	100.00%	$2,228,455	100.00%	$1,862,744	100.00%
Loans delinquent:										
30-59 days	104,216	2.14	96,819	2.23	65,711	2.25	29,032	1.30	19,186	1.03
60-89 days	64,217	1.32	55,679	1.28	38,311	1.31	14,741	.66	10,618	.57
90 or more days	99,667	2.05	111,791	2.57	79,694	2.73	24,445	1.10	18,255	.98
Total	$ 268,100	5.51%	$ 264,289	6.08%	$ 183,716	6.29%	$ 68,218	3.06%	$ 48,059	2.58%
Managed:										
Loans outstanding	$14,231,015	100.00%	$12,803,969	100.00%	$10,445,480	100.00%	$7,378,455	100.00%	$4,832,400	100.00%
Loans delinquent:										
30-59 days	327,407	2.30	279,787	2.19	165,306	1.58	90,733	1.23	46,391	.96
60-89 days	213,726	1.50	162,668	1.27	92,665	.89	45,277	.61	25,128	.52
90 or more days	340,887	2.40	356,700	2.78	181,243	1.73	81,720	1.11	43,975	.91
Total	$ 882,020	6.20%	$ 799,155	6.24%	$ 439,214	4.20%	$ 217,730	2.95%	$ 115,494	2.39%

(1) Includes consumer loans held for securitization.

modified its methodology for charging off credit card loans (net of any collateral) to 180 days past-due from the prior practice of charging off loans during the next billing cycle after becoming 180 days past-due. The impact of this modification was to increase reported and managed charge-offs by $11.5 million and $47.4 million, respectively. For the year ended December 31, 1997, net charge-offs of managed consumer loans increased 79% while average managed consumer loans grew 15%. The increase in net charge-offs was the result of continued seasoning of accounts and consumer loan balances, general economic trends in consumer credit performance and the modification to the charge-off policy described above. Table 7 shows the Company's net charge-offs for the years presented on a reported and managed basis.

For the year ended December 31, 1997, the Company's managed net charge-offs as a percentage of average managed loans was 6.59% and, without the modification in charge-off policy, would have been 6.22%. The Company's objective is to optimize the profitability of each account within acceptable risk characteristics. The Company takes measures as necessary, including requiring collateral on certain accounts and other marketing and account management techniques, to maintain the Company's credit quality standards and to manage the risk of loss on existing accounts. See "Risk Adjusted Revenue and Margin" for further discussion.

Managed Net Charge-Off Rate & 30+ Day Delinquency Rate



● Net Charge-Off Rate
● Delinquency Rate

(1) The net charge-off rate, without the modification in charge-off policy, would have been 6.22%. The delinquency rate, without the modification in charge-off policy and finance charge and fee income recognition, would have been 6.97%.

Table 7: Net Charge-Offs[1]

(Dollars in Thousands)	Year Ended December 31 1997	1996	1995	1994	1993
Reported:					
Average loans outstanding	$ 4,103,036	$ 3,651,908	$2,940,208	$2,286,684	$2,213,378
Net charge-offs	198,192	132,590	59,618	25,727	26,307
Net charge-offs as a percentage of average loans outstanding	4.83%	3.63%	2.03%	1.13%	1.19%
Managed:					
Average loans outstanding	$13,007,182	$11,268,461	$9,089,278	$6,197,423	$3,265,565
Net charge-offs	856,704	477,732	204,828	91,648	68,332
Net charge-offs as a percentage of average loans outstanding	6.59%	4.24%	2.25%	1.48%	2.09%

(1) Includes consumer loans held for securitization.

Provision and Allowance for Loan Losses

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

Management believes that the allowance for loan losses is adequate to cover anticipated losses in the on-balance sheet consumer loan portfolio under current conditions. There can be no assurance as to future credit losses that may be incurred in connection with the Company's consumer loan portfolio, nor can there be any assurance that the loan loss allowance that has been established by the Company will be sufficient to absorb such future credit losses. The allowance is a general allowance applicable to the on-balance sheet consumer loan portfolio. Table 8 sets forth the activity in the allowance for loan losses for the periods indicated. See "Asset Quality," "Delinquencies" and "Net Charge-Offs" for a more complete analysis of asset quality.

For the year ended December 31, 1997, the provision for loan losses increased to $262.8 million, or 57%, from the 1996 provision for loan losses of $167.2 million. The allowance for loan losses as a

Table 8: Summary of Allowance for Loan Losses

(Dollars in Thousands)	Year Ended December 31 1997	1996	1995	1994	1993
Balance at beginning of year	$ 118,500	$ 72,000	$ 68,516	$ 63,516	$ 55,993
Provision for loan losses	262,837	167,246	65,895	30,727	34,030
Transfer to loans held for securitization	(2,770)	(27,887)	(11,504)	(4,869)	(2,902)
Increase from consumer loan purchase		9,000			
Charge-offs	(223,029)	(115,159)	(64,260)	(31,948)	(39,625)
Recoveries	27,462	13,300	13,353	11,090	16,020
Net charge-offs[1]	(195,567)	(101,859)	(50,907)	(20,858)	(23,605)
Balance at end of year	$ 183,000	$ 118,500	$ 72,000	$ 68,516	$ 63,516
Allowance for loan losses to loans at end of year[1]	3.76%	2.73%	2.85%	3.07%	3.41%

(1) Excludes consumer loans held for securitization.

percentage of on-balance sheet consumer loans increased to 3.76% as of December 31, 1997 from 2.73% as of December 31, 1996 primarily due to increases in the net charge-off rate to 4.83% for 1997 from 3.63% in 1996, resulting from continued loan seasoning, general economic trends in consumer credit performance and the modification in charge-off policy described earlier. The provision increase also reflected the increase in on-balance sheet consumer loans to $4.9 billion as of December 31, 1997, an increase of 12% from December 31, 1996 and the continued growth of second generation products. In consideration of these factors, the Company increased the allowance for loan losses by $64.5 million during 1997.

For the year ended December 31, 1996, the provision for loan losses increased to $167.2 million, or 154%, from the 1995 provision for loan losses of $65.9 million. The increase in the provision for loan losses resulted from increases in average reported consumer loans of 24%, continued loan seasoning, a shift in the composition of reported consumer loans and general economic trends in consumer credit performance. Net charge-offs as a percentage of average reported consumer loans increased to 3.63% for the year ended December 31, 1996 from 2.03% in the prior year. Additionally, growth in second generation products, which in some cases have modestly higher charge-off rates than first generation products, increased the amount of provision necessary to absorb credit losses. In consideration of these factors, the Company increased the allowance for loan losses by $46.5 million during 1996.

Funding

Table 9 reflects the costs of other borrowings of the Company as of and for each of the years ended December 31, 1997, 1996 and 1995.

Table 9: Other Borrowings

(Dollars in Thousands)	Maximum Outstanding As Of Any Month-End	Outstanding As Of Year-End	Average Outstanding	Average Interest Rate	Year-End Interest Rate
1997					
Federal funds purchased and resale agreements	$ 999,200	$705,863	$ 503,843	5.54%	5.75%
Other	160,144	90,249	128,033	8.71	7.09
Total		$796,112	$ 631,876	6.18%	5.90%
1996					
Federal funds purchased and resale agreements	$ 617,303	$445,600	$ 342,354	5.63%	6.26%
Other	207,689	85,383	112,545	8.20	6.43
Total		$530,983	$ 454,899	6.27%	6.29%
1995					
Federal funds purchased and resale agreements	$1,146,678	$709,803	$ 747,350	6.14%	5.76%
Other	1,000,000	100,000	280,725	7.24	6.03
Total		$809,803	$1,028,075	6.44%	5.79%

Table 10 shows the maturation of certificates of deposit in denominations of $100,000 or greater (large denomination CDs) as of December 31, 1997.

Table 10: Maturities of Domestic Large Denomination Certificates—$100,000 or More

	December 31, 1997	
(Dollars in Thousands)	Balance	Percent
3 months or less	$ 97,363	42.62%
Over 3 through 6 months	43,523	19.06%
Over 6 through 12 months	49,210	21.54%
Over 12 months	38,332	16.78%
Total	$228,428	100.00%

In September 1997, the Savings Bank completed the purchase of the national retail deposit franchise of JCPenney National Bank. Retail deposit balances acquired under the agreement were approximately $421 million. The chart on page 31 indicates that during 1997 the Company increased its interest-bearing deposits to $1.3 billion as of December 31, 1997 from $.9 billion in the prior year.

In November 1996, the Company entered into a four-year, $1.7 billion unsecured revolving credit arrangement (the "Credit Facility"). The Credit Facility is comprised of two tranches: a $1.375 billion Tranche A facility available to the Bank and the Savings Bank, including an option for up to $225 million in multi-currency availability, and a $325 million Tranche B facility available to the Corporation, the Bank and the Savings Bank, including an option for up to $100 million in multi-currency availability. Each tranche under the facility is structured as a four-year commitment and is available for general corporate purposes. The borrowings of the Savings Bank are limited to $750 million. All borrowings under the Credit Facility are based on varying terms of LIBOR. The Bank has irrevocably undertaken to honor any demand by the lenders to repay any borrowings which are due and payable by the Savings Bank but which have not been paid. Any borrowings under the Credit Facility will mature on November 24, 2000; however, the final maturity of each tranche may be extended for three additional one-year periods. As of December 31, 1997 and 1996, the Company had no outstandings under the Credit Facility. The unused commitment is available as funding needs arise.

In August 1997, the Company entered into a three-year, $350 million equivalent unsecured revolving credit arrangement (the "UK/Canada Facility"), which will be used to finance the Company's expansion in the United Kingdom and Canada. The UK/Canada Facility is comprised of two tranches: a Tranche A facility in the amount of £156.5 million ($249.8 million equivalent based on the exchange rate at closing) and a Tranche B facility in the amount of C$139.6 million ($100.2 million equivalent based on the exchange rate at closing). An amount of £34.6 million or C$76.9 million ($55.2 million equivalent based on the exchange rates at closing) may be transferred between the Tranche A facility and the Tranche B facility, respectively, upon the request of the Company. All borrowings under the UK/Canada Facility are based on varying terms of LIBOR. Each tranche under the facility is structured as a three-year commitment and will be available for general corporate purposes. The Corporation serves as the guarantor of all borrowings under the UK/Canada Facility. As of December 31, 1997, the Company had no outstandings under the UK/Canada Facility.

In April 1997, the Bank increased the aggregate amount of bank notes available under its bank note program. Under the program, the Bank from time to time may issue up to $7.8 billion of senior bank notes with maturities from thirty days to thirty years and up to $200 million of subordinated bank notes (none issued as of December 31, 1997) with maturities from five to thirty years. As of December 31, 1997, the Company had $3.2 billion in senior bank notes outstanding, a 10% decrease from $3.6 billion outstanding as of December 31, 1996. As of December 31, 1997, bank notes issued totaling $2.1 billion have fixed interest rates and mature from one to five years. The Company has entered into interest rate swap agreements ("swaps") to effectively convert fixed rates on senior notes to variable rates which match the variable rates earned on consumer loans (see "Interest Rate Sensitivity").

In October 1997, the Bank established a program for the issuance of debt instruments to be offered outside of the United States. Under this program, the Bank from time to time may issue instruments in the aggregate principal amount of $1.0 billion equivalent outstanding at any one time (none issued as of December 31, 1997). Instruments under this program may be denominated in any currency or currencies.

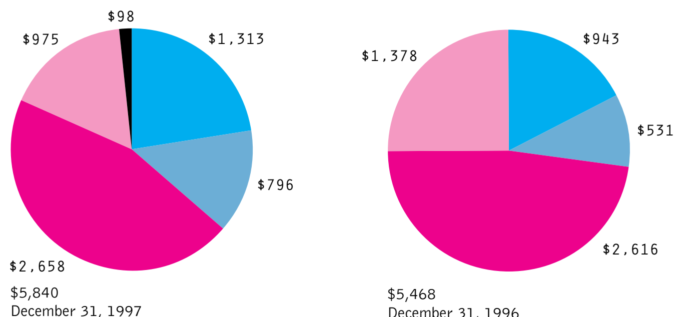
In September 1996, the Corporation filed a $200 million shelf registration statement ($125 million of senior debt securities issued as of December 31, 1997) with the Securities and Exchange Commission (the "SEC") under which the Corporation from time to time may offer and sell (i) senior or subordinated debt securities consisting of debentures, notes and/or other unsecured evidences, (ii) preferred stock, which may be issued in the form of depository shares evidenced by depository receipts and (iii) common stock. The securities will be limited to $200 million aggregate public offering price or its equivalent (based on the applicable exchange rate at the time of sale) in one or more foreign currencies, currency units or composite currencies as shall be designated by the Corporation.

In April 1996, the Bank established a deposit note program under which the Bank from time to time may issue up to $2.0 billion of deposit notes with maturities from thirty days to thirty years. As of December 31, 1997, the Company had $300 million in deposit notes outstanding.

In January 1997, Capital One Capital I, a subsidiary of the Bank created as a Delaware statutory business trust, issued $100 million aggregate amount of Floating Rate Junior Subordinated Capital Income Securities that mature on February 1, 2027. The securities represent a preferred beneficial interest in the assets of the trust and qualify as Tier 1 capital at the Corporation and Tier 2 capital at the Bank. The net proceeds of the offering of $97.4 million were lent to the Bank for general corporate purposes. As of December 31, 1997, the interest rate on these securities was 7.30%.

Funding

(in millions)



- Interest-bearing Deposits
- Other Borrowings
- Senior Deposit Notes < 3 years
- Senior Deposit Notes > 3 years
- Preferred Beneficial Interests

The Company's primary source of funding, securitization of consumer loans, increased to $9.4 billion as of December 31, 1997 from $8.5 billion as of December 31, 1996. In 1997, the Company securitized $2.1 billion of consumer loans, consisting predominantly of LIBOR-based, variable-rate deals maturing from 2001 through 2004.

In January 1996, the Company implemented a dividend reinvestment and stock purchase plan (the "DRIP") to provide existing stockholders with the opportunity to purchase additional shares of the Company's common stock by reinvesting quarterly dividends or making optional cash investments. The Company uses proceeds from the DRIP for general corporate purposes.

In July 1997, the Company's Board of Directors voted to repurchase up to two million shares of the Company's common stock over the next two years in order to mitigate the dilutive impact of shares issuable under its benefit plans, including its dividend reinvestment and stock purchase plans, associate stock purchase plan and incentive plans. During 1997, the Company repurchased 1,318,641 shares under this program. Certain treasury shares were reissued in connection with the Company's benefit plans.

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

Capital Adequacy

The Bank and the Savings Bank are subject to capital adequacy guidelines adopted by the Federal Reserve Board (the "Federal Reserve") and the Office of Thrift Supervision (the "OTS") (collectively, the "regulators"), respectively. The capital adequacy guidelines and the regulatory framework for prompt corrective action require the Bank and the Savings Bank to maintain specific capital levels based upon quantitative measures of their assets, liabilities and off-balance sheet items as calculated under Regulatory Accounting Principles. The inability to meet and maintain minimum capital adequacy levels could result in regulators taking actions that could have a material effect on the Company's consolidated financial statements. Additionally, the regulators have broad discretion in applying higher capital requirements. Regulators consider a range of factors in determining capital adequacy, such as an institution's size, quality and stability of earnings, interest rate risk exposure, risk diversification, management expertise, asset quality, liquidity and internal controls.

As of December 31, 1997 and 1996, notifications from the regulators categorized the Bank and the Savings Bank as "well-capitalized." To be categorized as "well-capitalized," the Bank and the Savings Bank must maintain minimum capital ratios as set forth in the table below. As of December 31, 1997, there are no conditions or events since the notifications discussed above that management believes have changed either the Bank or the Savings Bank's capital category. As of December 31, 1997, the Bank and the Savings Bank's ratios of capital to managed assets were 5.10% and 8.67%, respectively.

Table 11 shows the Bank and Savings Bank's regulatory capital ratios as of and for the years ended December 31, 1997 and 1996.

Table 11: Regulatory Capital Ratios

	Ratios	Minimum for Capital Adequacy Purposes	To Be "Well-Capitalized" Under Prompt Corrective Action Provisions
December 31, 1997			
Capital One Bank			
Tier 1 Capital	10.49%	4.00%	6.00%
Total Capital	13.26	8.00	10.00
Tier 1 Leverage	10.75	4.00	5.00
Capital One, F.S.B. (1)			
Tangible Capital	11.26%	1.50%	6.00%
Total Capital	17.91	12.00	10.00
Core Capital	11.26	8.00	5.00
December 31, 1996			
Capital One Bank			
Tier 1 Capital	11.61%	4.00%	6.00%
Total Capital	12.87	8.00	10.00
Tier 1 Leverage	9.04	4.00	5.00
Capital One, F.S.B. (1)			
Tangible Capital	9.18%	1.50%	6.00%
Total Capital	16.29	12.00	10.00
Core Capital	9.18	8.00	5.00

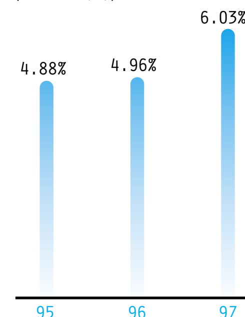
(1) Until June 30, 1999, the Savings Bank is subject to capital requirements that exceed minimum capital adequacy requirements, including the requirement to maintain a minimum Core Capital ratio of 8% and a Total Capital ratio of 12%.

During 1996, the Bank received regulatory approval and established a branch office in the United Kingdom. In connection with such approval, the Company committed to the Federal Reserve that, for so long as the Bank maintains such branch in the United Kingdom, the Company will maintain a minimum Tier 1 Leverage ratio of 3.0%. As of December 31, 1997 and 1996, the Company's Tier 1 Leverage ratio was 13.83% and 11.13%, respectively.

Additionally, certain regulatory restrictions exist which limit the ability of the Bank and the Savings Bank to transfer funds to the Corporation. As of December 31, 1997, retained earnings of the Bank and the Savings Bank of \$99.6 million and \$24.8 million, respectively, were available for payment of dividends to the Corporation without prior approval by the regulators. The Savings Bank, however, is required to give the OTS at least thirty days' advance notice of any proposed dividend and the OTS, in its discretion, may object to such dividend.

Capital to Managed Assets as of Year-End (1)

(in billions)



(1) Includes preferred beneficial interests.

Off-Balance Sheet Risk

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

Interest Rate Sensitivity

Interest rate sensitivity refers to the change in earnings that may result from changes in the level of interest rates. To the extent that managed interest income and managed interest expense do not respond equally to changes in interest rates, or that all rates do not change uniformly, earnings could be affected. The Company's managed net interest income is affected by changes in short-term interest rates, primarily LIBOR, as a result of its issuance of interest-bearing deposits, variable rate loans and variable rate securitizations. However, due to the Company's use of swaps, the effects of these interest rate changes are mitigated. The Company manages its interest rate sensitivity through several techniques which include, but are not limited to, changing the maturity and distribution of assets and liabilities, entering into swaps and repricing of consumer loans.

The Company measures exposure to its interest rate risk through the use of a simulation model. The model generates a distribution of possible twelve-month managed net interest income outcomes based on (i) a set of plausible interest rate scenarios, as determined by management based upon historical trends and market expectations, (ii) all existing financial instruments, including swaps, and (iii) an estimate of ongoing business activity over the coming twelve months. The Company's asset/liability management policy requires that based on this distribution there be at least a 95% probability that managed net interest income achieved over the coming twelve months will be no more than 4% below the mean managed net interest income of the distribution. As of December 31, 1997, the Company was in compliance with the policy; more than 95% of the outcomes generated by the model produced a managed net interest income of no more than 3.3% below the mean outcome. The interest rate scenarios evaluated as of December 31, 1997 included scenarios in which short-term interest rates rose by as much as 450 basis points or fell by as much as 250 basis points over twelve months.

Implementation of this policy represents a change from the asset/liability management policy in place as of December 31, 1996. At that time, interest rate sensitivity was assessed on the basis of the percent change in twelve-month managed net interest income for an instantaneous and sustained 100 basis point rate shock applied to an unchanging balance sheet. As of December 31, 1996, the Company's policy required that such a rate shock not result in an adverse change of more than 5% in managed net interest income; the exposure at the time was 2.1%.

The analysis does not consider the effects of the changed level of overall economic activity associated with various interest rate scenarios. Further, in the event of a rate change of large magnitude, management would likely take actions to further mitigate its exposure to any adverse impact. For example, management may reprice interest rates on outstanding credit card loans subject to the right of the consumers in certain states to reject such repricing by giving timely written notice to the Company and thereby relinquishing charging privileges. However, the repricing of credit card loans may be limited by competitive factors as well as certain legal constraints.

Interest rate sensitivity at a point in time can also be analyzed by measuring the mismatch in balances of earning assets and interest-bearing liabilities that are subject to repricing in future periods. Table 12 reflects the interest rate repricing schedule for earning assets and interest-bearing liabilities as of December 31, 1997.

Table 12: Interest Rate Sensitivity

	As of December 31, 1997 Subject to Repricing			
(Dollars in Millions)	Within 180 days	>180 Days-1 year	>1 Year-5 Years	Over 5 Years
Earning assets:				
Federal funds sold	$ 174			
Interest-bearing deposits at other banks	59			
Securities available for sale	438	$ 150	$ 604	$ 51
Consumer loans	2,454	213	2,195	
Total earning assets	3,125	363	2,799	51
Interest-bearing liabilities:				
Interest-bearing deposits	962	168	184	
Other borrowings	561	235		
Senior and other deposit notes	1,025	250	2,018	340
Total interest-bearing liabilities	2,548	653	2,202	340
Non-rate related assets				(595)
Interest sensitivity gap	577	(290)	597	(884)
Impact of swaps	640		(215)	(425)
Impact of consumer loan securitizations	(4,418)	121	4,297	
Interest sensitivity gap adjusted for impact of securitizations and swaps	$(3,201)	$ (169)	$ 4,679	$(1,309)
Adjusted gap as a percentage of managed assets	(19.48)%	(1.03)%	28.47%	(7.97)%
Adjusted cumulative gap	$(3,201)	$(3,370)	$ 1,309	
Adjusted cumulative gap as a percentage of managed assets	(19.48)%	(20.51)%	7.97%	0.00 %

The Company has entered into swaps to effectively convert certain of the interest rates on bank notes from fixed to variable. The swaps, which had a notional amount totaling $450 million as of December 31, 1997, will mature in 1998 and 2000 to coincide with maturities of fixed bank notes. In 1997, the Company entered into swaps with notional amounts totaling $450 million to effectively offset the swaps described above with matching maturities and terms which pay fixed and receive variable rates. As of December 31, 1997, the variable rate payments on the original and offsetting swaps were matched and will continue to offset each other through maturity. As of December 31, 1997, the weighted average fixed rate payment received on the original swaps was 7.39%, and the weighted average fixed rate payment paid on the offsetting swaps was 6.50%.

The Company has also entered into swaps to reduce the interest rate sensitivity associated with securitizations. The swaps, which had a notional amount totaling $591 million as of December 31, 1997, will mature in 1998 and 1999 to coincide with the final payments of a 1995 securitization. In 1997, the Company entered into swaps with notional amounts totaling $591 million to effectively offset the swaps described above with matching maturities and terms which pay fixed and receive variable rates. As of December 31, 1997, the variable rate payments on the original and offsetting swaps were matched and will continue to offset each other through maturity. As of December 31, 1997, the weighted average fixed rate payment received on the original swaps was 7.68%, and the weighted average fixed rate payment paid on the offsetting swaps was 6.52%.

Liquidity

Liquidity refers to the Company's ability to meet its cash needs. The Company meets its cash requirements by securitizing assets and through issuing debt. As discussed in "Managed Consumer Loan Portfolio," a significant source of liquidity for the Company has been the securitization of consumer loans. Maturity terms of the existing securitizations vary from 1998 to 2004 and typically have accumulation periods during which principal payments are aggregated to make payments to investors. As payments on the loans are accumulated for the participants in the securitization and are no longer reinvested in new loans, the Company's funding requirements for such new loans increase accordingly. The occurrence of certain events may cause the securitization transactions to amortize earlier than scheduled which would accelerate the need for funding.

Table 13 shows the amounts of investor principal from securitized consumer loans that will amortize or be otherwise paid over the periods indicated based on outstanding securitized consumer loans as of January 1, 1998. As of December 31, 1997 and 1996, 66% of the Company's total managed loans were securitized.

As such loans amortize or are otherwise paid, the Company believes that it can securitize consumer loans, purchase federal funds and establish other funding sources to fund the amortization or other payment of the securitizations in the future, although no assurance can be given to that effect. Additionally, the Company maintains a portfolio of high-quality securities such as U.S. Treasuries and other U.S. government obligations, commercial paper, interest-bearing deposits with other banks, federal funds and other cash equivalents in order to provide adequate liquidity and to meet its ongoing cash needs. As of December 31, 1997, the Company had $1.5 billion of such securities.

Liability liquidity is measured by the Company's ability to obtain borrowed funds in the financial markets in adequate amounts and at favorable rates. As of December 31, 1997, the Company, the Bank and the Savings Bank collectively had over $2.0 billion in unused commitments under its credit facilities available for liquidity needs.

Table 13: Securitizations—Scheduled Amortization Table

(Dollars in Thousands)	1998	1999	2000	2001	2002-2004
Balance at beginning of year	$ 9,369,328	$7,202,549	$ 6,471,428	$ 4,412,078	$ 872,790
Less repayment amounts	(2,166,779)	(731,121)	(2,059,350)	(3,539,288)	(872,790)
Balance at end of year	$ 7,202,549	$6,471,428	$ 4,412,078	$ 872,790	$ —

Business Outlook

This business outlook section summarizes the Company's expectations for earnings for the year ending December 31, 1998, and its primary goals and strategies for continued growth. The statements contained in this section are based on management's current expectations. Certain of the statements are forward looking statements and, therefore, actual results could differ materially. Factors which could materially influence results are set forth throughout this section and in the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (Part I, Item 1, Cautionary Statements).

The Company has set an earnings target, dependent on the factors set forth below, for its diluted earnings per share for the year ending December 31, 1998 to increase by more than 20% over its 1997 diluted earnings per share. As discussed elsewhere in this report and below, the Company's actual earnings are a function of its revenues (net interest income and non-interest income on its earning assets), consumer usage and payment patterns, credit quality of its earning assets (which affects fees and charge-offs), marketing expense and operating expenses.

Product and Market Opportunities

The Company's strategy for future growth has been, and is expected to continue to be, to apply its proprietary IBS to its credit card business as well as to other businesses, both financial and non-financial, to identify new product opportunities and to make informed investment decisions regarding its existing products. Historically, credit card opportunities have included, and are expected to continue to include, various first generation low-rate balance transfer products, as well as second generation credit card products. In recent years, the Company's second generation products have been distinguished by several characteristics, including better response rates, less adverse selection, higher margins (including fees), lower credit lines, less attrition and a greater ability to reprice. However, second generation products have also involved higher operational costs and, in some cases, higher delinquencies and credit losses than the Company's traditional low rate balance transfer products. More importantly, these second generation products continue to have overall higher and less volatile returns than the traditional balance transfer products in recent market conditions. Additionally, the Company has been applying, and expects to continue to apply, its IBS to other financial and non-financial products ("third generation products"). Third generation products and services include selected non-card consumer lending products and the reselling of telecommunication services. The Company has also expanded its existing credit card operations outside of the United States, with an initial focus on the United Kingdom and Canada. These second and third generation products are subject to competitive pressures, which management anticipates will increase as these markets mature.

The Company continues to apply its IBS in an effort to balance the mix of first and second generation credit card products together with third generation products and services, to optimize profitability within the context of acceptable risk. The Company intends to remain flexible in the allocation of marketing expenses to take advantage of market opportunities as they emerge based on then current market conditions. As a result, the Company expects to continue to offer a variety of first, second and third generation products but the mix of such products in the Company's portfolio may vary significantly over time. Management believes that, through the continued application of IBS, the Company can develop product and service offerings in each of its product generations to sustain growth and that it has the personnel, financial resources and business strategy necessary for continued success. However, there can be no assurance that the Company's historical financial information will necessarily reflect its results of operations and financial condition in the future.

Marketing Investment

The Company anticipates that its 1998 marketing expenses will exceed such expenses in 1997, as the Company continues to invest in existing and new first and second generation products and services, and third generation products and services. As stated above, the Company intends to continue a flexible approach in its allocation of marketing expenses. The actual amount of marketing investment is subject to a variety of external and internal factors, such as competition in the credit card industry, general economic conditions affecting consumer credit performance, the asset quality of the Company's portfolio and market opportunities for third generation products. With competition affecting the profitability of existing first generation products, the Company has been allocating and expects to continue to allocate a greater portion of its marketing expense to second and third generation products.

Moreover, the amount of marketing expense allocated to various product generations will influence the characteristics of the Company's portfolio because the various product generations are characterized by different account growth, loan growth and asset quality characteristics. The Company currently expects that its growth in consumer accounts and in managed consumer loans will continue in 1998. Actual growth, however, may vary significantly depending on the Company's actual product mix and the level of attrition on the Company's managed portfolio, which is affected by competitive pressures.

Impact of Delinquencies, Charge-off Rates and Attrition

The Company's earnings are particularly sensitive to delinquencies and charge-offs on the Company's portfolio and on the level of attrition due to competition in the credit card industry. As delinquency levels fluctuate, the resulting amount of past-due and overlimit fees, which are significant sources of revenue for the Company, will also fluctuate. Further, the timing of revenues from increasing or decreasing delinquencies precedes the related revenue impact of higher or lower charge-offs that ultimately result from varying levels of delinquencies. Delinquency and net charge-off rates are not only impacted by general economic trends in consumer credit performance but also by the continued seasoning of the Company's portfolio and the product mix. Charge-off rates are also impacted by bankruptcies. The Company's expectations for 1998 earnings are based on management's belief in a continued increase in revenues, together with a moderating level of increases in charge-offs and attrition. Management, however, cautions that delinquency and charge-off levels are not always predictable and may vary from projections. In addition, competition in the credit card industry, as measured by the volume of mail solicitations, remains very high. Increased competition can affect the Company's earnings by increasing attrition of the Company's outstanding loans (thereby reducing interest and fee income) and by making it more difficult to retain and attract more profitable customers.

Cautionary Factors

The Company's strategies and objectives outlined above and the other forward looking statements contained in this section involve a number of risks and uncertainties. The Company cautions readers that any forward looking information is not a guarantee of future performance and that actual results could differ materially. In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: continued intense competition from numerous providers of products and services which compete with the Company's businesses; with respect to financial products, changes in the Company's aggregate accounts or consumer loan balances and the growth rate thereof, including changes resulting from factors such as shifting product mix, amount of actual marketing expenses made by the Company and attrition of accounts and loan balances; an increase in credit losses (including increases due to a worsening of general economic conditions); difficulties or delays in the development, production, testing and marketing of new products or services; losses associated with new products or services; financial, legal, regulatory or other difficulties that may affect investment in, or the overall performance of, a product or business, including changes in existing laws to regulate further the credit card and consumer loan industry and the financial services industry, in general; the amount of, and rate of growth in, the Company's expenses (including associate and marketing expenses) as the Company's business develops or changes or as it expands into new market areas; the availability of capital necessary to fund the Company's new businesses; the ability of the Company to build the operational and organizational infrastructure necessary to engage in new businesses or to expand internationally; the ability of the Company to recruit experienced personnel to assist in the management and operations of new products and services; and other factors listed from time to time in the Company's SEC reports, including, but not limited to, the Annual Report on Form 10-K for the year ended December 31, 1997 (Part I, Item 1, Cautionary Statements).

Selected Quarterly Financial Data

(Unaudited)	1997 Fourth Quarter[1]	1997 Third Quarter	1997 Second Quarter	1997 First Quarter	1996 Fourth Quarter	1996 Third Quarter	1996 Second Quarter	1996 First Quarter
Summary Of Operations:								
(In Thousands)								
Interest income	$203,551	$178,970	$166,870	$168,594	$201,353	$188,235	$137,753	$133,142
Interest expense	89,023	81,816	83,611	80,397	87,784	81,581	63,300	62,334
Net interest income	114,528	97,154	83,259	88,197	113,569	106,654	74,453	70,808
Provision for loan losses	94,356	72,518	46,776	49,187	63,035	53,933	25,110	25,168
Net interest income after provision for loan losses	20,172	24,636	36,483	39,010	50,534	52,721	49,343	45,640
Non-interest income	316,098	280,933	229,042	243,057	214,961	206,716	170,599	171,148
Non-interest expense	242,373	226,003	202,055	213,547	200,575	196,823	159,334	156,450
Income before income taxes	93,897	79,566	63,470	68,520	64,920	62,614	60,608	60,338
Income taxes	35,680	30,236	24,118	26,038	24,670	23,793	22,425	22,325
Net income	$ 58,217	$ 49,330	$ 39,352	$ 42,482	$ 40,250	$ 38,821	$ 38,183	$ 38,013
Per Common Share:								
Basic earnings[2]	$ .89	$ .75	$ .59	$ .64	$ .61	$ .59	$ .58	$ .57
Diluted earnings[2]	.86	.73	.58	.63	.60	.58	.57	.57
Dividends	.08	.08	.08	.08	.08	.08	.08	.08
Market prices								
High	54 3/16	45 3/4	39 7/8	43 5/8	36 5/8	31 7/8	32 1/8	27 7/8
Low	44 1/8	32 13/16	31 3/8	33 1/4	29 7/8	25 7/8	25	21 7/8
Average common shares (000s)	65,535	66,185	66,428	66,336	66,287	66,250	66,210	66,157
Average common and common equivalent shares (000s)	67,532	67,574	67,608	67,704	67,275	67,005	66,903	66,726
Average Balance Sheet Data:								
(In Millions)								
Consumer loans	$ 4,508	$ 3,847	$ 3,997	$ 4,059	$ 4,648	$ 3,955	$ 3,249	$ 2,742
Allowance for loan losses	(174)	(123)	(119)	(120)	(105)	(81)	(74)	(74)
Securities	1,831	1,690	1,563	1,521	1,164	1,228	933	1,302
Other assets	899	1,143	1,117	939	929	990	793	721
Total assets	$ 7,064	$ 6,557	$ 6,558	$ 6,399	$ 6,636	$ 6,092	$ 4,901	$ 4,691
Interest-bearing deposits	$ 1,172	$ 852	$ 818	$ 993	$ 1,298	$ 1,234	$ 789	$ 859
Other borrowings	823	595	695	411	472	466	349	527
Senior and deposit notes	3,614	3,686	3,769	3,809	3,843	3,435	2,875	2,510
Other liabilities	465	485	380	357	290	259	244	164
Preferred beneficial interests	98	98	98	65				
Stockholders' equity	892	841	798	764	733	698	644	631
Total liabilities and equity	$ 7,064	$ 6,557	$ 6,558	$ 6,399	$ 6,636	$ 6,092	$ 4,901	$ 4,691

The above schedule is a tabulation of the Company's unaudited quarterly results for the years ended December 31, 1997 and 1996. The Company's common shares are traded on the New York Stock Exchange under the symbol COF. In addition, shares may be traded in the over-the-counter stock market. There were 10,585 and 14,562 common stockholders of record as of December 31, 1997 and 1996, respectively.

(1) Includes the effect of the modications in charge-off policy and finance charge and fee income recognition which reduced interest income by $24.4 million and non-interest income by $48.9 million, see Note A to Consolidated Financial Statements.

(2) The earnings per share amounts for the first three quarters of 1997 and for 1996 have been restated as required to comply with Statement of Financial Accounting Standards No. 128, Earnings Per Share. For further discussion of earnings per share and the impact of Statement 128, see Note A to Consolidated Financial Statements.

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

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

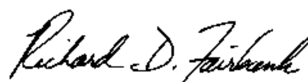
The Consolidated Financial Statements have been audited by the Company's independent public accountants, Ernst & Young LLP, whose independent professional opinion appears separately. Their audit provides an objective assessment of the degree to which the Company's Management meets its responsibility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

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

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

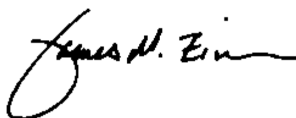
There are inherent limitations in the effectiveness of internal controls, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurance with respect to reliability of financial statements and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

The Company assessed its internal controls over financial reporting as of December 31, 1997, in relation to the criteria described in the "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company believes that as of December 31, 1997, in all material respects, the Company maintained effective internal controls over financial reporting.



Richard D. Fairbank
Chairman and Chief Executive Officer

Nigel W. Morris
President and Chief Operating Officer



James M. Zinn
Senior Vice President and Chief Financial Officer

Report of Independent Auditors

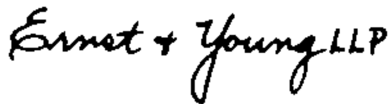
The Board of Directors and Stockholders
Capital One Financial Corporation

We have audited the accompanying consolidated balance sheets of Capital One Financial Corporation as of December 31, 1997 and 1996, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital One Financial Corporation at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

As discussed in Note A to the consolidated financial statements, in 1997 the Company adopted Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."



Washington, D.C.
January 15, 1998

Consolidated Balance Sheets

(Dollars in Thousands, Except Per Share Data)	December 31 1997	December 31 1996
Assets:		
Cash and due from banks	$ 5,039	$ 48,724
Federal funds sold and resale agreements	173,500	450,000
Interest-bearing deposits at other banks	59,184	30,252
Cash and cash equivalents	237,723	528,976
Securities available for sale	1,242,670	877,851
Consumer loans	4,861,687	4,343,902
Less: Allowance for loan losses	(183,000)	(118,500)
Net loans	4,678,687	4,225,402
Premises and equipment, net	162,726	174,661
Interest receivable	51,883	78,590
Accounts receivable from securitizations	588,781	502,520
Other assets	115,809	79,445
Total assets	$7,078,279	$6,467,445
Liabilities:		
Interest-bearing deposits	$1,313,654	$ 943,022
Other borrowings	796,112	530,983
Senior notes	3,332,778	3,694,237
Deposit notes	299,996	299,996
Interest payable	68,448	80,362
Other liabilities	276,368	178,454
Total liabilities	6,087,356	5,727,054
Commitments and Contingencies		
Guaranteed Preferred Beneficial Interests In Capital One Bank's Floating Rate Junior Subordinated Capital Income Securities:	97,664	
Stockholders' Equity:		
Preferred stock, par value $.01 per share; authorized 50,000,000 shares, none issued or outstanding		
Common stock, par value $.01 per share; authorized 300,000,000 shares, 66,557,230 and 66,325,261 issued as of December 31, 1997 and 1996, respectively	666	663
Paid-in capital, net	513,561	481,383
Retained earnings	427,679	258,345
Less: Treasury stock, at cost; 1,188,134 shares	(48,647)	
Total stockholders' equity	893,259	740,391
Total liabilities and stockholders' equity	$7,078,279	$6,467,445

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

(In Thousands, Except Per Share Data)	Year Ended December 31 1997	1996	1995
Interest Income:			
Consumer loans, including fees	$ 619,785	$ 592,088	$ 397,654
Federal funds sold and resale agreements	16,423	21,293	26,832
Other	81,777	47,102	32,923
Total interest income	717,985	660,483	457,409
Interest Expense:			
Deposits	41,932	56,272	49,547
Other borrowings	39,066	28,509	66,214
Senior and deposit notes	253,849	210,218	133,635
Total interest expense	334,847	294,999	249,396
Net interest income	383,138	365,484	208,013
Provision for loan losses	262,837	167,246	65,895
Net interest income after provision for loan losses	120,301	198,238	142,118
Non-Interest Income:			
Servicing and securitizations	682,345	459,833	409,927
Service charges	284,256	218,988	86,029
Interchange	49,030	51,399	33,457
Other	53,499	33,204	23,630
Total non-interest income	1,069,130	763,424	553,043
Non-Interest Expense:			
Salaries and associate benefits	289,322	215,155	135,833
Marketing	224,819	206,620	146,810
Communications and data processing	98,135	76,841	61,508
Supplies and equipment	82,874	60,053	42,081
Occupancy	37,548	22,330	13,655
Other	151,280	132,183	97,543
Total non-interest expense	883,978	713,182	497,430
Income before income taxes	305,453	248,480	197,731
Income taxes	116,072	93,213	71,220
Net income	$ 189,381	$ 155,267	$ 126,511
Basic earnings per share	$ 2.87	$ 2.34	$ 1.93
Diluted earnings per share	$ 2.80	$ 2.32	$ 1.91
Dividends paid per share	$ .32	$ .32	$ .24

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

(Dollars in Thousands, Except Per Share Data)	Common Stock Shares	Common Stock Amount	Paid-In Capital, Net	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1994	66,067,250	$661	$462,844	$ 11,052		$474,557
Net income				126,511		126,511
Cash dividends–$.24 per share				(15,883)		(15,883)
Issuances of common stock	65,645	1	1,256			1,257
Exercise of stock options	6,582		132			132
Tax benefit from stock awards			1,578			1,578
Restricted stock, net	35,090		4,020			4,020
Change in unrealized gains on securities available for sale, net of income taxes of $3,780				7,019		7,019
Balance, December 31, 1995	66,174,567	662	469,830	128,699		599,191
Net income				155,267		155,267
Cash dividends–$.32 per share				(20,573)		(20,573)
Issuances of common stock	139,858	1	3,108			3,109
Exercise of stock options	11,500		186			186
Tax benefit from stock awards			338			338
Restricted stock, net	(664)		193			193
Common stock issuable under incentive plan			7,728			7,728
Foreign currency translation				(132)		(132)
Change in unrealized gains on securities available for sale, net of income taxes of $2,647				(4,916)		(4,916)
Balance, December 31, 1996	66,325,261	663	481,383	258,345		740,391
Net income				189,381		189,381
Cash dividends–$.32 per share				(20,638)		(20,638)
Purchases of treasury stock			1,552		$(52,314)	(50,762)
Issuances of common stock	101,800	1	2,755		2,201	4,957
Exercise of stock options	130,290	2	2,614		1,466	4,082
Tax benefit from stock awards			379			379
Restricted stock, net	(121)		106			106
Common stock issuable under incentive plan			24,772			24,772
Foreign currency translation				59		59
Change in unrealized gains on securities available for sale, net of income taxes of $481				532		532
Balance, December 31, 1997	66,557,230	$666	$513,561	$427,679	$(48,647)	$893,259

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(In Thousands)	Year Ended December 31 1997	1996	1995
Operating Activities:			
Net income	$ 189,381	$ 155,267	$ 126,511
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for loan losses	262,837	167,246	65,895
Depreciation and amortization, net	46,550	41,894	33,424
Stock compensation plans	24,878	7,921	4,020
Decrease (increase) in interest receivable	26,707	(23,017)	(40,958)
Increase in accounts receivable from securitizations	(86,261)	(143,141)	(122,364)
Increase in other assets	(41,469)	(24,795)	(11,786)
(Decrease) increase in interest payable	(11,914)	6,431	64,667
Increase (decrease) in other liabilities	97,914	89,964	(4,780)
Net cash provided by operating activities	508,623	277,770	114,629
Investing Activities:			
Purchases of securities available for sale	(1,275,900)	(947,478)	(400,117)
Proceeds from sales of securities available for sale	483,592	773	
Proceeds from maturities of securities available for sale	450,787	490,040	100,000
Proceeds from securitization of consumer loans	2,114,695	2,695,000	3,525,000
Net increase in consumer loans	(2,858,279)	(4,251,269)	(4,293,988)
Recoveries of loans previously charged off	27,462	13,300	13,353
Additions of premises and equipment, net	(51,602)	(74,871)	(61,623)
Net cash used for investing activities	(1,109,245)	(2,074,505)	(1,117,375)
Financing Activities:			
Net increase in interest-bearing deposits	370,632	246,985	243,836
Net increase (decrease) in other borrowings	265,129	(278,820)	(1,230,885)
Issuances of senior and deposit notes	529,977	2,105,864	2,469,869
Maturities of senior notes	(891,436)	(603,500)	
Issuance of preferred beneficial interests	97,428		
Proceeds from exercise of stock options	4,082	186	132
Net proceeds from issuances of common stock	4,957	3,109	1,257
Purchases of treasury stock	(50,762)		
Dividends paid	(20,638)	(20,573)	(15,883)
Net cash provided by financing activities	309,369	1,453,251	1,468,326
(Decrease) increase in cash and cash equivalents	(291,253)	(343,484)	465,580
Cash and cash equivalents at beginning of year	528,976	872,460	406,880
Cash and cash equivalents at end of year	$ 237,723	$ 528,976	$ 872,460

See Notes to Consolidated Financial Statements.

NOTE A: SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BASIS OF PRESENTATION

The Consolidated Financial Statements include the accounts of Capital One Financial Corporation (the "Corporation") and its subsidiaries. The Corporation is a holding company whose subsidiaries provide a variety of products and services to consumers. The principal subsidiaries are Capital One Bank (the "Bank"), which offers credit card products, and Capital One, F.S.B. (the "Savings Bank"), which provides certain consumer lending and deposit services. The Corporation and its subsidiaries are collectively referred to as the "Company."

The accompanying Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles ("GAAP") that require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. All significant intercompany balances and transactions have been eliminated. Certain prior years' amounts have been reclassified to conform to the 1997 presentation.

The following is a summary of the significant accounting policies used in preparation of the accompanying financial statements.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash and due from banks, federal funds sold and resale agreements and interest-bearing deposits at other banks. Cash paid for interest for the years ended December 31, 1997, 1996 and 1995, was $346,761, $288,568 and $184,729, respectively. Cash paid for income taxes for the years ended December 31, 1997, 1996 and 1995, was $131,052, $107,065 and $82,561, respectively.

SECURITIES AVAILABLE FOR SALE

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

CONSUMER LOANS HELD FOR SECURITIZATION

Consumer loans held for securitization are loans which management intends to securitize, generally within three to six months, and are carried at the lower of aggregate cost or market value.

CONSUMER LOANS

Interest income is generally recognized until a loan is charged off. The accrued interest and fee portions of a charged off loan balance are deducted from current period income with the remaining principal balance charged off against the allowance for loan losses. In the fourth quarter of 1997, the Company recognized the estimated uncollectible portion of finance charge and fee income receivables, which decreased loans and pre-tax income by $50,200. In addition, in the fourth quarter of 1997, the Company modified its methodology for charging off credit card loans (net of any collateral) to 180 days past-due, from the prior practice of charging off loans during the next billing cycle after becoming 180 days past-due. As a result, pre-tax income was decreased by $23,141 for the reversal of previously accrued finance charges and fee income, and reported charge-offs were increased by $11,477. Earlier charge-offs may occur on accounts of bankrupt or deceased consumers. Bankrupt consumers' accounts are generally charged off within thirty days of receipt of the bankruptcy petition. Annual membership fees and direct loan origination costs are deferred and amortized over one year on a straight-line basis. Deferred fees (net of deferred costs) were $98,619 and $58,059 as of December 31, 1997 and 1996, respectively.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at the amount estimated to be sufficient to absorb possible future losses, net of recoveries (including recovery of collateral), inherent in the existing on-balance sheet loan portfolio. The provision for loan losses is the periodic cost of maintaining an adequate allowance. In evaluating the adequacy of the allowance for loan losses, management takes into consideration several of the following factors: historical charge-off and recovery activity (noting any particular trend changes over recent periods); trends in delinquencies; trends in loan volume and size of credit risks; the degree of risk inherent in the composition of the loan portfolio; current and anticipated economic conditions; credit evaluations and underwriting policies.

SECURITIZATIONS

In June 1996, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"("SFAS 125"), which was effective January 1, 1997. The Company prospectively adopted the requirements of SFAS 125 for the securitization of consumer loans. The incremental effect of applying the new requirements, was to increase servicing and securitizations income in 1997 by $32,000 ($19,840, net of tax). The Company records gains or

losses on the securitization of consumer loan receivables based on the estimated fair value of assets obtained and liabilities incurred in the sale. Gains represent the present value of estimated cash flows the Company has retained over the estimated outstanding period of the receivables. This excess cash flow essentially represents an "interest only" ("I/O") strip, consisting of the excess of finance charges and past-due fees over the sum of the return paid to certificateholders, estimated contractual servicing fees and credit losses. Certain estimates inherent in the determination of the fair value of the I/O strip are influenced by factors outside the Company's control, and as a result, such estimates could materially change in the near term. Prior to 1997, no gains were recorded due to the relatively short average life of the consumer loans securitized. Excess servicing fee income was recorded over the life of each sale transaction.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization ($149,215 and $99,104 as of December 31, 1997 and 1996, respectively). Depreciation and amortization expense are computed generally by the straight-line method over the estimated useful lives of the assets.

Marketing

The Company expenses marketing costs as incurred.

Credit Card Fraud Losses

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

Income Taxes

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

Earnings Per Share

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

Interest Rate Swap Agreements

The Company enters into interest rate swap agreements ("swaps") for purposes of managing its interest rate sensitivity. The Company designates swaps to on-balance sheet instruments to alter the interest rate characteristics of such instruments and to modify interest rate sensitivity. The Company also designates swaps to off-balance sheet items to reduce the interest rate sensitivity associated with off-balance sheet cash flows (i.e., securitizations).

Swaps involve the periodic exchange of payments over the life of the agreements. Amounts received or paid on swaps are recorded on an accrual basis as an adjustment to the related income or expense of the item to which the agreements are designated. The related amount receivable from counterparties of $2,771 and $41,548 as of December 31, 1997 and 1996, respectively, was included in other assets. Changes in the fair value of swaps are not reflected in the accompanying financial statements, where designated to existing or anticipated assets or liabilities and where swaps effectively modify or reduce interest rate sensitivity.

Realized and unrealized gains or losses at the time of maturity, termination, sale or repayment of a swap or designated item are recorded in a manner consistent with the original designation of the swap. Amounts are deferred and amortized as an adjustment to interest expense over the original period of interest exposure, provided the designated asset or liability continues to exist or is probable of occurring. Realized and unrealized changes in fair value of swaps, designated with items that no longer exist or are no longer probable of occurring, are recorded as a component of the gain or loss arising from the disposition of the designated item.

The Company's credit exposure on swaps is limited to the value of the swaps that have become favorable to the Company in the event of nonperformance by the counterparties. Under the terms of certain swaps, each party may be required to pledge collateral if the market value of the swaps exceeds an amount set forth in the agreement or in the event of a change in its credit rating. The Company actively monitors the credit ratings of counterparties and does not anticipate nonperformance by the counterparties with which it transacts its swaps.

Note B: Securities Available for Sale

Securities available for sale as of December 31, 1997 and 1996 were as follows:

	Maturity Schedule					
	1 Year or Less	1–5 Years	5–10 Years	Over 10 Years	Market Value Totals	Amortized Cost Totals
December 31, 1997						
Commercial paper	$187,145				$ 187,145	$ 187,145
U.S. Treasury and other U.S. government agency obligations	400,929	$589,899	$2,506		993,334	989,707
Collateralized mortgage obligations				$18,969	18,969	18,629
Mortgage backed securities		13,278		9,960	23,238	22,966
Other		330	526	19,128	19,984	20,008
	$588,074	$603,507	$3,032	$48,057	$1,242,670	$1,238,455
December 31, 1996						
Commercial paper	$ 84,297				$ 84,297	$ 84,297
U.S. Treasury and other U.S. government agency obligations	393,583	$354,680			748,263	745,174
Collateralized mortgage obligations				$20,834	20,834	20,479
Mortgage backed securities				11,607	11,607	11,849
Other				12,850	12,850	12,850
	$477,880	$354,680		$45,291	$ 877,851	$ 874,649

	Weighted Average Yields			
	1 Year or Less	1–5 Years	5–10 Years	Over 10 Years
December 31, 1997				
Commercial paper	6.05%			
U.S. Treasury and other U.S. government agency obligations	6.79	6.24%	8.69%	
Collateralized mortgage obligations				6.96%
Mortgage backed securities		5.17		7.03
Other		6.03	6.39	6.22
	6.55%	6.21%	8.29%	6.70%

Securities available for sale as of December 31, 1995 consisted of U.S. government agency obligations with an amortized cost of $402,250.

Note C: Allowance for Loan Losses

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

	Year Ended December 31		
	1997	1996	1995
Balance at beginning of year	$ 118,500	$ 72,000	$ 68,516
Provision for loan losses	262,837	167,246	65,895
Transfer to loans held for securitization	(2,770)	(27,887)	(11,504)
Increase from consumer loan purchase		9,000	
Charge-offs	(223,029)	(115,159)	(64,260)
Recoveries	27,462	13,300	13,353
Net charge-offs	(195,567)	(101,859)	(50,907)
Balance at end of year	$ 183,000	$ 118,500	$ 72,000

Note D: Borrowings

Borrowings as of December 31, 1997 and 1996 were as follows:

	1997		1996	
	Outstanding	Weighted Average Rate	Outstanding	Weighted Average Rate
Interest-bearing deposits	$1,313,654	4.49%	$ 943,022	4.31%
Other borrowings				
Federal funds purchased and resale agreements	$ 705,863	5.75%	$ 445,600	6.26%
Other	90,249	7.09	85,383	6.43
Total	$ 796,112		$ 530,983	
Senior notes				
Bank—fixed rate	$2,793,778	7.03%	$3,140,237	7.31%
Bank—variable rate	414,000	6.19	429,000	5.99
Corporation	125,000	7.25	125,000	7.25
Total	$3,332,778		$3,694,237	
Deposit notes				
Fixed rate	$ 224,996	6.71%	$ 224,996	6.71%
Variable rate	75,000	6.15	75,000	5.86
Total	$ 299,996		$ 299,996	

As of December 31, 1997, the aggregate amount of interest-bearing deposits with accounts exceeding $100 was $228,428. In September 1997, the Savings Bank completed the purchase of the national retail deposit franchise of JCPenney National Bank. Retail deposit balances acquired under the agreement were approximately $421,000.

In November 1996, the Company entered into a four-year, $1,700,000 unsecured revolving credit arrangement (the "Credit Facility"). The Credit Facility is comprised of two tranches: a $1,375,000 Tranche A facility available to the Bank and the Savings Bank, including an option for up to $225,000 in multi-currency availability, and a $325,000 Tranche B facility available to the Corporation, the Bank and the Savings Bank, including an option for up to $100,000 in multi-currency availability. Each tranche under the facility is structured as a four-year commitment and is available for general corporate purposes. The borrowings of the Savings Bank are limited to $750,000. All borrowings under the Credit Facility are based on varying terms of the London InterBank Offered Rate ("LIBOR"). The Bank has irrevocably undertaken to honor any demand by the lenders to repay any borrowings which are due and payable by the Savings Bank but which have not been paid. Any borrowings under the Credit Facility will mature on November 24, 2000; however, the final maturity of each tranche may be extended for three additional one-year periods. As of December 31, 1997 and 1996, the Company had no outstandings under the Credit Facility.

In August 1997, the Company entered into a three-year, $350,000 equivalent unsecured revolving credit arrangement (the "UK/Canada Facility"), which will be used to finance the Company's expansion in the United Kingdom and Canada. The UK/Canada Facility is comprised of two tranches: a Tranche A facility in the amount of £156,458 ($249,800 equivalent based on the exchange rate at closing) and a Tranche B facility in the amount of C$139,609 ($100,200 equivalent based on the exchange rate at closing). An amount of £34,574 or C$76,910 ($55,200 equivalent based on the exchange rates at closing) may be transferred between the Tranche A facility and the Tranche B facility, respectively, upon the request of the Company. Each tranche under the facility is structured as a three-year commitment and will be available for general corporate purposes. All borrowings under the UK/Canada Facility are based on varying terms of LIBOR. The Corporation serves as the guarantor of all borrowings under the UK/Canada Facility. As of December 31, 1997, the Company had no outstandings under the UK/Canada Facility.

In April 1997, the Bank increased the aggregate amount of bank notes available under its bank note program. Under the program, the Bank from time to time may issue up to $7,800,000 of senior bank notes with maturities from thirty days to thirty years and up to $200,000 of subordinated bank notes (none issued as of December 31, 1997 and 1996) with maturities from five to thirty years.

In October 1997, the Bank established a program for the issuance of debt instruments to be offered outside of the United States. Under this program, the Bank from time to time may issue instruments in the aggregate principal amount of $1,000,000 equivalent outstanding at any one time (none issued as of December 31, 1997). Instruments under this program may be denominated in any currency or currencies.

In September 1996, the Corporation filed a $200,000 shelf registration statement ($125,000 of senior debt securities issued as of December 31, 1997) with the Securities and Exchange Commission under which the Corporation from time to time may offer and sell (i) senior or subordinated debt securities, consisting of debentures, notes and/or other unsecured evidences, (ii) preferred stock, which may be issued in the form of depository shares evidenced by depository receipts and (iii) common stock. The securities will be limited to a $200,000 aggregate public offering price or its equivalent (based on the applicable exchange rate at the time of sale) in one or more foreign currencies, currency units or composite currencies as shall be designated by the Corporation.

In April 1996, the Bank established a deposit note program under which the Bank from time to time may issue up to $2,000,000 of deposit notes with maturities from thirty days to thirty years.

In January 1997, Capital One Capital I, a subsidiary of the Bank created as a Delaware statutory business trust, issued $100,000 aggregate amount of Floating Rate Junior Subordinated Capital Income Securities that mature on February 1, 2027. The securities represent a preferred beneficial interest in the assets of the trust. The net proceeds of the offering of $97,428 were lent to the Bank for general corporate purposes. As of December 31, 1997, the interest rate on these securities was 7.30%.

The Company has entered into swaps to effectively convert certain interest rates on bank notes from fixed to variable. The swaps, which had a notional amount totaling $450,000 as of December 31, 1997, will mature in 1998 and 2000 to coincide with maturities of fixed bank notes. In 1997, the Company entered into swaps with notional amounts totaling $450,000 to effectively offset the swaps described above with matching maturities and terms which pay fixed and receive variable rates. As of December 31, 1997, the variable rate payments on the original and offsetting swaps were matched and will continue to offset each other through maturity. As of December 31, 1997, the weighted average fixed rate payment received on the original swaps was 7.39%, and the weighted average fixed rate payment paid on the offsetting swaps was 6.50%.

As of December 31, 1996, swaps with a notional amount totaling $974,000, with maturity dates from 1997 through 2000, paid three-month LIBOR at a weighted average contractual rate of 5.59% and received a weighted average fixed rate of 7.71%. In 1995, the Bank entered into basis swaps (notional amounts totaling $260,000) to effectively convert bank notes, with a variable rate based on six-month LIBOR to a variable rate based on three-month LIBOR. These swaps and bank notes matured in 1996.

Interest-bearing deposits, senior notes and deposit notes as of December 31, 1997, mature as follows (all other borrowings mature in 1998):

	Interest-Bearing Deposits	Senior Notes	Deposit Notes	Total
1998	$1,129,742	$ 918,166	$299,996	$2,347,904
1999	95,901	789,978		885,879
2000	48,979	649,614		698,593
2001	4,898	523,114		528,012
2002	34,134	112,000		146,134
Thereafter		339,906		339,906
Total	$1,313,654	$3,332,778	$299,996	$4,946,428

Note E: Associate Benefit Plans

The Company sponsors a contributory Associate Savings Plan in which substantially all full-time and certain part-time associates are eligible to participate. The Company matches a portion of associate contributions and makes discretionary contributions based upon the Company meeting a certain earnings per share target. The Company's contributions to this plan were $10,264, $9,048 and $2,701 for the years ended December 31, 1997, 1996 and 1995, respectively. Effective January 1, 1996, the Company is required to make additional contributions for pay-based credits for eligible associates which were previously provided under the Cash Balance Pension Plan.

Through December 31, 1995, the Company provided its associate pension benefits through the Cash Balance Pension Plan and postretirement medical coverage and life insurance benefits through the Associate Welfare Benefits Plan. Effective December 31, 1995, the Company amended the Cash Balance Pension Plan so that no future pay-based credits will accrue. Future pay-based credits will accrue to the Associate Savings Plan discussed above. Neither the remaining obligations under the Cash Balance Pension Plan nor the obligations under the unfunded Associate Welfare Benefits Plan were material to the Company's financial statements.

Note F: Stock Plans

The Company has three stock-based compensation plans which are described below. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for its stock-based compensation plans. In accordance with APB 25, no compensation cost has been recognized for the Company's fixed stock options, since the exercise price equals the market price of the underlying stock on the measurement date of grant, nor for the stock purchase plan, which is considered to be noncompensatory.

For the performance-based option plans discussed below, compensation cost is measured as the difference between the exercise price and the target stock price required for vesting and is recognized over the estimated vesting period.

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

	For the Years Ended December 31		
Assumptions	1997	1996	1995
Dividend yield	.82%	.90%	.90%
Volatility factors of expected market price of stock	40%	32%	33%
Risk-free interest rate	6.27%	5.90%	6.30%
Expected option lives (in years)	4.5	6.0	4.0
Pro Forma Information			
Net income	$186,003	$151,853	$125,296
Basic earnings per share	$ 2.82	$ 2.29	$ 1.91
Diluted earnings per share	$ 2.74	$ 2.27	$ 1.89

Under the 1994 Stock Incentive Plan, the Company has reserved 7,370,880 common shares as of December 31, 1997 and 1996 (5,370,880 as of December 31, 1995) for issuance in the form of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock and incentive stock. The exercise price of each stock option issued to date equals the market price of the Company's stock on the date of grant. The option's maximum term is ten years. The number of shares available for future grants was 97,814; 1,508,352 and 2,061,640 as of December 31, 1997, 1996 and 1995, respectively. Other than the performance-based options discussed below, options generally vest annually over three to five years and expire beginning November 2004 and all options vest immediately upon a change in control. The restrictions on restricted stock (of which 23,215 shares were issued in 1995 at the then fair value of $16.75 per share) expire annually over three years.

In December 1997, the Company's Board of Directors approved a compensation program under which senior management was given the opportunity to forego future cash compensation in exchange for stock options. Under this program, the Company's Chairman and Chief Executive Officer and its President and Chief Operating Officer have agreed to forego all salary and any benefits under the Associate Stock Purchase Plan (the "Purchase Plan"), Associate Savings Plan, and the Company's unfunded excess savings plan benefits from 1998 through 2000 in exchange for a one-time option grant. The options granted to these top two executives are target stock price performance-based options to purchase a total of 685,755 shares. These options will vest if the fair market value of the common stock remains at or above $84.00 for at least ten trading days in any thirty consecutive calendar day period by the third anniversary of the grant date (December 18, 2000). In the event that these options do not meet this vesting criteria on or before December 18, 2000, the options will terminate. In addition, substantially all of the Company's top managers elected to forego a portion of their annual cash bonuses and Associate Savings Plan benefits for the next three years in exchange for options. Under this program, certain key managers received target stock price performance-based options to purchase 457,466 shares with the same vesting provisions as the grant to the Company's top two executives. In addition, other senior managers received fixed options to purchase 223,900 shares, which vest in full on the third anniversary of the date of grant. The above option grants provide for the purchase of common shares at the December 18, 1997 market price of $48.75 per share. All of these awards are subject to stockholder approval at the Company's next annual meeting of an increase in shares available for issuance under the 1994 Stock Incentive Plan in sufficient number to accommodate these awards.

In April 1996, stockholders approved an increase of 2,000,000 in shares available for issuance under the 1994 Stock Incentive Plan. With this approval, a September 15, 1995 grant to the Company's Chairman and Chief Executive Officer and its President and Chief Operating Officer became effective. This grant was for target stock price performance-based options to purchase 2,500,000 common shares at the September 15, 1995 market price of $29.19 per share. Vesting of the options was dependent on the fair market value of the common stock remaining at or above specified levels for at least ten trading days in any thirty consecutive calendar day period. Fifty percent of the options vested in January 1997 when the Company's stock reached $37.50 per share; 25% vested in October 1997 when the stock reached $43.75 per share; the remaining 25% vested in January 1998 when the stock reached $50.00 per share. The Company recognized $24,772 and $7,728 of compensation cost for these options for the years ended December 31, 1997 and 1996, respectively.

In April 1995, the Company adopted the 1995 Non-associate Directors Stock Incentive Plan. This plan authorizes a maximum of 500,000 shares of the Company's common stock for the automatic grant of restricted stock and stock options to eligible members of the Company's Board of Directors. As of December 31, 1997, 1996 and 1995, 382,500; 417,500 and 452,500 shares were available for grant under this plan, respectively. The options vest after one year and their maximum term is ten years. Restrictions on the restricted stock (of which 12,500 shares were issued in 1995 at the then fair value of $19.88 per share) expired in 1996. The exercise price of each option equals the market price of the Company's stock on the date of grant.

A summary of the status of the Company's options as of December 31, 1997, 1996 and 1995, and changes for the years then ended is presented below (excluding the December 1997 grants subject to stockholder approval):

	1997		1996		1995	
	Options (000s)	Weighted-Average Exercise Price Per Share	Options (000s)	Weighted-Average Exercise Price Per Share	Options (000s)	Weighted-Average Exercise Price Per Share
Outstanding at beginning of year	5,894	$23.92	3,315	$19.67	2,036	$16.00
Granted	1,590	40.88	2,694	29.04	1,361	25.08
Exercised	(215)	20.76	(12)	16.40	(6)	16.00
Canceled	(144)	30.16	(103)	21.82	(76)	18.25
Outstanding at end of year	7,125	$27.67	5,894	$23.92	3,315	$19.67
Exercisable at end of year	3,815	$24.43	1,196	$18.98	454	$16.00
Weighted-average fair value of options granted during the year		$16.03		$11.22		$ 8.19

The following table summarizes information about options outstanding as of December 31, 1997:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (000s)	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price Per Share	Number Exercisable (000s)	Weighted-Average Exercise Price Per Share
$16.00–$24.99	2,240	6.93 years	$16.52	1,406	$16.38
$25.00–$33.99	3,352	7.73	29.08	2,409	29.13
$34.00–$47.99	1,533	9.52	40.90		

Under the Company's Purchase Plan, associates of the Company are eligible to purchase common stock through monthly salary deductions of a maximum of 15% and a minimum of 1% of monthly base pay. The amounts deducted are applied to the purchase of unissued common or treasury stock of the Company at 85% of the current market price. An aggregate of 1,000,000 common shares have been authorized for issuance under the Purchase Plan, of which 682,427; 822,001 and 934,355 shares were available for issuance as of December 31, 1997, 1996 and 1995, respectively.

Pursuant to a Marketing and Management Services Agreement between Signet Bank (which has since been acquired by First Union Bank on November 30, 1997) and Fairbank Morris, Inc. ("FMI"), a corporation controlled by members of the Company's executive management, 464,400 shares of restricted stock, at the then fair value of $16.00 per share, were awarded to FMI for services rendered for the period from January 1, 1994 to December 31, 1995. In connection with this award, $3,715 in compensation cost was recognized in 1995. The restrictions on this stock expired on November 15, 1995, one year after the grant date.

On November 16, 1995, the Board of Directors of the Company declared a dividend distribution of one Right for each outstanding share of common stock. Each Right entitles a registered holder to purchase from the Company one one-hundredth of a share of the Company's authorized Cumulative Participating Junior Preferred Stock (the "Junior Preferred Shares") at a price of $150, subject to adjustment. The Company has reserved 1,000,000 shares of its authorized preferred stock for the Junior Preferred Shares. Because of the nature of the Junior Preferred Shares' dividend and liquidation rights, the value of the one one-hundredth interest in a Junior Preferred Share purchasable upon exercise of each Right should approximate the value of one share of common stock. Initially, the Rights are not exercisable and trade automatically with the common stock. However, the Rights generally become exercisable and separate certificates representing the Rights will be distributed, if any person or group acquires 15% or more of the Company's outstanding common stock or a tender offer or exchange offer is announced for the Company's common stock. The Rights expire on November 29, 2005, unless earlier redeemed by the Company at $0.01 per Right prior to the time any person or group acquires 15% of the outstanding common stock. Until the Rights become exercisable, the Rights have no dilutive effect on earnings per share.

In July 1997, the Company's Board of Directors voted to repurchase up to two million shares of the Company's common stock over the next two years in order to mitigate the dilutive impact of shares issuable under its benefit plans, including its Purchase Plan, dividend reinvestment and stock purchase plans and other incentive plans. During 1997, the Company repurchased 1,318,641 shares under this program. Certain treasury shares were reissued in connection with the Company's benefit plans.

Note G: Other Non-Interest Expense

	Year Ended December 31		
	1997	1996	1995
Professional services	$ 47,671	$ 43,968	$28,787
Collections	23,216	9,783	7,193
Fraud losses	16,749	26,773	27,721
Bankcard association assessments	16,074	15,045	13,116
Other	47,570	36,614	20,726
Total	$151,280	$132,183	$97,543

Note H: Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 1997 and 1996 were as follows:

	December 31	
	1997	1996
Deferred tax assets:		
Allowance for loan losses	$ 60,900	$41,475
Finance charge and fee income receivables	17,570	
Stock incentive plan	11,466	2,758
Unearned membership fees	5,600	310
State taxes, net of federal benefit	2,694	
Other	11,290	7,232
Total deferred tax assets	109,520	51,775
Deferred tax liabilities:		
Securitizations	26,822	
Service charge accrual	10,167	5,368
Deferred issuance and replacement costs	4,442	3,119
Depreciation	4,235	2,546
Other	456	542
Total deferred tax liabilities	46,122	11,575
Net deferred tax assets before unrealized gains on securities available for sale	63,398	40,200
Unrealized gains on securities available for sale	(1,602)	(1,121)
Net deferred tax assets	$ 61,796	$39,079

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

	Year Ended December 31		
	1997	1996	1995
Federal taxes	$138,877	$119,027	$63,162
State taxes	393	1,715	600
Deferred income taxes	(23,198)	(27,529)	7,458
Income taxes	$116,072	$ 93,213	$71,220

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

	Year Ended December 31		
	1997	1996	1995
Income tax at statutory federal tax rate	35.00%	35.00%	35.00%
Other, primarily state taxes	3.00	2.50	1.00
Income taxes	38.00%	37.50%	36.00%

Note I: Earnings Per Share

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

	Year Ended December 31		
(Shares in Thousands)	1997	1996	1995
Numerator:			
Net income	$189,381	$155,267	$126,511
Denominator:			
Denominator for basic earnings per share— Weighted-average shares	66,070	66,228	65,691
Effect of dilutive securities:			
Stock options	1,578	790	391
Restricted stock	3	8	310
Dilutive potential common shares	1,581	798	701
Denominator for diluted earnings per share— Adjusted weighted-average shares	67,651	67,026	66,392
Basic earnings per share	$ 2.87	$ 2.34	$ 1.93
Diluted earnings per share	$ 2.80	$ 2.32	$ 1.91

For additional disclosures regarding the outstanding stock options and restricted stock, see Note F.

Options to purchase 949,484; 20,725 and 829,855 shares of common stock during 1997, 1996 and 1995, respectively, at prices ranging from $23.38 to $47.94 per share, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, their inclusion would be antidilutive.

Note J: Regulatory Matters

The Bank and the Savings Bank are subject to capital adequacy guidelines adopted by the Federal Reserve Board (the "Federal Reserve") and the Office of Thrift Supervision (the "OTS") (collectively, the "regulators"), respectively. The capital adequacy guidelines and the regulatory framework for prompt corrective action require the Bank and the Savings Bank to maintain specific capital levels based upon quantitative measures of their assets, liabilities and off-balance sheet items as calculated under Regulatory Accounting Principles. The inability to meet and maintain minimum capital adequacy levels could result in regulators taking actions that could have a material effect on the Company's consolidated financial statements. Additionally, the regulators have broad discretion in applying higher capital requirements. Regulators consider a range of factors in determining capital adequacy, such as an institution's size, quality and stability of earnings, interest rate risk exposure, risk diversification, management expertise, asset quality, liquidity and internal controls.

As of December 31, 1997 and 1996, notifications from the regulators categorized the Bank and the Savings Bank as "well-capitalized." To be categorized as "well-capitalized," the Bank and the Savings Bank must maintain minimum capital ratios as set forth in the table below. As of December 31, 1997, there were no conditions or events since the notifications discussed above that management believes would have changed either the Bank or the Savings Bank's capital category.

	Ratios	Minimum for Capital Adequacy Purposes	To Be "Well-Capitalized" Under Prompt Corrective Action Provisions
December 31, 1997			
Capital One Bank			
Tier 1 Capital	10.49%	4.00%	6.00%
Total Capital	13.26	8.00	10.00
Tier 1 Leverage	10.75	4.00	5.00
Capital One, F.S.B.[(1)]			
Tangible Capital	11.26%	1.50%	6.00%
Total Capital	17.91	12.00	10.00
Core Capital	11.26	8.00	5.00
December 31, 1996			
Capital One Bank			
Tier 1 Capital	11.61%	4.00%	6.00%
Total Capital	12.87	8.00	10.00
Tier 1 Leverage	9.04	4.00	5.00
Capital One, F.S.B.[(1)]			
Tangible Capital	9.18%	1.50%	6.00%
Total Capital	16.29	12.00	10.00
Core Capital	9.18	8.00	5.00

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

During 1996, the Bank received regulatory approval and established a branch office in the United Kingdom. In connection with such approval, the Company committed to the Federal Reserve that, for so long as the Bank maintains such branch in the United Kingdom, the Company will maintain a minimum Tier 1 Leverage ratio of 3.0%. As of December 31, 1997 and 1996, the Company's Tier 1 Leverage ratio was 13.83% and 11.13%, respectively.

Additionally, certain regulatory restrictions exist which limit the ability of the Bank and the Savings Bank to transfer funds to the Corporation. As of December 31, 1997, retained earnings of the Bank and the Savings Bank of $99,600 and $24,800, respectively, were available for payment of dividends to the Corporation without prior approval by the regulators. The Savings Bank, however, is required to give the OTS at least thirty days' advance notice of any proposed dividend and the OTS, in its discretion, may object to such dividend.

Note K: Commitments and Contingencies

As of December 31, 1997, the Company had outstanding lines of credit of approximately $33,800,000 committed to its customers. Of that total commitment, approximately $19,600,000 was unused. While this amount represented the total available lines of credit to customers, the Company has not experienced and does not anticipate that all of its customers will exercise their entire available line at any given point in time. The Company has the right to increase, reduce, cancel, alter or amend the terms of these available lines of credit at any time.

Certain premises and equipment are leased under agreements that expire at various dates through 2006, without taking into consideration available renewal options. Many of these leases provide for payment by the lessee of property taxes, insurance premiums, cost of maintenance and other costs. In some cases, rentals are subject to increase in relation to a cost of living index. Total rental expense amounted to $13,644, $12,603 and $5,394 for the years ended December 31, 1997, 1996 and 1995, respectively.

Future minimum rental commitments as of December 31, 1997 for all non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

1998	$15,362
1999	13,881
2000	12,720
2001	8,388
2002	3,298
Thereafter	4,798
Total	$58,447

In connection with the transfer of substantially all of Signet Bank's credit card business to the Bank in November 1994, the Company and the Bank agreed to indemnify Signet Bank for certain liabilities incurred in litigation arising from that business, which may include liabilities, if any, incurred in the purported class action case described below.

During 1995, the Company and the Bank became involved in a purported class action suit relating to certain collection practices engaged in by Signet Bank and, subsequently, by the Bank. The complaint in this case alleges that Signet Bank and/or the Bank violated a variety of California state statutes and constitutional and common law duties by filing collection lawsuits, obtaining judgements and pursuing garnishment proceedings in the Virginia state courts against defaulted credit card customers who were not residents of Virginia. This case was filed in the Superior Court of California in the County of Alameda, Southern Division, on behalf of a class of California residents. The complaint in this case seeks unspecified statutory damages, compensatory damages, punitive damages, restitution, attorneys' fees and costs, a permanent injunction and other equitable relief.

In February 1997, the California court entered judgment in favor of the Bank on all of the plaintiffs' claims. The plaintiffs have appealed the ruling to the California Court of Appeal First Appellate District Division 4, and the appeal is pending.

Because no specific measure of damages is demanded in the complaint of the California case and the trial court entered judgement in favor of the Bank before the parties completed any significant discovery, an informed assessment of the ultimate outcome of this case cannot be made at this time. Management believes, however, that there are meritorious defenses to this lawsuit and intends to defend it vigorously.

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

Note L: Related Party Transactions

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

Note M: Securitizations

The Company securitized $2,114,695, $2,695,000 and $3,525,000 of consumer loan receivables in 1997, 1996 and 1995, respectively. As of December 31, 1997, receivables under securitizations outstanding consisted of $1,257,869 of retained ("seller's") interests and $9,369,328 of investors' undivided interests, maturing from 1998 to 2004. The gains on securitizations and other income from securitizations are included in servicing and securitizations income.

The Company has entered into swaps to reduce the interest rate sensitivity associated with these securitizations. The swaps, which had a notional amount totaling $591,000 as of December 31, 1997, will mature in 1998 and 1999 to coincide with the final payment of a 1995 securitization. In 1997, the Company entered into swaps with notional amounts totaling $591,000 to effectively offset the swaps described above with matching maturities and terms which pay fixed and receive variable rates. As of December 31, 1997, the variable rate payments on the original and offsetting swaps were matched and will continue to offset each other through maturity. As of December 31, 1997, the weighted average fixed rate payment received on the original swaps was 7.68%, and the weighted average fixed rate payment paid on the offsetting swaps was 6.52%.

As of December 31, 1996, swaps with a notional amount totaling $1,130,000, with maturity dates from 1997 through 1999, paid three-month LIBOR at a weighted average contractual rate of 5.55% and received a weighted average fixed rate of 7.23%.

The terms of securitizations require the Company to maintain a certain level of assets, retained by the trust, to absorb potential credit losses. The amount available to absorb potential credit losses was included in accounts receivable from securitization and was $231,809 and $266,813 as of December 31, 1997 and 1996, respectively.

Note N: Significant Concentration of Credit Risk

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

	Year Ended December 31			
	1997		1996	
Geographic Region:	Loans	%	Loans	%
South	$ 5,061,414	35.57%	$ 4,615,596	36.05%
West	3,361,556	23.62	3,277,717	25.60
Northeast	2,835,256	19.92	2,465,237	19.25
Midwest	2,533,469	17.80	2,386,918	18.64
Other	439,320	3.09	58,501	.46
	14,231,015	100.00%	12,803,969	100.00%
Less securitized balances	(9,369,328)		(8,460,067)	
Total loans	$ 4,861,687		$ 4,343,902	

Note O: Disclosures About Fair Value of Financial Instruments

The following discloses the fair value of financial instruments as of December 31, 1997 and 1996, whether or not recognized in the balance sheets, for which it is practical to estimate fair value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. As required under GAAP, these disclosures exclude certain financial instruments and all nonfinancial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating the fair value as of December 31, 1997 and 1996, for its financial instruments:

Cash and Cash Equivalents

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

Securities Available for Sale

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

Consumer Loans

The net carrying amount of consumer loans, including the Company's seller's interest in securitized consumer loan receivables, approximated fair value due to the relatively short average life and variable interest rates on a substantial number of these loans. This amount excluded any value related to account relationships.

Interest Receivable

The carrying amount approximated fair value.

Borrowings

The carrying amounts of interest-bearing deposits, other borrowings and deposit notes approximated fair value. The fair value of senior notes was $3,351,000 and $3,722,000 as of December 31, 1997 and 1996, respectively, determined based on quoted market prices.

Interest Payable

The carrying amount approximated fair value.

Swaps

The fair value was the estimated amount that the Company would have received to terminate the swaps at the respective dates, taking into account the forward yield curve. As of December 31, 1997 and 1996, the estimated fair value was $5,800 and $32,700, respectively.

Note P: Capital One Financial Corporation (Parent Company Only) Condensed Financial Information

Balance Sheets	December 31 1997	1996
Assets:		
Cash and cash equivalents	$ 203	$ 16,073
Investment in subsidiaries	818,518	748,365
Loans to subsidiaries	207,507 (1)	105,000
Other	5,001	2,333
Total assets	$1,031,229	$871,771
Liabilities:		
Senior notes	$ 125,000	$125,000
Other	12,970	6,380
Total liabilities	137,970	131,380
Stockholders' Equity:	893,259	740,391
Total liabilities and stockholders' equity	$1,031,229	$871,771

(1) As of December 31, 1997, includes $143,500 of cash invested at the Bank instead of the open market.

Statements of Income	Year Ended December 31 1997	1996	1995
Interest from temporary investments	$ 11,352	$ 2,296	$ 560
Interest expense	11,067	3,013	
Dividends, principally from bank subsidiaries	228,000	117,400	11,000
Non-interest income	56		
Non-interest expense	409	571	456
Income before income taxes and equity in undistributed earnings of subsidiaries	227,932	116,112	11,104
Income taxes	(25)	(490)	37
	227,957	116,602	11,067
Equity in undistributed earnings of subsidiaries	(38,576)	38,665	115,444
Net income	$189,381	$155,267	$126,511

Statements of Cash Flows	Year Ended December 31 1997	1996	1995
Operating Activities:			
Net income	$ 189,381	$ 155,267	$ 126,511
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	38,576	(38,665)	(115,444)
Amortization of deferred compensation		62	4,020
(Increase) decrease in other assets	(2,183)	2,017	(3,161)
Increase (decrease) in other liabilities	6,590	6,380	(1,054)
Net cash provided by operating activities	232,364	125,061	10,872
Investing Activities:			
Increase in investment in subsidiaries	(83,366)	(119,502)	(2,470)
Increase in loans to subsidiaries	(102,507)	(105,000)	
Net cash used for investing activities	(185,873)	(224,502)	(2,470)
Financing Activities:			
Proceeds from issuances of common stock	4,957	3,109	1,257
Proceeds from exercise of stock options	4,082	186	132
Issuance of senior notes		125,000	
Purchases of treasury stock	(50,762)		
Dividends paid	(20,638)	(20,573)	(15,883)
Net cash (used for) provided by financing activities	(62,361)	107,722	(14,494)
(Decrease) increase in cash and cash equivalents	(15,870)	8,281	(6,092)
Cash and cash equivalents at beginning of year	16,073	7,792	13,884
Cash and cash equivalents at end of year	$ 203	$ 16,073	$ 7,792

Corporate Information

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Annual Meeting

Thursday, April 23, 1998, 10:00 a.m. E.S.T.
Fairview Park Marriott Hotel
3111 Fairview Park Drive
Falls Church, VA 22042

Principal Financial Contact

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

Common Stock

Listed on New York Stock Exchange
Stock Symbol COF

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Independent Auditors

Ernst & Young LLP

Directors and Officers

Capital One Financial Corporation Board of Directors

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

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

W. Ronald Dietz*
Chief Executive Officer
Technical Assistance Research Program

James A. Flick, Jr.*
President and Chief Executive Officer
Dome Corporation

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

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

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

*Audit Committee
**Compensation Committee

Capital One Financial Corporation Executive Officers

Richard D. Fairbank
Chairman and Chief Executive Officer

Nigel W. Morris
President and Chief Operating Officer

Marjorie M. Connelly
Sr. Vice President, Credit Card Operations

Matthew J. Cooper
Sr. Vice President

James P. Donehey
Sr. Vice President and Chief Information Officer

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

Dennis H. Liberson
Sr. Vice President and Director of Human Resources

David M. Willey
Sr. Vice President, Treasurer and Assistant Secretary

James M. Zinn
Sr. Vice President and Chief Financial Officer

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