

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the quarterly period ended June 30, 2006.
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED).**
For the transition period from _____ to _____

Commission File No. **1-13300**

CAPITAL ONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	54-1719854
<small>(State or Other Jurisdiction of Incorporation or Organization)</small>	<small>(I.R.S. Employer Identification No.)</small>
1680 Capital One Drive McLean, Virginia	22102
<small>(Address of Principal Executive Offices)</small>	<small>(Zip Code)</small>

(703) 720-1000

Registrant's telephone number, including area code:

(Not applicable)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b of the Exchange Act. (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.) **Yes** **No**

As of August 1, 2006 there were 306,124,715 shares of the registrant's Common Stock, par value \$.01 per share, outstanding.

CAPITAL ONE FINANCIAL CORPORATION
FORM 10-Q
INDEX
June 30, 2006

	<u>Page</u>
PART 1. FINANCIAL INFORMATION	3
Item 1 Financial Statements (unaudited):	3
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Income	4
Condensed Consolidated Statements of Changes in Stockholders' Equity	5
Condensed Consolidated Statements of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3 Quantitative and Qualitative Disclosure of Market Risk	58
Item 4 Controls and Procedures	58
PART 2. OTHER INFORMATION	59
Item 1 Legal Proceedings	59
Item 1A Risk Factors	59
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	70
Item 5 Other Information	70
Item 6 Exhibits	71
Signatures	74

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

	June 30 2006	December 31 2005
Assets:		
Cash and due from banks	\$ 1,388,384	\$ 2,022,175
Federal funds sold and resale agreements	339,613	1,305,537
Interest-bearing deposits at other banks	870,049	743,555
Cash and cash equivalents	2,598,046	4,071,267
Securities available for sale	15,292,446	14,350,249
Loans	60,602,803	59,847,681
Less: Allowance for loan losses	(1,765,000)	(1,790,000)
Net loans	58,837,803	58,057,681
Accounts receivable from securitizations	4,818,512	4,904,547
Premises and equipment, net	1,467,922	1,191,406
Interest receivable	526,267	563,542
Goodwill	3,933,621	3,906,399
Other	2,055,569	1,656,320
Total assets	<u>\$89,530,186</u>	<u>\$88,701,411</u>
Liabilities:		
Non-interest bearing deposits	\$ 4,487,837	\$ 4,841,171
Interest-bearing deposits	42,698,976	43,092,096
Total deposits	47,186,813	47,933,267
Senior and subordinated notes	5,490,690	6,743,979
Other borrowings	16,836,398	15,534,161
Interest payable	349,091	371,681
Other	3,770,131	3,989,409
Total liabilities	<u>73,633,123</u>	<u>74,572,497</u>
Stockholders' Equity:		
Preferred stock, par value \$.01 per share; authorized 50,000,000 shares, none issued or outstanding	—	—
Common stock, par value \$.01 per share; authorized 1,000,000,000 shares, 306,007,266 and 302,786,444 issued as of June 30, 2006 and December 31, 2005, respectively	3,060	3,028
Paid-in capital, net	7,151,376	6,848,544
Retained earnings	8,797,836	7,378,015
Cumulative other comprehensive income	60,127	6,129
Less: Treasury stock, at cost; 2,128,480 and 2,025,160 shares as of June 30, 2006 and December 31, 2005, respectively	(115,336)	(106,802)
Total stockholders' equity	<u>15,897,063</u>	<u>14,128,914</u>
Total liabilities and stockholders' equity	<u>\$89,530,186</u>	<u>\$88,701,411</u>

See Notes to Condensed Consolidated Financial Statements.

[Table of Contents](#)

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

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Interest Income:				
Loans, including past-due fees	\$ 1,616,937	\$ 1,190,098	\$ 3,229,559	\$ 2,374,134
Securities available for sale	167,804	91,245	332,904	181,409
Other	112,416	70,557	213,276	132,625
Total interest income	<u>1,897,157</u>	<u>1,351,900</u>	<u>3,775,739</u>	<u>2,688,168</u>
Interest Expense:				
Deposits	416,232	279,438	819,841	543,463
Senior and subordinated notes	84,707	104,593	179,061	219,073
Other borrowings	199,136	95,366	372,878	192,608
Total interest expense	<u>700,075</u>	<u>479,397</u>	<u>1,371,780</u>	<u>955,144</u>
Net interest income	1,197,082	872,503	2,403,959	1,733,024
Provision for loan losses	362,445	291,600	532,715	551,231
Net interest income after provision for loan losses	<u>834,637</u>	<u>580,903</u>	<u>1,871,244</u>	<u>1,181,793</u>
Non-Interest Income:				
Servicing and securitizations	1,025,506	996,043	2,179,110	1,929,980
Service charges and other customer-related fees	413,398	360,410	849,129	761,596
Interchange	131,538	132,068	251,029	255,508
Other	139,471	93,475	288,896	150,891
Total non-interest income	<u>1,709,913</u>	<u>1,581,996</u>	<u>3,568,164</u>	<u>3,097,975</u>
Non-Interest Expense:				
Salaries and associate benefits	536,465	442,101	1,052,609	875,602
Marketing	356,695	277,034	680,466	588,793
Communications and data processing	172,734	138,916	341,938	281,735
Supplies and equipment	113,028	83,661	211,212	170,107
Occupancy	52,753	40,209	102,130	58,110
Other	449,222	353,696	866,021	689,102
Total non-interest expense	<u>1,680,897</u>	<u>1,335,617</u>	<u>3,254,376</u>	<u>2,663,449</u>
Income before income taxes	863,653	827,282	2,185,032	1,616,319
Income taxes	311,066	296,164	749,106	578,639
Net income	<u>\$ 552,587</u>	<u>\$ 531,118</u>	<u>\$ 1,435,926</u>	<u>\$ 1,037,680</u>
Basic earnings per share	<u>\$ 1.84</u>	<u>\$ 2.10</u>	<u>\$ 4.79</u>	<u>\$ 4.18</u>
Diluted earnings per share	<u>\$ 1.78</u>	<u>\$ 2.03</u>	<u>\$ 4.64</u>	<u>\$ 4.02</u>
Dividends paid per share	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.05</u>	<u>\$ 0.05</u>

See Notes to Condensed Consolidated Financial Statements.

[Table of Contents](#)

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

	Common Stock		Paid-In Capital, Net	Retained Earnings	Cumulative Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance, December 31, 2004	248,354,259	\$2,484	\$2,711,327	\$5,596,372	\$ 144,759	\$ (66,753)	\$ 8,388,189
Comprehensive income:							
Net income	—	—	—	1,037,680	—	—	1,037,680
Other comprehensive loss, net of income tax benefit:							
Unrealized losses on securities, net of income tax benefit of \$4,858	—	—	—	—	(7,935)	—	(7,935)
Foreign currency translation adjustments	—	—	—	—	(66,430)	—	(66,430)
Unrealized gains on cash flow hedging instruments, net of income taxes of \$4,010	—	—	—	—	4,630	—	4,630
Other comprehensive loss	—	—	—	—	(69,735)	—	(69,735)
Comprehensive income							967,945
Cash dividends—\$0.05 per share	—	—	—	(13,323)	—	—	(13,323)
Purchases of treasury stock	—	—	—	—	—	(2,943)	(2,943)
Issuances of common and restricted stock, net of forfeitures	11,309,024	113	759,903	—	—	—	760,016
Exercise of stock options, and related tax benefits	5,375,876	53	238,834	—	—	—	238,887
Compensation expense for equity instruments	—	—	73,010	—	—	—	73,010
Balance, June 30, 2005	265,039,159	\$2,650	\$3,783,074	\$6,620,729	\$ 75,024	\$ (69,696)	\$10,411,781
Balance, December 31, 2005	302,786,444	\$3,028	\$6,848,544	\$7,378,015	\$ 6,129	\$(106,802)	\$14,128,914
Comprehensive income:							
Net income	—	—	—	1,435,926	—	—	1,435,926
Other comprehensive income, net of income tax:							
Unrealized losses on securities, net of income tax benefit of \$59,673	—	—	—	—	(103,968)	—	(103,968)
Foreign currency translation adjustments	—	—	—	—	131,661	—	131,661
Unrealized gains on cash flow hedging instruments, net of income taxes of \$15,788	—	—	—	—	26,305	—	26,305
Other comprehensive income	—	—	—	—	53,998	—	53,998
Comprehensive income							1,489,924
Cash dividends—\$0.05 per share	—	—	—	(16,105)	—	—	(16,105)
Purchase of treasury stock	—	—	—	—	—	(8,534)	(8,534)
Issuances of common and restricted stock, net of forfeitures	639,993	6	16,425	—	—	—	16,431
Exercise of stock options and related tax benefits	2,580,829	26	199,780	—	—	—	199,806
Compensation expense for equity instruments	—	—	86,627	—	—	—	86,627
Balance, June 30, 2006	306,007,266	\$3,060	\$7,151,376	\$8,797,836	\$ 60,127	\$(115,336)	\$15,897,063

See Notes to Condensed Consolidated Financial Statements.

[Table of Contents](#)**CAPITAL ONE FINANCIAL CORPORATION**
Condensed Consolidated Statements of Cash Flows
(Dollars in thousands) (unaudited)

	Six Months Ended June 30,	
	2006	2005
Operating Activities:		
Net Income	\$ 1,435,926	\$ 1,037,680
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	532,715	551,231
Depreciation and amortization, net	254,220	196,516
Reparation of impairment of long-lived assets	—	(14,938)
Losses on sales of securities available for sale	25,596	5,403
Gains on sales of auto loans	(22,875)	(6,618)
Losses on repurchase of senior notes	—	12,444
Stock plan compensation expense	102,707	73,010
Changes in assets and liabilities, net of effects from purchase of companies acquired:		
Decrease (increase) in interest receivable	37,275	(21,690)
Decrease (increase) in accounts receivable from securitizations	89,502	(449,751)
Increase in other assets	(186,162)	(82,558)
(Decrease) increase in interest payable	(20,484)	12,906
(Decrease) increase in other liabilities	(242,546)	129,986
Net cash provided by operating activities	<u>2,005,874</u>	<u>1,443,621</u>
Investing Activities:		
Purchases of securities available for sale	(4,462,735)	(1,410,129)
Proceeds from maturities of securities available for sale	1,797,173	574,659
Proceeds from sales of securities available for sale	1,523,455	578,065
Proceeds from sale of automobile loans	—	257,230
Proceeds from securitization of consumer loans	6,903,738	4,008,213
Net increase in consumer loans	(8,521,384)	(5,013,440)
Principal recoveries of loans previously charged off	274,929	229,161
Additions of premises and equipment, net	(398,864)	(31,403)
Net payments for companies acquired	(22,923)	(470,694)
Net cash used in investing activities	<u>(2,906,611)</u>	<u>(1,278,338)</u>
Financing Activities:		
Net (decrease) increase in deposits	(754,316)	914,896
Net increase (decrease) in other borrowings	1,304,288	(501,391)
Issuances of senior notes	—	1,262,035
Maturities of senior notes	(1,224,731)	(876,567)
Repurchases of senior notes	(31,296)	(648,840)
Purchases of treasury stock	(8,534)	(2,943)
Dividends paid	(16,105)	(13,323)
Net proceeds from issuances of common stock	16,431	760,016
Proceeds from exercise of stock options	141,779	115,711
Net cash (used in) provided by financing activities	<u>(572,484)</u>	<u>1,009,594</u>
(Decrease) increase in cash and cash equivalents	<u>(1,473,221)</u>	<u>1,174,877</u>
Cash and cash equivalents at beginning of period	4,071,267	1,411,211
Cash and cash equivalents at end of period	<u>\$ 2,598,046</u>	<u>\$ 2,586,088</u>

See Notes to Condensed Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION

Notes to Condensed Consolidated Financial Statements

(in thousands, except per share data) (unaudited)

Note 1

Significant Accounting Policies

Business

The condensed consolidated financial statements include the accounts of Capital One Financial Corporation (the “Corporation”) and its subsidiaries. The Corporation is a diversified financial services company whose subsidiaries market a variety of financial products and services to consumers. The principal subsidiaries are Capital One Bank (the “Bank”), which offers credit card products and deposit products, Capital One, F.S.B. (the “Savings Bank”), which offers consumer and commercial lending and consumer deposit products, Capital One Auto Finance, Inc. (“COAF”), which offers automobile and other motor vehicle financing products and Capital One, National Association (the “National Bank”) which offers a broad spectrum of financial products and services to consumers, small businesses and commercial clients. Capital One Services, Inc. (“COSI”), another subsidiary of the Corporation, provides various operating, administrative and other services to the Corporation and its subsidiaries. The Corporation and its subsidiaries are collectively referred to as the “Company.”

Basis of Presentation

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

Operating results for the six months ended June 30, 2006 are not necessarily indicative of the results for the year ending December 31, 2006.

The notes to the consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2005 should be read in conjunction with these condensed consolidated financial statements.

All significant intercompany balances and transactions have been eliminated.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109*, (“FIN 48”). FIN 48 clarifies the accounting treatment for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Management is currently assessing the impact of FIN 48 on the financial position and results of operations of the Company.

In March 2006, the FASB issued Statement of Financial Accounting Standard No. 156, *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140*, (“SFAS 156”). SFAS 156 amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, (“SFAS 140”), with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations prescribed by SFAS 156. All separately recognized servicing assets and servicing liabilities are to be initially measured at fair value, if practicable, and SFAS 156 permits an entity to choose either the amortization method or fair value measurement method for subsequent measurement methods for each class of separately recognized servicing assets and servicing liabilities. SFAS 156 is effective as of the beginning of an entity’s first fiscal year that begins after September 15, 2006. The requirements for recognition and initial measurement of servicing assets and servicing liabilities should be applied prospectively to all transactions after the effective date of this statement. The adoption of SFAS 156 is not expected to have a material impact on the consolidated earnings or financial position of the Company.

In February 2006, the FASB issued Statement of Financial Accounting Standard No. 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140*, (“SFAS 155”). SFAS 155 amends FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, (“SFAS 133”) and SFAS 140. SFAS 155 resolves issues addressed in SFAS 133 Implementation Issue No. D1, “Application of Statement 133 to Beneficial Interests in Securitized Financial Assets.” SFAS 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. The adoption of SFAS 155 is not expected to have a material impact on the consolidated earnings or financial position of the Company.

In December 2004, the FASB issued Statement of Financial Accounting Standard No. 123 (revised 2004), *Share-Based Payment*, (“SFAS 123(R)”) which requires compensation cost related to share-based payment transactions to be recognized in the financial statements, and that the cost be measured based on the fair value of the equity or liability instruments issued. At June 30, 2006, the Company has two active stock-based compensation plans: one employee plan and one non-employee director plan, which are described more fully in Note 6. Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R) using the modified-prospective-transition method. Under

[Table of Contents](#)

that transition method, compensation cost recognized during the six months ended June 30, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair valued estimated in accordance with the provisions of SFAS 123(R). The Company voluntarily adopted the expense recognition provisions of Statement of Financial Accounting Standard No. 123, *Accounting for Stock Based Compensation* (“SFAS 123”), prospectively to all awards granted, modified, or settled after January 1, 2003. Prior to January 1, 2003, the Company applied Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related Interpretations in accounting for its stock based compensation plans. Results for prior periods have not been restated. The adoption of SFAS 123(R) did not have a material impact on the consolidated earnings or financial position of the Company.

Note 2

Business Combinations

Hibernia Corporation

On November 16, 2005, the Company acquired 100% of the outstanding common stock of Hibernia Corporation (“Hibernia”), a financial holding company with operations in Louisiana and Texas. Hibernia offers a variety of banking products and services, including consumer, commercial and small business loans and demand and term deposit accounts.

The acquisition was accounted for under the purchase method of accounting, and, as such, the assets and liabilities of Hibernia were recorded at their respective fair values as of November 16, 2005. The results of Hibernia’s operations were included in the Company’s Consolidated Statement of Income commencing November 16, 2005.

The total consideration of approximately \$5.0 billion, which includes the value of outstanding stock options, was settled through the issuance of 32.9 million shares of the Company’s common stock and payment of \$2.2 billion in cash. Under the terms of the transaction, each share of Hibernia common stock was exchanged for \$30.46 in cash or 0.3792 shares of the Company’s common stock or a combination of common stock and cash based on the aforementioned conversion rates, based on the average of the closing prices on the NYSE of the Company’s common stock during the five trading days ending the day before the completion of the acquisition, which was \$80.32. The allocation of the final purchase price is still subject to refinement as the integration process continues and additional information becomes available.

Costs to acquire Hibernia:

Capital One common stock issued	\$2,606,375
Cash consideration paid	2,231,039
Fair value of employee stock options	104,577
Investment banking, legal, and consulting fees	29,596
Total consideration paid for Hibernia	\$4,971,587

[Table of Contents](#)

The following unaudited pro forma condensed statements of income assume that the Company and Hibernia were combined at the beginning of the period presented.

	Three Months Ended June 30 2005	Six Months Ended June 30 2005
Net interest income	\$ 1,058,322	\$ 2,103,296
Non-interest income	1,693,745	3,323,260
Provision for loan losses	305,600	580,931
Non-interest expense	1,527,680	3,038,116
Income taxes	328,993	646,278
Minority interest, net of income taxes	33	(215)
Net income ⁽¹⁾	<u>\$ 589,761</u>	<u>\$ 1,161,446</u>
Basic earnings per share ⁽²⁾	\$ 2.07	\$ 4.13
Diluted earnings per share ⁽²⁾	<u>\$ 2.00</u>	<u>\$ 3.97</u>

- (1) Pro forma adjustments to net income include the following adjustments: accretion for loan fair value discount, reduction of interest income for amounts used to fund the acquisition, amortization for interest-bearing deposits fair value premium, accretion for subordinated notes fair value premium, addition of interest expense for other borrowings used to fund the acquisition, and related amortization for intangibles acquired, net of Hibernia's historical intangible amortization expense.
- (2) Pro forma adjustments to basic and diluted earnings per share include the following adjustments to the share calculation: incremental common shares issued and dilutive impact of stock options granted in connection with the Hibernia acquisition.

Note 3

Segments

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

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

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

[Table of Contents](#)

For the Three Months Ended June 30, 2006

	U.S. Card	Auto Finance	Global Financial Services	Banking	Other	Total Managed	Securitization Adjustments (1)	Total Reported
Net interest income	\$ 1,120,422	\$ 356,237	\$ 445,452	\$ 249,228	\$ (30,510)	\$ 2,140,829	\$ (943,747)	\$ 1,197,082
Non-interest income	803,083	13,839	297,080	114,039	(28,709)	1,199,332	510,581	1,709,913
Provision for loan losses	413,701	74,714	296,614	6,632	3,950	795,611	(433,166)	362,445
Non-interest expenses	860,874	149,115	365,149	289,996	15,763	1,680,897	—	1,680,897
Income tax provision (benefit)	227,125	51,186	29,614	23,324	(20,183)	311,066	—	311,066
Net income (loss)	\$ 421,805	\$ 95,061	\$ 51,155	\$ 43,315	\$ (58,749)	\$ 552,587	\$ —	\$ 552,587
Loans receivable	\$48,736,483	\$20,558,455	\$25,935,716	\$ 13,189,112	\$ 13,673	\$108,433,439	\$ (47,830,636)	\$60,602,803

For the Three Months Ended June 30, 2005

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

(1) Income statement adjustments for the three months ended June 30, 2006 reclassify the net of finance charges of \$1,341.8 million, past due fees of \$237.1, other interest income of \$(61.6) million and interest expense of \$573.5 million; and net charge-offs of \$433.2 million to Non-interest income from Net interest income and Provision for loan losses, respectively.

Income statement adjustments for the three months ended June 30, 2005 reclassify the net of finance charges of \$1,224.1 million, past due fees of \$238.1, other interest income of \$(48.0) million and interest expense of \$456.4 million; and net charge-offs of \$520.6 million to Non-interest income from Net interest income and Provision for loan losses, respectively.

[Table of Contents](#)

For the Six Months Ended June 30, 2006

	U.S. Card	Auto Finance	Global Financial Services	Banking	Other	Total Managed	Securitization Adjustments (2)	Total Reported
Net interest income	\$ 2,341,523	\$ 705,067	\$ 883,701	\$ 494,152	\$ (48,644)	\$ 4,375,799	\$ (1,971,840)	\$ 2,403,959
Non-interest income	1,578,496	14,230	580,432	218,524	29,844	2,421,526	1,146,638	3,568,164
Provision for loan losses	638,139	182,519	513,979	16,453	6,827	1,357,917	(825,202)	532,715
Non-interest expenses	1,705,603	283,770	695,321	562,983	6,699	3,254,376	—	3,254,376
Income tax provision (benefit)	551,698	88,552	90,134	46,634	(27,912)	749,106	—	749,106
Net income (loss)	\$ 1,024,579	\$ 164,456	\$ 164,699	\$ 86,606	\$ (4,414)	\$ 1,435,926	\$ —	\$ 1,435,926
Loans receivable	\$48,736,483	\$20,558,455	\$25,935,716	\$ 13,189,112	\$ 13,673	\$108,433,439	\$ (47,830,636)	\$60,602,803

For the Six Months Ended June 30, 2005

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

(2) Income statement adjustments for the six months ended June 30, 2006 reclassify the net of finance charges of \$2,705.3 million, past due fees of \$493.5, other interest income of \$(123.3) million and interest expense of \$1,103.7 million; and net charge-offs of \$825.2 million to Non-interest income from Net interest income and Provision for loan losses, respectively.

Income statement adjustments for the six months ended June 30, 2005 reclassify the net of finance charges of \$2,417.7 million, past due fees of \$492.3, other interest income of \$(92.5) million and interest expense of \$901.5 million; and net charge-offs of \$1,034.2 million to Non-interest income from Net interest income and Provision for loan losses, respectively.

During the three months ended June 30, 2006, the Company did not sell any auto loans. During the three months ended June 30, 2005, the Company sold \$257.7 million of auto loans. These transactions resulted in pre-tax gains allocated to the Auto Finance segment, inclusive of allocations related to funds transfer pricing of \$4.5 million for the three months ended June 30, 2005. In addition, the Company recognized an additional \$17.1 million and \$2.5 million in gains for higher back end performance bonuses related to prior period auto loan sales for the three month periods ended June 30, 2006 and June 30, 2005, respectively.

[Table of Contents](#)

During the six months ended June 30, 2006, the Company did not sell any auto loans. During the six months ended June 30, 2005, the Company sold \$257.7 million of auto loans. These transactions resulted in pre-tax gains allocated to the Auto Finance segment, inclusive of allocations related to funds transfer pricing of \$4.5 million for the six months ended June 30, 2005. In addition, the Company recognized an additional \$22.9 million and \$5.0 million in gains for higher back end performance bonuses related to prior period auto loan sales for the six month period ended June 30, 2006 and June 30, 2005, respectively.

Note 4:

Comprehensive Income

Comprehensive income for the three months ended June 30, 2006 and 2005, respectively was as follows:

	Three Months Ended June 30	
	2006	2005
Comprehensive Income:		
Net income	\$552,587	\$531,118
Other comprehensive income, net of tax	68,275	5,282
Total comprehensive income	<u>\$620,862</u>	<u>\$536,400</u>

Note 5

Earnings Per Share

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

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Numerator:				
Net income	\$552,587	\$531,118	\$1,435,926	\$1,037,680
Denominator:				
Denominator for basic earnings per share - Weighted-average shares	300,829	252,585	300,047	248,305
Effect of dilutive securities:				
Stock options	7,987	6,602	8,324	7,757
Restricted stock	1,172	2,477	1,188	2,384
Dilutive potential common shares	9,159	9,079	9,512	10,141
Denominator for diluted earnings per share - Adjusted weighted-average shares	309,988	261,664	309,559	258,446
Basic earnings per share	<u>\$ 1.84</u>	<u>\$ 2.10</u>	<u>\$ 4.79</u>	<u>\$ 4.18</u>
Diluted earnings per share	<u>\$ 1.78</u>	<u>\$ 2.03</u>	<u>\$ 4.64</u>	<u>\$ 4.02</u>

Note 6

Stock Plans

The Company has two active stock-based compensation plans: one employee plan and one non-employee director plan. Under the plans, the Company reserves common shares for issuance in various forms including incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards and restricted stock units. The form of stock compensation is specific to each plan. Generally the exercise price of each stock option or value of each restricted stock award will equal the

[Table of Contents](#)

fair market value of the Company's stock on the date of grant, the maximum term will be ten years, and vesting will be determined at the time of grant. The vesting for most options is 33 1/3 percent per year beginning with the first anniversary of the grant date. For restricted stock, the vesting is usually 25 percent on the first and second anniversaries of the grant date and 50 percent on the third anniversary date or three years from the date of grant.

The Company also issues cash equity units which are classified as liabilities. They are not issued out of the Company's stock-based compensation plans because, instead of stock, they are settled with a cash payment for each unit vested equal to the fair market value of the Company's stock on the vesting date. These units vest 25 percent on the first and second anniversaries of the grant date and 50 percent on the third anniversary date or three years from the date of grant.

Total compensation expense recognized for share based compensation during the three months ended June 30, 2006 and 2005 was \$58.1 million and \$47.5 million, respectively. The total income tax benefit recognized in the consolidated statement of income for share based compensation arrangements during the three months ended June 30, 2006 and 2005, was \$20.3 million and \$16.6 million, respectively.

Total compensation expense recognized for share based compensation during the six months ended June 30, 2006 and 2005 was \$102.8 million and \$76.1 million, respectively. The total income tax benefit recognized in the consolidated statement of income for share based compensation arrangements during the six months ended June 30, 2006, and 2005, was \$35.9 million and \$27.3 million, respectively.

Capital One recognizes compensation expense on a straight line basis over the vesting period for the entire award for any awards with graded vesting.

The following table provides the number of reserved common shares and the number of common shares available for future issuance for each of the Company's stock-based compensation plans as of June 30, 2006:

<u>Plan Name</u>	<u>Shares Reserved</u>	<u>Available For Issuance</u>
2004 Stock Incentive Plan ⁽¹⁾	20,000,000	13,666,786
2002 Non-Executive Officer Stock Incentive Plan ⁽²⁾	8,500,000	—
1999 Stock Incentive Plan ⁽²⁾	600,000	—
1994 Stock Incentive Plan ⁽²⁾	67,112,640	—
1999 Non-Employee Directors Stock Incentive Plan	825,000	134,600
1995 Non-Employee Directors Stock Incentive Plan ⁽³⁾	600,000	—
1997 Hibernia Long Term Incentive Plan ⁽⁴⁾	1,693,000	—
2003 Hibernia Long Term Incentive Compensation Plan ⁽⁴⁾	2,083,000	—
1993 Hibernia Director Stock Option Plan ⁽⁴⁾	20,000	—

⁽¹⁾ Available for Issuance includes the CEO restricted stock units at their maximum amount.

⁽²⁾ The ability to issue grants out of these plans was terminated in 2004. There are currently 1,339,843 options outstanding under the 2002 Non-Executive Officer Stock Incentive Plan, 53,054 options outstanding under the 1999 Stock Incentive Plan and 15,972,363 options outstanding under the 1994 Stock Incentive Plan.

[Table of Contents](#)

- (3) The ability to issue grants out of this plan was terminated in 1999. There are currently 122,000 options outstanding under the plan
- (4) In conjunction with the acquisition of Hibernia, the Company assumed three existing Hibernia stock incentive plans, under which there are 2,892,798 options outstanding and no shares available for future issuance.

A summary of the status of the Company's options as of June 30, 2006, and changes for the three and six months then ended is presented below:

	Three Months Ended June 30, 2006				Six Months Ended June 30, 2006			
	Options (000s)	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (000s)	Options (000s)	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (000s)
Outstanding at beginning of period	26,930	\$ 54.75			26,785	\$ 51.39		
Granted	28	83.10			2,348	88.68		
Exercised ⁽¹⁾	(936)	51.62			(2,705)	48.46		
Forfeited	(149)	79.96			(555)	64.17		
Outstanding at end of period	<u>25,873</u>	<u>\$ 54.79</u>	<u>5.52</u>	<u>\$801,732</u>	<u>25,873</u>	<u>\$ 54.79</u>	<u>5.52</u>	<u>\$ 801,732</u>
Exercisable at end of period	<u>18,651</u>	<u>\$ 47.50</u>	<u>4.99</u>	<u>\$707,932</u>	<u>18,651</u>	<u>\$ 47.50</u>	<u>4.99</u>	<u>\$ 707,932</u>

- ⁽¹⁾ Cash proceeds from the exercise of stock options were \$41.4 million and \$118.1 million for the three and six months ended June 30, 2006, respectively. Tax benefits recognized from the exercise of stock options were \$20.4 million and \$44.6 million for the three and six months ended June 30, 2006, respectively.

The weighted-average grant date fair value of options granted during the three months ended June 30, 2006 and 2005 was \$24.14 and \$25.63, respectively. The total intrinsic value of options exercised during those same periods was \$31.4 million and \$47.0 million, respectively. The weighted-average grant date fair value of options granted during the six months ended June 30, 2006 and 2005 was \$26.33 and \$38.86, respectively. The total intrinsic value of options exercised during those same periods was \$103.2 million and \$321.1 million, respectively.

[Table of Contents](#)

The fair value of the options granted was estimated at the date of grant using a Black-Scholes option-pricing model with the weighted average assumptions described below:

Assumptions	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2006	2005	2006	2005
Dividend yield	.13%	.14%	.13%	.14%
Volatility factors of expected market price of stock ⁽¹⁾	29%	44%	29%	53%
Risk-free interest rate	5.02%	3.67%	4.72%	4.20%
Expected option term (in years)	3.7	3.2	3.9	4.9

⁽¹⁾ In December of 2005, the Company began using the implied volatility of publicly traded and over-the-counter stock options as a basis for the expected volatility assumption. Previously, expected volatility was based on historical stock price observations.

A summary of the status of the Company's restricted stock awards as of June 30, 2006, and changes for the three and six months then ended is presented below:

	For the Three Months Ended June 30, 2006		For the Six Months Ended June 30, 2006	
	Shares (000s)	Weighted-Average Grant Date Fair Value Per Share	Shares (000s)	Weighted-Average Grant Date Fair Value Per Share
Unvested at the beginning of the period	2,800	\$ 68.00	2,466	\$ 62.83
Granted	24	\$ 85.98	708	\$ 88.71
Vested	(134)	\$ 82.91	(325)	\$ 82.97
Cancelled	(84)	\$ 68.55	(243)	\$ 66.12
Unvested at the end of the period	<u>2,606</u>	<u>\$ 68.43</u>	<u>2,606</u>	<u>\$ 68.43</u>

As of June 30, 2006, there was a total of \$97.4 million of unrecognized compensation cost related to unvested awards; that cost is expected to be recognized over the next 3 years. The weighted-average grant date fair value of restricted stock granted during the three months ending June 30, 2006, and 2005, was \$85.98 and \$70.53, respectively. The total fair value of shares vesting during those same periods was \$9.8 million and \$3.5 million, respectively.

The weighted-average grant date fair value of restricted stock granted during the six months ending June 30, 2006, and 2005, was \$88.71 and \$78.53, respectively. The total fair value of shares vesting during those same periods was \$25.6 million and \$8.2 million, respectively.

Cash equity units vesting during the three and six months ended June 30, 2006 resulted in cash payments to associates of \$0.9 million and \$18.5 million, respectively. No cash equity units vested during the six months ended June 30, 2005.

[Table of Contents](#)**Note 7****Goodwill and Other Intangible Assets**

The following table provides a summary of goodwill.

	Auto Finance	Global Financial Services	Banking	Total
Balance at December 31, 2005	\$ 328,192	\$ 389,873	\$ 3,188,334	\$ 3,906,399
Adjustments	3,795	—	19,171	22,966
Foreign Currency Translation	—	4,256	—	4,256
Balance at June 30, 2006	<u>\$ 331,987</u>	<u>\$ 394,129</u>	<u>\$ 3,207,505</u>	<u>\$ 3,933,621</u>

The addition of \$19.2 million to Banking segment goodwill includes approximately \$15 million added as a result of the acquisition of a remaining 50% ownership in a credit card processing company. The remaining additions to goodwill represent purchase accounting adjustments related to the acquisition of Hibernia in the fourth quarter of 2005.

In addition, in connection with the acquisition of Hibernia, the Company recorded other intangible assets which consisted of core deposit intangibles, trust intangibles, lease intangibles, and other intangibles, which are subject to amortization. The core deposit and trust intangibles reflect the value of deposit and trust relationships. The lease intangibles reflect the difference between the contractual obligation under current lease contracts and the fair market value of the lease contracts at the acquisition date. The other intangible items relate to customer lists, brokerage relationships and insurance contracts. The following table summarizes the Company's purchase accounting intangible assets subject to amortization.

	June 30, 2006			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Amortization Period
Core deposit intangibles	\$380,000	\$ (45,923)	\$ 334,077	10.0 years
Trust intangibles	10,500	(716)	9,784	18.0 years
Lease intangibles	5,209	(813)	4,396	9.6 years
Other intangibles	11,254	(1,213)	10,041	11.5 years
Total	<u>\$406,963</u>	<u>\$ (48,665)</u>	<u>358,298</u>	

Intangibles are generally amortized on an accelerated basis over their respective estimated useful lives. Intangible assets are recorded in Other assets on the balance sheet. Amortization expense related to purchase accounting intangibles totaled \$19.4 million and \$38.8 million for the three and six months ended June 30, 2006, respectively. Amortization expense for intangibles is recorded to non-interest expense. The weighted average amortization period for all purchase accounting intangibles is 10.2 years.

Note 8

Commitments, Contingencies and Guarantees

Letters of Credit and Financial Guarantees

The Company issues letters of credit and financial guarantees (“standby letters of credit”) whereby it agrees to honor certain financial commitments in the event its customers are unable to perform. The majority of the standby letters of credit consist of financial guarantees. Collateral requirements are similar to those for funded transactions and are established based on management’s credit assessment of the customer. Management conducts regular reviews of all outstanding standby letters of credit and customer acceptances, and the results of these reviews are considered in assessing the adequacy of the Company’s allowance for loan losses.

The Company had contractual amounts of standby letters of credit of \$583.1 million at June 30, 2006. As of June 30, 2006, standby letters of credit had expiration dates ranging from 2006 to 2011. The fair value of the guarantees outstanding at June 30, 2006 that have been issued since January 1, 2003, was \$2.8 million and was included in other liabilities.

Industry Litigation

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

In 1998, the United States Department of Justice filed an antitrust lawsuit against the MasterCard and Visa membership associations composed of financial institutions that issue MasterCard or Visa credit or debit cards (“associations”), alleging, among other things, that the associations had violated antitrust law and engaged in unfair practices by not allowing member banks to issue cards from competing brands, such as American Express and Discover Financial Services. In 2001, a New York district court entered judgment in favor of the Department of Justice and ordered the associations to repeal these policies. The United States Court of Appeals for the Second Circuit affirmed the district court and, on October 4, 2004, the United States Supreme Court denied certiorari in the case. In November 2004, American Express filed an antitrust lawsuit (the “Amex lawsuit”) against the associations and several member banks alleging that the associations and member banks jointly and severally implemented and enforced illegal exclusionary agreements that prevented member banks from issuing American Express and Discover cards. The complaint requests civil monetary damages, which could be trebled. The Corporation, the Bank, and the Savings Bank are named defendants in this lawsuit.

Separately, a number of entities, each purporting to represent a class of retail merchants, have also filed antitrust lawsuits (the “Interchange lawsuits”) against the associations and several member banks, including the Corporation and its subsidiaries, alleging among other things, that the associations and member banks conspired to fix the level of interchange fees. The complaints request civil monetary damages, which could be trebled. In October 2005, the Interchange lawsuits were consolidated before the United States District Court for the Eastern District of New York for certain purposes, including discovery.

We believe that we have meritorious defenses with respect to these cases and intend to defend these cases vigorously. At the present time, management is not in a position to determine whether the resolution of these cases will have a material adverse effect on either the consolidated financial position of the Corporation or the Corporation’s results of operations in any future reporting period.

In addition, several merchants filed class action antitrust lawsuits, which were subsequently consolidated, against the associations relating to certain debit card products. In April 2003, the associations agreed to settle the lawsuit in exchange for payments to plaintiffs and for changes in

[Table of Contents](#)

policies and interchange rates for debit cards. Certain merchant plaintiffs have opted out of the settlements and have commenced separate lawsuits. Additionally, consumer class action lawsuits with claims mirroring the merchants' allegations have been filed in several courts. Finally, the associations, as well as certain member banks, continue to face additional lawsuits regarding policies, practices, products and fees.

With the exception of the Interchange lawsuits and the Amex lawsuit, the Corporation and its subsidiaries are not parties to the lawsuits against the associations described above and therefore will not be directly liable for any amount related to any possible or known settlements of such lawsuits. However, the Corporation's subsidiary banks are member banks of MasterCard and Visa and thus may be affected by settlements or lawsuits relating to these issues, including changes in interchange payments. In addition, it is possible that the scope of these lawsuits may expand and that other member banks, including the Corporation's subsidiary banks, may be brought into the lawsuits or future lawsuits. The associations are also subject to additional litigation, including suits regarding foreign exchange fees.

In part as a result of such litigation, the associations are expected to continue to evolve as corporate entities, including by changing their governance structures, as previously announced by the associations. During the second quarter MasterCard successfully completed its initial public offering and Visa revised its governance structure. Both associations now rely upon independent directors for certain decisions, including the settling of interchange rates.

Given the complexity of the issues raised by these lawsuits and the uncertainty regarding: (i) the outcome of these suits, (ii) the likelihood and amount of any possible judgments, (iii) the likelihood, amount and validity of any claim against the associations' member banks, including the banks and the Corporation, and (iv) changes in industry structure that may result from the suits and (v) the effects of these suits, in turn, on competition in the industry, member banks, and interchange and association fees, we cannot determine at this time the long-term effects of these suits on us.

Other Pending and Threatened Litigation

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

Note 9

Pending North Fork Bancorporation, Inc. Acquisition

In March 2006, the Company signed a definitive agreement to acquire North Fork Bancorporation, Inc. ("North Fork"), a bank holding company that offers a full range of banking products and financial services to both consumer and commercial customers. The Company expects to acquire North Fork in a stock and cash transaction valued on March 10, 2006, at approximately \$14.6 billion. The transaction is subject to regulatory and Capital One's and North Fork's shareholder approvals and is expected to close in the fourth quarter of 2006. On July 7, 2006 the Securities and Exchange Commission (the "SEC") declared effective a Registration Statement on Form S-4 that included a preliminary joint proxy statement of the Company and North Fork that also constitutes a prospectus of the Company. A special meeting of stockholders of the Company and the annual meeting of North Fork stockholders to consider and vote upon the proposal to approve the agreement and plan of merger between the Company and North Fork pursuant to which North Fork will merge with and into the Company is scheduled for August 22, 2006.

In April 2006, the Company entered into derivative instruments to mitigate certain exposures it faces as a result of the expected acquisition of North Fork. Under purchase accounting rules, North Fork's

[Table of Contents](#)

balance sheet will be marked to market upon closing of the acquisition. As interest rates increase, the market value of North Fork's balance sheet, as measured under purchase accounting, declines which results in a temporary reduction in the tangible capital ratios of the combined entity. The position is designed to protect the Company's tangible capital ratios from falling below a desired level. The Company's maximum negative exposure is expected to be no more than the approximately \$50 million paid to establish the current position. The derivative instruments will not be treated as designated hedges under Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and as such will be marked to market through the income statement until the derivatives expire or are terminated. For the three and six months ended June 30, 2006 approximately \$20.8 million was recognized as a reduction to other non-interest income in the statement of income.

In May 2006, the Company entered into a syndicated bridge loan facility ("the Facility"). The Facility is available to the Company to finance, on an interim basis, the cash consideration payable to shareholders of North Fork in connection with the acquisition. The Facility is available until May 7, 2007 and borrowing under the Facility will mature on the earlier of 364 days from the date of borrowing, or December 1, 2007. The Facility size will automatically decrease by the amount of proceeds received by the Company from the issuance of securities intended to fund the cash consideration of the acquisition. After the issuance of securities discussed below, \$3.2 billion is available to the Company under the Facility.

In June 2006, the Company and Capital One Capital II, a subsidiary of the Company created as a Delaware statutory business trust, issued \$345.0 million aggregate principal amount of 7.5% Enhanced Trust Preferred Securities (the "Enhanced TRUPS®") that mature on June 15, 2066. The securities represent a preferred beneficial interest in the assets of the trust and are recorded in other borrowings in the balance sheet. For regulatory capital purposes the securities are treated as equity and serve to increase Tier 1 and Total Risk Based Capital at the holding company level.

In July 2006, the Company and Capital One Capital III, a subsidiary of the Company created as a Delaware statutory business trust, issued \$650.0 million aggregate principal amount of 7.686% Capital Securities that mature on August 15, 2036. The securities represent a preferred beneficial interest in the assets of the trust and will be recorded in other borrowings in the balance sheet. For regulatory capital purposes the securities are treated as equity and serve to increase Tier 1 and Total Risk Based Capital at the holding company level.

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

I. Introduction

Capital One Financial Corporation (the "Corporation") is a diversified financial services company whose banking and non-banking subsidiaries market a variety of financial products and services. The Corporation's principal subsidiaries are Capital One Bank (the "Bank") which currently offers credit card products and offers retail deposits, Capital One, F.S.B. (the "Savings Bank"), which offers consumer and commercial lending and consumer deposit products, Capital One, National Association (the "National Bank") which offers a broad spectrum of financial products and services to consumers, small businesses and commercial clients, and Capital One Auto Finance, Inc. ("COAF") which offers automobile and other motor vehicle financing products. Capital One Services, Inc. ("COSI"), another subsidiary of the Corporation, provides various operating, administrative and other services to the Corporation and its subsidiaries. The Corporation and its subsidiaries are hereafter collectively referred to as the "Company". As of June 30, 2006, the Company had \$47.2 billion in deposits and \$108.4 billion in managed loans outstanding and was one of the largest providers of MasterCard and Visa credit cards in the world.

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

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

II. Significant Accounting Policies

See the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, Part I, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a summary of the Company's significant accounting policies.

III. Reconciliation to GAAP Financial Measures

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

The Company's "managed" consolidated financial statements reflect adjustments made related to effects of securitization transactions qualifying as sales under GAAP. The Company generates earnings from its

[Table of Contents](#)

“managed” loan portfolio which includes both the on-balance sheet loans and off-balance sheet loans. The Company’s “managed” income statement takes the components of the servicing and securitizations income generated from the securitized portfolio and distributes the revenue and expense to appropriate income statement line items from which it originated. For this reason, the Company believes the “managed” consolidated financial statements and related managed metrics to be useful to investors.

As of and for the three months ended June 30, 2006

(Dollars in thousands)	Total Reported	Securitization Adjustments ⁽¹⁾	Total Managed ⁽²⁾
Income Statement Measures			
Net interest income	\$ 1,197,082	\$ 943,747	\$ 2,140,829
Non-interest income	1,709,913	(510,581)	1,199,332
Total revenue	2,906,995	433,166	3,340,161
Provision for loan losses	362,445	433,166	795,611
Net charge-offs	295,844	433,166	729,010
Balance Sheet Measures			
Loans	\$60,602,803	\$47,830,636	\$ 108,433,439
Total assets	89,530,186	47,288,672	136,818,858
Average loans	58,833,376	47,256,518	106,089,894
Average earning assets	79,025,701	45,041,097	124,066,798
Average total assets	89,643,629	46,707,317	136,350,946
Delinquencies	1,772,191	1,534,202	3,306,393

- (1) Income statement adjustments reclassify finance charges of \$1,341.8 million, past-due fees of \$237.1 million, other interest income of \$(61.6) million and interest expense of \$573.5 million; and net charge-offs of \$433.2 million from Non-interest income (servicing and securitizations) to Net interest income and Provision for loan losses, respectively.
- (2) The managed loan portfolio does not include auto loans which have been sold in whole loan sale transactions where the Company has retained servicing rights.

IV. Management Summary

Summary of the Quarter ended June 30, 2006

The second quarter of 2006 reflected continued profitability and diversified loan growth.

Net income increased 4% to \$552.6 million for the three month period ended June 30, 2006, while diluted earnings per share decreased 12% compared to the same period in the prior year. Contributing to the decline in earnings per share was the acquisition of Hibernia and the increased share count resulting from the issuance related to the redemption of the mandatory convertible securities in May of 2005.

Revenue growth offset by increased provision for loan losses, marketing expense and operating expenses resulted in the increase in net income. Revenue growth was driven by year over year growth in the managed loan portfolio and the acquisition of Hibernia. Although revenue increased year over year, the addition of lower yielding Hibernia loans combined with a reduction in past-due and overlimit fees resulting from the continued favorable credit environment have compressed the revenue margin. The provision for loan losses increased as a result of a build in the allowance for loan losses related to reported loan growth and continued credit quality deterioration in the U.K., however charge-offs in the U.S. continue to be lower than historical levels due to the favorable U.S. credit environment. The increase in marketing expense reflects origination opportunities in new and existing products and the conversion of Hibernia's branches and products to the Capital One brand. Lastly, the increase in operating expenses was driven primarily by the Hibernia acquisition and infrastructure investments which include the successful conversion to a new installment loan platform and our continued progress to convert to a new card holder platform. Although operating expenses increased for the three month period ended June 30, 2006, operating expenses as a percentage of average managed assets continued to decline compared to the same period in the prior year, reflecting the Company's improved operating efficiency.

U.S. Card loans grew 5% during the quarter. The Company also continues to achieve strong loan growth in its Auto Finance and Global Financial Services segments, which together accounted for 39% of the loan growth in the second quarter and represented 43% of managed loans at June 30, 2006. In the first quarter of 2006, the Company added a Banking segment which represents legacy Hibernia business lines, excluding the indirect auto business which moved to the Auto Finance segment and includes the Company's branchless deposit business which moved from the Other category. The Banking segment had strong results for the second quarter with a \$43.3 million contribution to net income. The Banking segment ended the second quarter with \$35.3 billion in total deposits.

The Company continued to expand its lending and deposit products and its distribution channels while delivering strong results and maintaining a strong balance sheet. Total assets continue to grow and the Company continues to maintain significant levels of liquidity. Capital ratios remain well above the regulatory "well capitalized" thresholds following the acquisition of Hibernia.

Q2 2006 Significant Events

Pending North Fork Bancorporation, Inc. Acquisition

In March 2006, the Company signed a definitive agreement to acquire North Fork Bancorporation, Inc. ("North Fork"), a bank holding company that offers a full range of banking products and financial services to both consumer and commercial customers. The Company expects to acquire North Fork in a stock and cash transaction valued on March 10, 2006, at approximately \$14.6 billion. The transaction is subject to regulatory and Capital One's and North Fork's shareholder approvals and is expected to close in the fourth quarter of 2006. On July 7, 2006 the Securities and Exchange Commission (the "SEC") declared effective a Registration Statement on Form S-4 that included a preliminary joint proxy statement of the Company and North Fork that also constitutes a prospectus of the Company. A special

[Table of Contents](#)

meeting of stockholders of the Company and the annual meeting of North Fork stockholders to consider and vote upon the proposal to approve the agreement and plan of merger between the Company and North Fork pursuant to which North Fork will merge with and into the Company is scheduled for August 22, 2006.

In April 2006, the Company entered into derivative instruments to mitigate certain exposures it faces as a result of the expected acquisition of North Fork. Under purchase accounting rules, North Fork's balance sheet will be marked to market upon closing of the acquisition. As interest rates increase, the market value of North Fork's balance sheet, as measured under purchase accounting, declines which results in a temporary reduction in the tangible capital ratios of the combined entity. The position is designed to protect the Company's tangible capital ratios from falling below a desired level. The Company's maximum negative exposure is expected to be no more than the approximately \$50 million paid to establish the current position. The derivative instruments will not be treated as designated hedges under Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and as such will be marked to market through the income statement until the derivatives expire or are terminated. For the three and six months ended June 30, 2006 approximately \$20.8 million was recognized as a reduction to other non-interest income in the statement of income.

In May 2006, the Company entered into a syndicated bridge loan facility ("the Facility"). The Facility is available to the Company to finance, on an interim basis, the cash consideration payable to stockholders of North Fork in connection with the acquisition. The Facility is available until May 7, 2007 and borrowing under the Facility will mature on the earlier of 364 days from the date of borrowing, or December 1, 2007. The Facility size will automatically decrease by the amount of proceeds received by the Company from the issuance of securities intended to fund the cash consideration of the acquisition. After the issuance of securities discussed below, \$3.2 billion is available to the Company under the Facility.

In July 2006, the Company and Capital One Capital III, a subsidiary of the Company created as a Delaware statutory business trust, issued \$650.0 million aggregate principal amount of 7.686% Capital Securities that mature on August 15, 2036. The securities represent a preferred beneficial interest in the assets of the trust and will be recorded in other borrowings in the balance sheet. For regulatory capital purposes the securities are treated as equity and serve to increase Tier 1 and Total Risk Based Capital at the holding company level.

Enhanced Trust Preferred Issuance

In June 2006, the Company and Capital One Capital II, a subsidiary of the Company created as a Delaware statutory business trust, issued \$345.0 million aggregate principal amount of 7.5% Enhanced Trust Preferred Securities (the "Enhanced TRUPS®") that mature on June 15, 2066. The securities represent a preferred beneficial interest in the assets of the trust. For regulatory capital purposes the securities are treated as equity and serve to increase Tier 1 and Total Risk Based Capital at the holding company level.

MasterCard, Inc. Initial Public Offering

In May 2006, MasterCard, Inc. ("MasterCard") completed an initial public offering. As part of the offering, MasterCard issued Class A common shares to the public and to The MasterCard Foundation. In addition, MasterCard exchanged new Class B common shares for shares previously held by institutions that were issuing members of MasterCard. The Company received 2,305,140 new Class B common shares upon the exchange. The Class B common shares carry certain trading restrictions for four years. Commencing on the fourth anniversary of the offering, each of the Class B common shares may be converted to Class A common shares, subject to certain rights of first refusal by the other holders of Class B common shares. The Class B common shares received carry-over basis accounting treatment, as such there was no gain or loss recorded as part of the share exchange. However, in June 2006, MasterCard exercised an option to redeem a number of the Class B common shares from issuing members. MasterCard redeemed 1,360,032 of the Company's new Class B common shares for which the Company recognized a \$20.5 million gain recoded in other non-interest income.

V. Financial Summary

Table 1 provides a summary view of the consolidated income statement and selected metrics for the Company at and for the three and six month periods ended June 30, 2006 and 2005.

Table 1: Financial Summary

(Dollars in thousands)	As of and for the Three Months Ended June 30			As of and for the Six Months Ended June 30		
	2006	2005	Change	2006	2005	Change
Earnings (Reported):						
Net interest income	\$ 1,197,082	\$ 872,503	\$ 324,579	\$ 2,403,959	\$ 1,733,024	\$ 670,935
Non-interest income:						
Servicing and securitizations	1,025,506	996,043	29,463	2,179,110	1,929,980	249,130
Service charges and other customer-related fees	413,398	360,410	52,988	849,129	761,596	87,533
Interchange	131,538	132,068	(530)	251,029	255,508	(4,479)
Other	139,471	93,475	45,996	288,896	150,891	138,005
Total non-interest income	1,709,913	1,581,996	127,917	3,568,164	3,097,975	470,189
Total Revenue ⁽¹⁾	2,906,995	2,454,499	452,496	5,972,123	4,830,999	1,141,124
Provision for loan losses	362,445	291,600	70,845	532,715	551,231	(18,516)
Marketing	356,695	277,034	79,661	680,466	588,793	91,673
Operating expenses	1,324,202	1,058,583	265,619	2,573,910	2,074,656	499,254
Income before taxes	863,653	827,282	36,371	2,185,032	1,616,319	568,713
Income taxes	311,066	296,164	14,902	749,106	578,639	170,467
Net income	\$ 552,587	\$ 531,118	\$ 21,469	\$ 1,435,926	\$ 1,037,680	\$ 398,246
Common Share Statistics:						
Basic EPS	\$ 1.84	\$ 2.10	\$ (0.26)	\$ 4.79	\$ 4.18	\$ 0.61
Diluted EPS	1.78	2.03	(0.25)	4.64	4.02	0.62
Selected Balance Sheet Data:						
Reported loans (period end)	\$ 60,602,803	\$38,610,787	\$21,992,016	\$ 60,602,803	\$38,610,787	\$21,992,016
Managed loans (period end)	108,433,439	82,951,352	25,482,087	108,433,439	82,951,352	25,482,087
Reported loans (average)	58,833,376	38,237,463	20,595,913	58,489,806	38,253,636	20,236,170
Managed loans (average)	106,089,894	82,471,828	23,618,066	105,354,135	82,114,830	23,239,305
Allowance for loan losses	1,765,000	1,405,000	360,000	1,765,000	1,405,000	360,000
Selected Company Metrics (Reported):						
Return on average assets (ROA)	2.47%	3.73%	(1.26)	3.22%	3.67%	(0.45)
Return on average equity (ROE)	14.19	23.80	(9.61)	19.02	24.66	(5.64)
Net charge-off rate	2.01	3.39	(1.38)	2.04	3.42	(1.38)
30+ day delinquency rate	2.92	3.62	(0.70)	2.92	3.62	(0.70)
Net interest margin	6.06	6.75	(0.69)	6.12	6.75	(0.63)
Revenue margin	14.71	18.99	(4.28)	15.21	18.81	(3.60)
Selected Company Metrics (Managed):						
Return on average assets (ROA)	1.62%	2.11%	(0.49)	2.12%	2.08%	0.04
Net charge-off rate	2.75	4.10	(1.35)	2.70	4.11	(1.41)
30+ day delinquency rate	3.05	3.49	(0.44)	3.05	3.49	(0.44)
Net interest margin	6.90	7.78	(0.88)	7.11	7.82	(0.71)
Revenue margin	10.77	12.65	(1.88)	11.04	12.56	(1.52)

- (1) In accordance with the Company's finance charge and fee revenue recognition policy, the amounts billed to customers but not recognized as revenue were \$215.0 million and \$259.8 million for the three months ended June 30, 2006 and 2005, respectively, and \$385.9 and \$503.7 million for the six months ended June 30, 2006 and 2005, respectively.

[Table of Contents](#)

Summary of the Reported Income Statement

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

All quarterly comparisons are made between the three month period ended June 30, 2006 and the three month period ended June 30, 2005, unless otherwise indicated.

All year to date comparisons are made between the six month period ended June 30, 2006 and the six month period ended June 30, 2005, unless otherwise indicated.

Net interest income

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

For the three and six month periods ended June 30, 2006, reported net interest income increased 37% and 39%, respectively, while average earning assets increased 53% in both the second quarter and year-to-date periods. Net interest income growth lagged earning asset growth due to declining loan yields, resulting from lower yielding loans added in connection with the Hibernia acquisition and organic growth in installment loans and auto loans, and a reduction in past-due fees resulting from the continued favorable credit environment. The reported net interest margin decreased 69 and 63 basis points for the three and six months periods ended June 30, 2006, respectively.

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

Non-interest income

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

For the three and six month periods ended June 30, 2006, reported non-interest income increased 8% and 15%, respectively. The increase was due to increases in servicing and securitizations income, service charges and other customer-related fees, and other non-interest income. See detailed discussion of the components of non-interest income below.

Servicing and Securitizations Income

Servicing and securitizations income represents servicing fees, excess spread and other fees derived from the off-balance sheet loan portfolio, adjustments to the fair value of retained interests derived through securitization transactions, as well as gains and losses resulting from securitization and other sales transactions.

Servicing and securitizations income increased 3% and 13% for the three and six month periods ended June 30, 2006, respectively. These increases were primarily the result of 7% increases in the second quarter and year to date average off-balance sheet loan portfolio combined with increases in excess spread resulting from lower loan losses and increased recoveries in our domestic securitizations. The increase in servicing and securitizations income was offset by a \$36.4 million write-down of retained interest related to the U.K. credit card securitization structure recognized in the second quarter of 2006 which resulted from the continued worsening of the U.K. loan loss outlook.

Service Charges and Other Customer-Related Fees

Excluding \$86.3 million and \$167.7 million contributed by the National Bank for the three and six month periods ended June 30, 2006, respectively, service charges and other customer-related fees decreased 9% and 11% for the three and six month periods ended June 30, 2006, while the quarter-to-date and year-to-date average reported loan portfolio, exclusive of the National Bank, grew 12% and 11%, respectively. The lower growth in service charges and other customer-related fee income when compared to average reported loan growth is reflective of the reported loan growth being concentrated in the Auto Finance and Global Financial Services segments that generate lower fee income as well as a reduction in overlimit fees resulting from the favorable U.S. credit environment.

Interchange

Interchange income, net of rewards expense, decreased 1% and 2% for the three and six month periods ended June 30, 2006, respectively. This decrease is primarily related to an increase in costs associated with the Company's rewards programs offset slightly by an increase in purchase volume. Continued expansion of the rewards program during 2006 resulted in reward costs increasing 19% and 16% for the three and six months ended June 30, 2006, respectively.

Other Non-Interest Income

Other non-interest income includes, among other items, commission and fees earned by the Company's mortgage businesses, gains and losses on sales of securities, gains and losses associated with hedging transactions, service provider revenue generated by the Company's healthcare finance business, gains on the sale of auto loans and income earned related to purchased charged-off loan portfolios.

Excluding \$22.1 million and \$42.7 million contributed by the National Bank, other non-interest income increased \$23.9 million and \$95.3 million for the three and six month periods ended June 30, 2006, respectively. The second quarter increase is primarily the result of a \$20.5 million gain from the share redemption in connection with the MasterCard, Inc. initial public offering and a \$14.6 million increase in revenue related to higher back end performance bonuses related to prior period auto loan sales compared to the same periods in the prior year, offset by a \$20.8 million negative fair value adjustment on the derivatives instruments entered into in anticipation of the North Fork Bank acquisition. In addition to the above, the year to date increase, compared to the same period in the prior year, resulted from a \$59.8 million gain from the sale of purchased charged-off loan portfolios in 2006, offset by a \$12.4 million loss recorded in connection with the extinguishment of senior notes during the first quarter of 2005.

Provision for loan losses

The provision for loan losses increased 24% for the three month period ended June 30, 2006. The increase reflects a build in the allowance for loan losses to reflect the growth in the reported loan portfolio, the continued credit quality deterioration in the U.K., offset by a decrease in charge-offs resulting from the favorable credit environment in the U.S.

The provision for loan losses remained relatively stable for the six month period ended June 30, 2006. The build in the allowance for loan losses related to reported loan growth and credit quality issues in the U.K. were fully offset by a decrease in charge-offs in the U.S.

[Table of Contents](#)

Non-interest expense

Non-interest expense consists of marketing and operating expenses.

The 29% and 16% increases in marketing expense for the three and six month periods ended June 30, 2006, respectively, reflect origination opportunities in new and existing products and the conversion of Hibernia's branches and products to the Capital One brand.

The 25% and 24% increases in operating expenses for the three and six month periods ended June 30, 2006 were driven primarily by the acquisition of Hibernia. The National Bank contributed \$227.9 million and \$448.1 million to operating expenses for the three and six month periods ended June 30, 2006, respectively. In addition, the Company made infrastructure investments which include the successful conversion to a new installment loan platform and our continued progress to convert to a new card holder platform. Although operating expenses increased for the three and six month periods ended June 30, 2006, operating expenses as a percentage of average managed assets for the three and six month periods ended June 30, 2006 fell 32 and 35 basis points, respectively, reflecting the Company's improved operating efficiency.

Income taxes

The Company's effective tax rate was 36.0% and 34.3% for the three and six month periods ended June 30, 2006, respectively, compared to 35.8% for both the same periods in the prior year. The effective rate includes state, federal and international income tax components. The slight increase in the rate for the three month period ended June 30, 2006 compared to the same period in the prior year was driven primarily by changes in the Company's international tax positions. The decrease in the rate for the six month period ended June 30, 2006 compared to the same period in the prior year was primarily due to the resolution of certain tax issues and audits for the tax years 2000-2002 with the Internal Revenue Service during the first quarter of 2006.

Loan Portfolio Summary

The Company analyzes its financial performance on a managed loan portfolio basis. The managed loan portfolio is comprised of on-balance sheet and off-balance sheet loans. The Company has retained servicing rights for its securitized loans and receives servicing fees in addition to the excess spread generated from the off-balance sheet loan portfolio.

Average managed loans grew 29% and 28% for the three and six month periods ended June 30, 2006, respectively. The loan growth was primarily a result of growth in Auto Finance and Global Financial Services as well as the Hibernia acquisition which added \$16.1 billion in loans.

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

Asset Quality

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

Delinquencies

The Company believes delinquencies to be an indicator of loan portfolio credit quality at a point in time. The entire balance of an account is contractually delinquent if the minimum payment is not received by

Table of Contents

the payment due date. Delinquencies not only have the potential to impact earnings if the account charges off, but they also result in additional costs in terms of the personnel and other resources dedicated to resolving the delinquencies.

The 30-plus day delinquency rate for the reported and managed loan portfolio decreased 70 and 44 basis points, respectively, at June 30, 2006 compared to June 30, 2005. The reduction in the reported and managed loan 30-plus day delinquency rates reflects the Company's continued asset diversification beyond U.S. credit cards to other assets with higher credit quality and overall improved collections experience.

For additional information, see section XIII, Tabular Summary, Table E (Delinquencies).

Net Charge-Offs

Net charge-offs include the principal amount of losses (excluding accrued and unpaid finance charges and fees and fraud losses) less current period principal recoveries. The Company charges off credit card loans at 180 days past the due date and generally charges off other consumer loans at 120 days past the due date or upon repossession of collateral. Costs to recover previously charged-off accounts are recorded as collection expenses in other non-interest expense. Non-collateralized bankruptcies are typically charged-off within 30 days.

The reported and managed net charge-off rates decreased 138 and 135 basis points, respectively, for the three months ended June 30, 2006. For the six month period ended June 30, 2006, the reported and managed net charge-off rates decreased 138 and 141 basis points, respectively. These decreases in net charge-off rates were driven primarily by a decrease in bankruptcy related charge-offs which continue to be lower than historical levels following the bankruptcy filing spike experienced in the fourth quarter of 2005 combined with an increase in recoveries.

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

Nonperforming Assets

The Company assumed nonperforming assets in connection with the acquisition of Hibernia.

Nonperforming loans consist of nonaccrual loans (loans on which interest income is not currently recognized) and restructured loans (loans with below-market interest rates or other concessions due to the deteriorated financial condition of the borrower). Commercial and small business loans are placed in nonaccrual status at 90 days past due or sooner if, in management's opinion, there is doubt concerning the ability to fully collect both principal and interest. Real estate secured consumer loans are placed in nonaccrual status at 180 days past due.

For additional information, see section XIII, Tabular Summary, Table G (Nonperforming Assets).

Allowance for loan losses

The allowance for loan losses is maintained at an amount estimated to be sufficient to absorb probable losses, net of principal recoveries (including recovery of collateral), inherent in the existing reported loan portfolio. The provision for loan losses is the periodic cost of maintaining an adequate allowance. Management believes that, for all relevant periods, the allowance for loan losses was adequate to cover anticipated losses in the total reported consumer loan portfolio under then current conditions, met applicable legal and regulatory guidance and was consistent with GAAP. There can be no assurance as to future credit losses that may be incurred in connection with the Company's 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

[Table of Contents](#)

reported consumer loan portfolio. The amount of allowance necessary is determined primarily based on a migration analysis of delinquent and current accounts, forward loss curves and historical loss trends. In evaluating the sufficiency of the allowance for loan losses, management also takes into consideration the following factors: recent trends in delinquencies and charge-offs including bankrupt, deceased and recovered amounts; forecasting uncertainties and size of credit risks; the degree of risk inherent in the composition of the loan portfolio; economic conditions; legal and regulatory guidance; credit evaluations and underwriting policies; seasonality; and the value of collateral supporting the loans.

The allowance for loan losses increased \$90.0 million since March 31, 2006 driven primarily by growth in the reported loan portfolio and continued credit quality deterioration in the U.K, partially offset by strong credit performance in the U.S. businesses.

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

VI. Reportable Segment Summary

The Company manages its business as four distinct operating segments: U.S. Card, Auto Finance, Global Financial Services, and Banking. In the first quarter 2006, the Company added the Banking segment which represents legacy Hibernia business lines, excluding the indirect auto business which moved to the Auto Finance segment and including the Company's legacy branchless deposit business which moved from the Other caption. The U.S. Card, Auto Finance, Global Financial Services, and Banking segments are considered reportable segments based on quantitative thresholds applied to the managed loan portfolio for reportable segments provided by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*.

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

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

[Table of Contents](#)

U.S. Card Segment

Table 2: U.S. Card

(Dollars in thousands)	As of and for the Three Months Ended June 30,		As of and for the Six Months Ended June 30,	
	2006	2005	2006	2005
Earnings (Managed Basis)				
Interest income	\$ 1,628,144	\$ 1,596,247	\$ 3,342,703	\$ 3,290,226
Interest expense	507,722	444,555	1,001,180	887,896
Net interest income	1,120,422	1,151,692	2,341,523	2,402,330
Non-interest income	803,083	846,720	1,578,496	1,626,135
Total revenue	1,923,505	1,998,412	3,920,019	4,028,465
Provision for loan losses	413,701	539,211	638,139	1,028,247
Non-interest expense	860,874	794,012	1,705,603	1,630,154
Income before taxes	648,930	665,189	1,576,277	1,370,064
Income taxes	227,125	232,816	551,698	479,522
Net income	\$ 421,805	\$ 432,373	\$ 1,024,579	\$ 890,542
Selected Metrics (Managed Basis)				
Period end loans	\$48,736,483	\$46,408,912	\$48,736,483	\$46,408,912
Average loans	47,856,045	46,504,945	48,035,986	47,027,255
Loan yield	13.61%	13.73%	13.92%	13.99%
Net charge-off rate	3.29	4.90	3.11	4.81
30+ day delinquency rate	3.30	3.60	3.30	3.60
Purchase volume ⁽¹⁾	\$20,878,732	\$17,946,667	\$38,894,401	\$33,544,981
Number of Accounts (000s)	37,199	37,760	37,199	37,760

(1) Includes purchase transactions net of returns and excludes cash advance transactions.

The U.S. Card segment consists of domestic consumer credit card lending activities.

U.S. Card segment net income decreased 2% in the second quarter of 2006 compared to the second quarter of 2005 reflecting a decrease in revenue and higher non-interest expense offset by lower provision for loan losses. U.S. Card segment net income increased 15% for the six months ended June 30, 2006 compared to the same period in the prior year as a result of lower provision for loan losses offset by a decrease in revenue and increase in non-interest expense.

[Table of Contents](#)

Revenue declined slightly for the three and six month periods ended June 30, 2006, driven largely by the favorable credit environment in the U.S. which has resulted in lower past-due and overlimit fees.

Loans grew \$2.3 billion, or 5%, since the second quarter of 2005. The Company is active across the credit card market. It focuses on opportunities, like rewards cards, that generate both economic returns and long term customer loyalty. The U.S. Card segment showed a 16% increase in purchase volume for both the three and six month periods ended June 30, 2006, reflecting the Company's focus on the rewards segment.

Provision for loan losses decreased 23% and 38% for the three and six month periods ended June 30, 2006, respectively, as a result of improvements in credit quality metrics and decreases in bankruptcy related charge-offs which continue to be lower than historical levels following the bankruptcy spike experienced in the fourth quarter of 2005.

Non-interest expense increased 8% and 5% for the three and six month periods ended June 30, 2006, respectively, as a result of increased marketing expense to reflect origination opportunities in new and existing products. Operating expenses remained relatively stable year over year reflecting improved operating efficiencies offset by increased infrastructure investments.

Auto Finance Segment

Table 3: Auto Finance

(Dollars in thousands)	As of and for the Three Months Ended June 30,		As of and for the Six Months Ended June 30,	
	2006	2005	2006	2005
Earnings (Managed Basis)				
Interest income	\$ 563,734	\$ 401,991	\$ 1,100,391	\$ 756,323
Interest expense	207,497	116,247	395,324	221,072
Net interest income	356,237	285,744	705,067	535,251
Non-interest income	13,839	6,964	14,230	18,303
Total revenue	370,076	292,708	719,297	553,554
Provision for loan losses	74,714	20,330	182,519	112,643
Non-interest expense	149,115	124,584	283,770	238,349
Income before taxes	146,247	147,794	253,008	202,562
Income taxes	51,186	51,728	88,552	70,897
Net income	\$ 95,061	\$ 96,066	\$ 164,456	\$ 131,665
Selected Metrics (Managed Basis)				
Period end loans	\$20,558,455	\$14,520,216	\$20,558,455	\$14,520,216
Average loans	20,187,631	13,993,998	19,815,457	13,414,580
Loan Yield	11.17%	11.49%	11.11%	11.28%
Net charge-off rate	1.54	1.74	1.94	2.28
30+ day delinquency rate	4.55	4.09	4.55	4.09
Auto loan originations ⁽¹⁾	\$ 3,107,409	\$ 2,633,857	\$ 6,047,949	\$ 4,667,019
Number of Accounts (000s)	1,525	1,124	1,525	1,124

(1) Includes all organic auto loan originations and excludes auto loans added through acquisitions.

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

Second quarter Auto Finance net income remained relatively stable compared to the second quarter in 2005 while net income increased 25% for the six months ended June 30, 2006 compared to the same period in the prior year as a result of growth in revenue offset by increases to the provision for loan losses and non-interest expense.

The increase in revenue and non-interest expense for the three and six month periods ended June 30, 2006 was driven by significant loan growth. The Auto Finance segment had 18% and 30% increases in auto loan originations for the three and six month periods ended June 30, 2006, respectively, in addition to the transfer of \$2.9 billion of Hibernia's indirect auto loans to the Auto Finance segment on January 1, 2006. Revenue also increased due to higher back end performance bonuses related to prior period auto loan sales compared to the same periods in the prior year.

The provision for loan losses for the three and six month periods ended June 30, 2006 increased primarily due to the significant growth in the loan portfolio offset by a reduction in the charge-off rate. The decrease in the charge-off rate was primarily driven by improved loan quality through the addition of Hibernia's indirect auto loans and the runoff of the higher-loss Key Bank portfolio, which increased the Auto Finance segment mix of prime loans, favorable industry trends and decreases in bankruptcy related charge-offs which continue to be lower than historical levels following the bankruptcy filing spike experienced in the fourth quarter of 2005.

Global Financial Services Segment

Table 4: Global Financial Services

(Dollars in thousands)	As of and for the Three Months Ended June 30,		As of and for the Six Months Ended June 30,	
	2006	2005	2006	2005
Earnings (Managed Basis)				
Interest income	\$ 725,256	\$ 642,481	\$ 1,417,502	\$ 1,276,207
Interest expense	279,804	230,656	533,801	451,649
Net interest income	445,452	411,825	883,701	824,558
Non-interest income	297,080	265,499	580,432	499,340
Total revenue	742,532	677,324	1,464,133	1,323,898
Provision for loan losses	296,614	256,766	513,979	445,082
Non-interest expense	365,149	378,278	695,321	729,754
Income before taxes	80,769	42,280	254,833	149,062
Income taxes	29,614	15,621	90,134	51,975
Net income	\$ 51,155	\$ 26,659	\$ 164,699	\$ 97,087
Selected Metrics (Managed Basis)				
Period end loans	\$25,935,716	\$22,053,145	\$25,935,716	\$22,053,145
Average loans	24,910,879	21,971,839	24,293,035	21,664,828
Loan Yield	11.58%	11.67%	11.61%	11.76%
Net charge-off rate	3.90	3.89	3.77	3.72
30+ day delinquency rate	2.82	2.93	2.82	2.93
Number of Accounts (000s)	10,130	9,639	10,130	9,639

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

Global Financial Services net income increased 92% and 70% for the three and six month periods ended June 30, 2006, respectively, as a result of increases in revenue and decreases to non-interest expense, offset by increases to the provision for loan losses. Total revenue increased 10% and 11% for the three and six month periods ended June 30, 2006, respectively, as a result of 13% and 12% growth in average loans for the same periods.

The provision for loan losses increased 16% and 15% and for the three and six month periods ended June 30, 2006, respectively, as a result of growth in the loan portfolio and continued credit quality deterioration in the U.K.

Non-interest expense decreased 3% and 5% for the three and six month periods ended June 30, 2006, respectively, as a result of improved operating efficiencies. Non-interest expense as a percentage of average managed loans improved 103 basis points to 5.86% for the quarter ended June 30, 2006 and improved 102 basis points to 5.72% for the year-to-date period ended June 30, 2006.

[Table of Contents](#)**Banking Segment****Table 5: Banking**

(Dollars in thousands)	Three Months Ended June 30, 2006	Six Months Ended June 30, 2006
Earnings (Managed Basis)		
Interest income	\$ 682,679	\$ 1,333,664
Interest expense	433,451	839,512
Net interest income	249,228	494,152
Non-interest income	114,039	218,524
Total revenue	363,267	712,676
Provision for loan losses	6,632	16,453
Non-interest expense	289,996	562,983
Income before taxes	66,639	133,240
Income taxes	23,324	46,634
Net income	\$ 43,315	\$ 86,606
Selected Metrics (Managed Basis)		
Period end loans	\$ 13,189,112	\$ 13,189,112
Average loans	13,115,534	13,199,548
Loan yield	7.63%	7.50%
Net charge-off rate	0.45	0.41
30+ day delinquency rate	0.38	0.38
Core Deposits	\$ 27,857,265	\$ 27,857,265
Total Deposits	\$ 35,281,970	\$ 35,281,970
Number of ATMs	705	705
Number of locations	324	324

In the first quarter of 2006, the Company added a Banking segment which represents legacy Hibernia business lines, excluding their indirect auto business which moved to the Auto Finance segment and including the Company's branchless deposits which moved from the Other caption. The Banking segment contributed \$43.3 million and \$86.6 million to net income during the three and six month periods ended June 30, 2006, respectively. The Banking segment ended the second quarter with \$13.2 billion in loans and \$35.3 billion in total deposits.

Deposits continue to exhibit strong growth in the Company's Texas de novo branches, and modest growth in parts of Louisiana. However, this growth was not sufficient to offset the expected deposit attrition of hurricane related deposit growth experienced in those areas of Louisiana significantly impacted by last year's hurricanes. Loans exhibited a similar effect, where loan growth was strong in the Company's Texas de novo branches, modest in parts of Louisiana, and down in the areas significantly impacted by last year's hurricanes.

[Table of Contents](#)

VII. Funding

Funding Availability

The Company has established access to a variety of funding sources. Table 6 illustrates the Company's unsecured funding sources and its two auto securitization warehouses.

Table 6: Funding Availability

<u>(in millions)</u>	<u>Effective/ Issue Date</u>	<u>Availability</u> ⁽¹⁾⁽⁵⁾	<u>Outstanding</u>	<u>Final Maturity</u> ⁽⁴⁾
Senior and Subordinated Global Bank Note Program ⁽²⁾	1/03	\$ 1,800	\$ 3,178	—
Senior Domestic Bank Note Program ⁽³⁾	4/97	—	\$ 168	—
Credit Facility	6/04	\$ 750	—	6/07
Capital One Auto Loan Facility I	—	\$ 3,032	\$ 268	—
Capital One Auto Loan Facility II	5/06	\$ 1,124	\$ 626	—
Corporation Automatic Shelf Registration Statement	5/06	*	N/A	**
Bridge Loan Facility	5/06	\$ 3,866	—	5/07

- (1) All funding sources are non-revolving except for the Credit Facility and the Capital One Auto Loan Facilities. Funding availability under the credit facilities is subject to compliance with certain representations, warranties and covenants. Funding availability under all other sources is subject to market conditions.
 - (2) The notes issued under the Senior and Subordinated Global Bank Note Program may have original terms of thirty days to thirty years from their date of issuance. This program was updated in June 2005.
 - (3) The notes issued under the Senior Domestic Bank Note Program have original terms of one to ten years. The Senior Domestic Bank Note Program is no longer available for issuances.
 - (4) Maturity date refers to the date the facility terminates, where applicable.
 - (5) Availability does not include unused conduit capacity related to securitization structures of \$6.4 billion at June 30, 2006.
- * The Corporation and certain of its subsidiaries have registered an indeterminate amount of securities pursuant to the Automatic Shelf Registration Statement that are available for future issuance.
- ** Under SEC rules, the Automatic Shelf Registration Statement expires three years after filing. Accordingly, the Corporation must file a new Automatic Shelf Registration Statement at least once every three years.

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

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

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

Table of Contents

In April 2002, COAF entered into a revolving warehouse credit facility collateralized by a security interest in certain auto loan assets (the “Capital One Auto Loan Facility I”). As of June 30, 2006, the Capital One Auto Loan Facility I had the capacity to issue up to \$3.3 billion in secured notes. The Capital One Auto Loan Facility I has multiple participants each with separate renewal dates. The facility does not have a final maturity date. Instead, each participant may elect to renew the commitment for another set period of time. Interest on the facility is based on commercial paper rates.

In March 2005, COAF entered into a revolving warehouse credit facility collateralized by a security interest in certain auto loan assets (the “Capital One Auto Loan Facility II”). As of June 30, 2006, the Capital One Auto Loan Facility II had the capacity to issue up to \$1.8 billion in secured notes. The Capital One Auto Loan Facility II has multiple participants each with separate renewal dates. The facility does not have a final maturity date. Instead, the participant may elect to renew the commitment for another set period of time. Interest on the facility is based on commercial paper rates.

As of June 30, 2006, the Corporation had an effective automatic shelf registration statement under which the Corporation from time to time may offer and sell senior or subordinated debt securities, preferred stock, common stock, units and stock purchase contracts and other types of securities that may be added to the registration statement. The Corporation has the ability to issue an unlimited amount of securities under this registration statement.

In May 2006, the Company entered into a syndicated bridge loan facility (“the Facility”). The Facility is available to the Company to finance, on an interim basis, the cash consideration payable to shareholders of North Fork in connection with the acquisition. The Facility is available until May 7, 2007 and borrowing under the Facility will mature on the earlier of 364 days from the date of borrowing, or December 1, 2007. The Facility size will automatically decrease by the amount of proceeds received by the Company from the issuance of securities intended to fund the cash consideration of the acquisition. After the issuance of securities discussed below, \$3.2 billion is available to the Company under the Facility.

In June 2006, the Company and Capital One Capital II, a subsidiary of the Company created as a Delaware statutory business trust, issued \$345.0 million aggregate principal amount of 7.5% Enhanced TRUPS[®] that mature on June 15, 2066. The securities represent a preferred beneficial interest in the assets of the trust.

In July 2006, the Company and Capital One Capital III, a subsidiary of the Company created as a Delaware statutory business trust, issued \$650.0 million aggregate principal amount of 7.686% Capital Securities that mature on August 15, 2036. The securities represent a preferred beneficial interest in the assets of the trust.

Deposits

The Company continues to expand its retail deposit gathering efforts through its direct marketing channels. Retail deposits are originated through the existing Capital One, National Association branch network, and through de novo branch expansion, and through direct marketed channels, such as the internet.

The Company’s branch network offers a broad set of deposit products that include demand deposits, money market deposits, NOW accounts, and certificates of deposits (“CDs”).

[Table of Contents](#)

As of June 30, 2006, the Company had \$47.2 billion in deposits of which \$3.4 billion were held in foreign banking offices and \$9.9 billion represented large domestic denomination certificates of \$100 thousand or more.

Table 7 shows the maturities of domestic time certificates of deposit in denominations of \$100 thousand or greater (large denomination CDs) as of June 30, 2006.

Table 7: Maturities of Large Denomination Certificates—\$100,000 or More

(Dollars in thousands)	June 30, 2006	
	Balance	Percent
Three months or less	\$1,964,466	19.89%
Over 3 through 6 months	1,091,850	11.06
Over 6 through 12 months	1,812,214	18.35
Over 12 months through 10 years	5,005,933	50.70
Total	\$9,874,463	100.00%

Table 8 shows the composition of average deposits for the periods presented.

Table 8: Deposit Composition and Average Deposit Rates

	Three Months Ended June 30,			Six Months Ended June 30,		
	Average Balance	% of Deposits	Average Deposit Rate	Average Balance	% of Deposits	Average Deposit Rate
Non-interest bearing—domestic	\$ 4,384,834	9.29%	N/A	\$ 4,439,448	9.34%	N/A
NOW accounts	597,406	1.26	2.71%	584,863	1.23	2.52%
Money market deposit accounts	11,093,056	23.50	3.21	10,905,954	22.94	3.03
Savings Accounts	3,919,465	8.30	2.68	3,820,280	8.03	2.59
Other consumer time deposits	13,980,892	29.61	4.16	14,312,460	30.10	4.12
Total core deposits	33,975,653	71.96	3.58	34,063,005	71.64	3.49
Public fund certificate of deposits of \$100,000 or more	971,511	2.06	4.67	967,866	2.04	4.47
Certificates of deposit of \$100,000 or more	8,878,461	18.81	4.51	9,141,714	19.23	4.44
Foreign time deposits - non-interest bearing	27,421	0.06	N/A	27,760	0.06	N/A
Foreign time deposits - interest-bearing	3,355,924	7.11	4.77	3,341,931	7.03	4.71
Total deposits	\$47,208,970	100.00%	3.89%	\$47,542,276	100.00%	3.81%

VIII. Off-Balance Sheet Arrangements

Off-Balance Sheet Securitizations

The Company actively engages in off-balance sheet securitization transactions of loans for funding purposes. The Company receives the proceeds from third party investors for securities issued from the Company's securitization vehicles which are collateralized by transferred receivables from the Company's portfolio. Securities outstanding totaling \$47.4 billion as of June 30, 2006, represent undivided interests in the pools of consumer loan receivables that are sold in underwritten offerings or in private placement transactions.

[Table of Contents](#)

The securitization of consumer loans has been a significant source of liquidity for the Company. Maturity terms of the existing securitizations vary from 2006 to 2025 and, for revolving securitizations, have accumulation periods during which principal payments are aggregated to make payments to investors. As payments on the loans are accumulated and are no longer reinvested in new loans, the Company's funding requirements for such new loans increase accordingly. The Company believes that it has the ability to continue to utilize off-balance sheet securitization arrangements as a source of liquidity; however, a significant reduction or termination of the Company's off-balance sheet securitizations could require the Company to draw down existing liquidity and/or to obtain additional funding through the issuance of secured borrowings or unsecured debt, the raising of additional deposits or the slowing of asset growth to offset or to satisfy liquidity needs.

Recourse Exposure

The credit quality of the receivables transferred is supported by credit enhancements, which may be in various forms including interest-only strips, subordinated interests in the pool of receivables, cash collateral accounts, cash reserve accounts and accrued interest and fees on the investor's share of the pool of receivables. Some of these credit enhancements are retained by the seller and are referred to as retained residual interests. The Company's retained residual interests are generally restricted or subordinated to investors' interests and their value is subject to substantial credit, repayment and interest rate risks on transferred assets if the off-balance sheet loans are not paid when due. Securitization investors and the trusts only have recourse to the retained residual interests, not the Company's assets. See the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, Part I, Item 8 "Financial Statements and Supplementary Data—Notes to the Consolidated Financial Statements—Note 21" for quantitative information regarding retained interests.

Collections and Amortization

Collections of interest and fees received on securitized receivables are used to pay interest to investors, servicing and other fees, and are available to absorb the investors' share of credit losses. For revolving securitizations, amounts collected in excess of that needed to pay the above amounts are remitted, in general, to the Company. Under certain conditions, some of the cash collected may be retained to ensure future payments to investors. For amortizing securitizations, amounts collected in excess of the amount that is used to pay the above amounts are generally remitted to the Company, but may be paid to investors in further reduction of their outstanding principal. See the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, Part I, Item 8 "Financial Statements and Supplementary Data—Notes to the Consolidated Financial Statements—Note 21" for quantitative information regarding revenues, expenses and cash flows that arise from securitization transactions.

Securitization transactions may amortize earlier than scheduled due to certain early amortization triggers, which would accelerate the need for funding. Additionally, early amortization would have a significant impact on the ability of the Bank and Savings Bank to meet regulatory capital adequacy requirements as all off-balance sheet loans experiencing such early amortization would be recorded on the balance sheet and accordingly would require incremental regulatory capital. As of June 30, 2006, no early amortization events related to the Company's off-balance sheet securitizations have occurred.

Letters of Credit and Financial Guarantees

The Company issues letters of credit and financial guarantees ("standby letters of credit") whereby it agrees to honor certain financial commitments in the event its customers are unable to perform. The majority of the standby letters of credit consist of financial guarantees. Collateral requirements are similar to those for funded transactions and are established based on management's credit assessment of the customer. Management conducts regular reviews of all outstanding standby letters of credit and customer acceptances, and the results of these reviews are considered in assessing the adequacy of the Company's allowance for loan losses.

[Table of Contents](#)

The Company had contractual amounts of standby letters of credit of \$583.1 million at June 30, 2006. As of June 30, 2006, standby letters of credit had expiration dates ranging from 2006 to 2011. The fair value of the guarantees outstanding at June 30, 2006 that have been issued since January 1, 2003, was \$2.8 million and was included in other liabilities.

IX. Capital

Capital Adequacy

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

The most recent notifications received from the Regulators categorized the Bank, the Savings Bank and the National Bank as “well-capitalized.” As of June 30, 2006, the Company’s, the Bank’s, the Savings Bank’s and the National Bank’s capital exceeded all minimum regulatory requirements to which they were subject, and there were no conditions or events since the notifications discussed above that management believes would have changed either the Company, the Bank, the Savings Bank’s or the National Bank’s capital category.

Table 9 – REGULATORY CAPITAL RATIOS

	Regulatory Filing Basis Ratios	Applying Subprime Guidance Ratios	Minimum for Capital Adequacy Purposes	To Be “Well Capitalized” Under Prompt Corrective Action Provisions
June 30, 2006				
<i>Capital One Financial Corp.⁽¹⁾</i>				
Tier 1 Capital	16.10%	14.44%	4.00%	N/A
Total Capital	18.30	16.53	8.00	N/A
Tier 1 Leverage	14.22	14.22	4.00	N/A
<i>Capital One Bank</i>				
Tier 1 Capital	14.42%	11.41%	4.00%	6.00%
Total Capital	18.53	14.88	8.00	10.00
Tier 1 Leverage	11.51	11.51	4.00	5.00
<i>Capital One, F.S.B.</i>				
Tier 1 Capital	13.68%	11.33%	4.00%	6.00%
Total Capital	14.95	12.59	8.00	10.00
Tier 1 Leverage	13.65	13.65	4.00	5.00
<i>Capital One, National Association</i>				
Tier 1 Capital	10.44%	N/A	4.00%	6.00%
Total Capital	11.68	N/A	8.00	10.00
Tier 1 Leverage	7.30	N/A	4.00	5.00
June 30, 2005				
<i>Capital One Financial Corp.⁽¹⁾</i>				
Tier 1 Capital	19.59%	17.08%	4.00%	N/A
Total Capital	22.09	19.40	8.00	N/A
Tier 1 Leverage	17.40	17.40	4.00	N/A
<i>Capital One Bank</i>				
Tier 1 Capital	14.26%	11.56%	4.00%	6.00%
Total Capital	18.39	15.11	8.00	10.00
Tier 1 Leverage	10.88	10.88	4.00	5.00
<i>Capital One, F.S.B.</i>				
Tier 1 Capital	13.05%	11.08%	4.00%	6.00%
Total Capital	14.34	12.36	8.00	10.00
Tier 1 Leverage	12.83	12.83	4.00	5.00

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

The Bank and Savings Bank treat a portion of their loans as “subprime” under the “Expanded Guidance for Subprime Lending Programs” (the “Subprime Guidelines”) issued by the four federal banking

[Table of Contents](#)

agencies that comprise the Federal Financial Institutions Examination Council (“FFIEC”), and have assessed their capital and allowance for loan losses accordingly. Under the Subprime Guidelines, the Company, the Bank and Savings Bank each exceed the minimum capital adequacy guidelines as of June 30, 2006. Failure to meet minimum capital requirements can result in mandatory and possible additional discretionary actions by the regulators that, if undertaken, could have a material effect on the Company’s consolidated financial statements.

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

Additionally, regulatory restrictions exist that limit the ability of the Bank, Savings Bank and National Bank to transfer funds to the Corporation. As of June 30, 2006, retained earnings of the Bank, the Savings Bank and the National Bank of \$137.0 million, \$467.7 million and \$8.9 million, respectively, were available for payment of dividends to the Corporation without prior approval by the regulators.

Dividend Policy

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

X. Business Outlook

This business outlook section summarizes the Company’s expectations for earnings for 2006, and its primary goals and strategies for continued growth. The statements contained in this section are based on management’s current expectations. Certain statements are forward looking, and therefore actual results could differ materially from those in the Company’s forward looking statements. Factors that could materially influence results are set forth throughout this section and in Item 1A “Risk Factors.”

Expected Earnings

The Company expects diluted earnings per share of \$7.40 to \$7.80, including the expected impacts of an early fourth quarter close of the North Fork acquisition. This EPS guidance represents an increase of between 10% and 16% over its diluted earnings per share of \$6.73 in 2005. The company also expects its managed loan growth rate to be between 7% and 9% and continued stability in ROA in 2006, including the acquisition of North Fork. The Company notes that market conditions on the day of close and the resultant impact on purchase accounting adjustments, in addition to the timing of the close, create significant uncertainty about the impact that North Fork will have on fourth quarter EPS and managed ROA metrics.

The Company’s earnings are a function of its revenues (net interest income and non-interest income), consumer usage, payment and attrition patterns, the credit quality and growth rate of its earning assets (which affect fees, charge-offs and provision expense), the growth rate of its branches and deposits, and

[Table of Contents](#)

the Company's marketing and operating expenses. Specific factors likely to affect the Company's 2006 earnings are the mix of loans in its portfolio, the level of off-balance sheet securitizations, changes in consumer or commercial payment behavior, the amount of and quality of deposits it generates, the competitive, legal, regulatory and reputational environment, the level of investments, growth in its businesses, and the health of the economy and its labor markets.

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

Return on Managed Assets

The Company expects continued stability in its annual return on managed assets, generally consistent with 2004 and 2005 managed ROA of 1.73% and 1.72%, respectively, including the North Fork acquisition. The Company expects a decline in revenue margin, due to its bias towards lower loss assets, which is expected to be offset primarily by reductions in provision, marketing and operating expenses as a percent of assets. The Company also expects that its operating expenses in the second half of 2006 will be approximately \$200 million higher than they were in the first half of 2006, due to a combination of infrastructure investments, most notably the portfolio conversion of its credit card processing to a Total Systems platform, as well as other infrastructure investments and generally higher operating costs associated with a growing business.

The Company's objective is to continue expanding in consumer financial services, which may include expansion into additional geographic markets, additional bank branches, and other consumer loan products via organic growth and/or acquisitions of other companies. In each business line, the Company expects to apply its proprietary marketing capabilities to identify new product and new market opportunities, and to make investment decisions based on the Company's extensive testing and analysis.

The Company's lending and deposit products are subject to intense competitive pressures that management anticipates will continue to increase as its markets mature, and it could affect the economics of decisions that the Company has made or will make in the future in ways that it did not anticipate, test or analyze.

U.S. Card Segment

The Company's U.S. Card segment consisted of \$48.7 billion of managed U.S. consumer credit card loans as of June 30, 2006, marketed to consumers. The Company's strategy for its U.S. Card segment is to offer compelling, value-added products to its customers.

The competitive environment is currently intense for credit card products. Industry mail volume has increased substantially in recent years, resulting in declines in response rates to the Company's new customer solicitations over time. Additionally, the increase in other consumer loan products puts pressure on growth throughout the credit card industry. These competitive pressures remain significant as a result of, among other things, increasing consolidation within the industry. The industry's response to this competitive pressure has been to increase mail volumes to record levels, and in some parts of the market, most notably, with respect to the prime revolver customers, offer products that appear to rely heavily on extremely low upfront pricing combined with extensive penalty repricing well beyond "go to" rates for profitability. In recent quarters, the Company has chosen to limit its marketing in those selected parts of the market because it believed the prevailing industry pricing practices will compromise both economic returns and customer loyalty over the long term. During this quarter, the Company began marketing new products in the prime segment. These new products are not dependent on extremely low upfront pricing combined with extensive penalty repricing well beyond "go to" rates to achieve profitability. The Company continues to believe that its marketing capabilities and credit risk management will enable it to originate new credit card accounts that exceed the Company's return on investment requirements.

[Table of Contents](#)

Auto Finance Segment

The Company's Auto Finance segment consisted of \$20.6 billion of managed U.S. auto loans as of June 30, 2006, marketed across the full credit spectrum, via direct and dealer marketing channels.

The 2005 acquisitions of Onyx Acceptance Corporation, the Key Bank non-prime portfolio, and Hibernia, along with its auto lending business, have strengthened the Auto Finance segment's competitive position. The acquisitions have enhanced our ability to lend across the entire credit spectrum and provided operating scale. The Company expects to integrate these businesses more fully in 2006, and realize cost efficiencies and marketing synergies that will drive originations growth.

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

Global Financial Services Segment

The Global Financial Services segment consisted of \$25.9 billion of managed loans as of June 30, 2006, including international lending activities, small business lending, installment loans, home loans, point of sale financing and other consumer financial service activities.

The Company continues to experience solid growth from all of its North American businesses. Challenges in the UK business continued to worsen in the quarter. The Company expects credit quality pressures in its U.K. business to continue in the near term. As a result of this continued pressure, the company added \$37.5 million to the allowance for loan losses and added \$5.4 million to its estimate of uncollectible finance charges and fees which reduced GFS net income for the quarter.

Banking

With the acquisition of Hibernia on November 16, 2005, Capital One entered the branch banking market. Beginning in the first quarter of 2006, a separate Banking segment for Capital One was reported.

The National Bank has experienced a significant increase in deposits since the Gulf Coast Hurricanes in August 2005. The increase is partially due to the inflow of relief and insurance to customers in the hurricane impacted areas of the National Bank's market. The Company expects that many of these incremental deposits will run off over time as customers reinvest these funds in the recovery of the hurricane impacted areas.

The Company's de novo branch expansion program is expected to be a sizable source of future deposit and loan growth. The Company opened 7 new branches during the second quarter of 2006, and continues to expect to open approximately 40 in full year 2006.

The Company continues to expect integration costs of around \$90 million in 2006, and continues to expect total integration costs and operating synergies to be broadly in line with original estimates when the Hibernia transaction was announced in March 2005.

[Table of Contents](#)

In March 2006, the Company signed a definitive agreement to acquire North Fork Bancorporation, Inc. (“North Fork”), a bank holding company that offers a full range of banking products and financial services to both consumer and commercial customers. The Company expects to acquire North Fork in a stock and cash transaction valued on March 10, 2006, at approximately \$14.6 billion. The transaction is subject to regulatory and Capital One’s and North Fork’s shareholder approvals and is expected to close in the fourth quarter of 2006.

XI. Supervision and Regulation

General

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

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

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

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

The National Bank is a nationally chartered bank, the deposits of which are insured by the Bank Insurance Fund of the FDIC up to applicable limits. The National Bank is subject to comprehensive regulation and periodic examination by the Office of the Comptroller of the Currency (the “OCC”) and the FDIC.

[Table of Contents](#)

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

On July 12, 2006 we filed an application with our banking regulators that, among other things, seeks approval to reorganize our legal entity structure by consolidating North Fork Bank and our Savings Bank into our National Bank.

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

For additional information on the Company’s regulatory issues and activities, see the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2005, Part I, Item 1, “Supervision and Regulation.”

International Regulation

The Bank faces regulation in foreign jurisdictions where it currently, and may, in the future, operate. Those regulations may be similar to or substantially different from the regulatory requirements the Bank faces in the United States. In the United Kingdom, the Bank operates through the U.K. Bank, which was established in 2000. The U.K. Bank is regulated by the Financial Services Authority (“FSA”) and licensed by the Office of Fair Trading (“OFT”). The U.K. Bank is an “authorized deposit taker” and thus is able to take consumer deposits in the U.K. The U.K. Bank has also been granted a full license by the OFT to issue consumer credit under the U.K.’s Consumer Credit Act—1974. The FSA requires the U.K. Bank to maintain certain regulatory capital ratios at all times, and it may modify those requirements at any time. The U.K. Bank obtains capital through earnings or through additional capital infusion from the Bank, subject to approval under Regulation K of the rules administered by the Federal Reserve. If the U.K. Bank is unable to generate or maintain sufficient capital in favorable terms, it may choose to restrict its growth to maintain its required capital levels. In addition, the U.K. Bank is limited by the U.K. Companies Act—1985 in its distribution of dividends to the Bank in that such dividends may only be paid out of the U.K. Bank’s “distributable profits.”

As in the U.S., in non-U.S. jurisdictions where the Company operates, the Company faces a risk that the laws and regulations that are applicable to it (or the interpretations of existing laws by relevant regulators) may change in ways that adversely impact the Company’s business. The OFT has concluded its industry wide investigation into alleged unfair contract terms in lending agreements and questioning how credit card companies calculate default charges, such as late, overlimit and returned check fees, in the U.K. The OFT has set out guidance on its view that default charges should cover only certain specified costs and it has issued guidance on what those costs may be. Specifically, the OFT has requested that the industry limit default fees to a maximum of twelve pounds sterling. The U.K. industry was given until June 28, 2006 to implement the OFT’s guidance and Capital One has taken steps to do so. The impact on the UK Bank depends on the success of actions the Company plans to take to mitigate the impact of this reduction. In addition, the OFT has confirmed that it will continue with its investigation into Visa’s and MasterCard’s current method of setting interchange fees applicable to UK domestic transactions. Cross-border interchange fees are also coming under scrutiny from the European Commission. While a final decision is not expected before early 2009, the most likely outcome is that interchange fees will be reduced and this could adversely affect the yield on U.K. credit card portfolios, including the Company’s, and could therefore adversely impact the Company’s earnings. Finally, in the United Kingdom, the Consumer Credit Act 2006 came into force on April 6, 2006. Consultation on its

implementation and the issuance of the regulations under the Act is now underway, with the implementation timetable extending from 2006 to 2008. The Act covers the following areas: the creation of an “unfair relationship” test for credit agreements, the creation of alternative dispute resolution options for credit agreements, a requirement on lenders to provide annual statements to borrowers outlining the full amount owed and warnings about making only minimum repayments, and a stricter licensing regime that would give the OFT new powers to fine lenders for their behavior. At this time, the Company cannot predict the extent to which the changes in the Act and Regulations would impact us.

XII. Enterprise Risk Management

Risk is an inherent part of the Company’s business and activities. The Company has an ongoing Enterprise Risk Management (“ERM”) program designed to ensure appropriate and comprehensive oversight and management of risk. The ERM program operates at all levels in the Company: first, at the most senior levels with the Board of Directors and senior management committees that oversee risk and risk management practices; second, in the centralized departments headed by the Chief Risk Officer that establishes risk management methodologies, processes and standards; and third, in the individual business areas throughout the Company which own the management of risk and perform ongoing identification, assessment and response to risks. The Company’s Corporate Audit Services department also assesses risk and the related quality of internal controls and quality of risk management through its audit activities. To facilitate the effective management of risk, the Company utilizes a risk and control framework that includes eight categories of risk: credit, liquidity, market, operational, legal, strategic, reputation and compliance. For additional information on the Company’s ERM program, see the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2005, Part I, Item 1, “Enterprise Risk Management”.

XIII. Tabular Summary
TABLE A—STATEMENTS OF AVERAGE BALANCES, INCOME AND EXPENSE, YIELDS AND RATES

Table A provides average balance sheet data and an analysis of net interest income, net interest spread (the difference between the yield on earning assets and the cost of interest-bearing liabilities) and net interest margin for the three and six months ended June 30, 2006 and 2005.

(Dollars in thousands)	Three Months Ended June 30					
	2006			2005		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
Assets:						
Earning assets						
Consumer loans ⁽¹⁾						
Domestic	\$44,670,021	\$1,297,675	11.62%	\$31,025,308	\$1,006,887	12.98%
International	3,718,870	105,066	11.30%	4,357,947	114,506	10.51%
Total consumer loans	48,388,891	1,402,741	11.60%	35,383,255	1,121,393	12.68%
Small business loans	6,627,218	143,795	8.68%	2,854,208	68,705	9.63%
Commercial loans	3,817,267	70,401	7.38%	—	—	—
Total loans	58,833,376	1,616,937	10.99%	38,237,463	1,190,098	12.45%
Securities available for sale	14,364,402	167,804	4.67%	9,592,645	91,245	3.80%
Other						
Domestic	4,381,571	88,496	8.08%	2,509,554	52,220	8.32%
International	1,446,352	23,920	6.62%	1,354,268	18,337	5.42%
Total Other	5,827,923	112,416	7.72%	3,863,822	70,557	7.30%
Total earning assets	79,025,701	\$1,897,157	9.60%	51,693,930	\$1,351,900	10.46%
Cash and due from banks	1,416,944			661,023		
Allowance for loan losses	(1,678,091)			(1,439,532)		
Premises and equipment, net	1,419,151			807,871		
Other	9,459,924			5,239,360		
Total assets	\$89,643,629			\$56,962,652		
Liabilities and Equity:						
Interest-bearing liabilities						
Deposits						
Domestic	\$40,524,921	\$ 388,448	3.83%	\$23,754,986	\$ 245,094	4.13%
International	2,271,794	27,784	4.89%	2,636,247	34,344	5.21%
Total Deposits	42,796,715	416,232	3.89%	26,391,233	279,438	4.24%
Senior and subordinated notes	5,576,041	84,707	6.08%	6,987,888	104,593	5.99%
Other borrowings						
Domestic	16,917,110	199,073	4.71%	10,824,232	95,254	3.52%
International	11,163	63	2.26%	14,723	112	3.04%
Total Other borrowings	16,928,273	199,136	4.71%	10,838,955	95,366	3.52%
Total interest-bearing liabilities	65,301,029	\$ 700,075	4.29%	44,218,076	\$ 479,397	4.34%
Non-interest bearing deposits	4,412,255			79,623		
Other	4,348,898			3,739,610		
Total liabilities	74,062,182			48,037,309		
Equity	15,581,447			8,925,343		
Total liabilities and equity	\$89,643,629			\$56,962,652		
Net interest spread			5.31%			6.12%
Interest income to average earning assets			9.60%			10.46%
Interest expense to average earning assets			3.54%			3.71%
Net interest margin			6.06%			6.75%

(1) Interest income includes past-due fees on loans of approximately \$155.9 million and \$192.9 million for the three months ended June 30, 2006 and 2005, respectively.

[Table of Contents](#)

(Dollars in thousands)	Six Months Ended June 30					
	2006			2005		
	Average Balance	Income/Expense	Yield/Rate	Average Balance	Income/Expense	Yield/Rate
Assets:						
Earning assets						
Consumer loans ⁽¹⁾						
Domestic	\$44,416,078	\$2,603,196	11.72%	\$31,081,806	\$2,000,065	12.87%
International	3,694,428	205,582	11.13%	4,381,605	239,180	10.92%
Total consumer loans	48,110,506	2,808,778	11.68%	35,463,411	2,239,245	12.63%
Small business loans	6,519,383	282,298	8.66%	2,790,225	134,889	9.67%
Commercial loans	3,859,917	138,483	7.18%	—	—	—
Total loans	58,489,806	3,229,559	11.04%	38,253,636	2,374,134	12.41%
Securities available for sale	14,703,054	332,904	4.53%	9,623,370	181,409	3.77%
Other						
Domestic	3,875,007	163,513	8.44%	2,193,293	96,375	8.79%
International	1,448,708	49,763	6.87%	1,289,985	36,250	5.62%
Total Other	5,323,715	213,276	8.01%	3,483,278	132,625	7.61%
Total earning assets	78,516,575	\$3,775,739	9.62%	51,360,284	\$2,688,168	10.47%
Cash and due from banks	1,648,909			1,055,882		
Allowance for loan losses	(1,733,413)			(1,475,040)		
Premises and equipment, net	1,315,270			818,472		
Other	9,483,739			4,838,233		
Total assets	\$89,231,080			\$56,597,831		
Liabilities and Equity:						
Interest-bearing liabilities						
Deposits						
Domestic	\$40,770,540	\$ 763,351	3.74%	\$23,471,479	\$ 478,161	4.07%
International	2,304,530	56,490	4.90%	2,553,543	65,302	5.11%
Total Deposits	43,075,070	819,841	3.81%	26,025,022	543,463	4.18%
Senior and subordinated notes	5,835,435	179,061	6.14%	6,946,848	219,073	6.31%
Other borrowings						
Domestic	16,491,350	372,705	4.52%	10,789,257	192,322	3.57%
International	12,318	173	2.81%	14,018	286	4.08%
Total Other borrowings	16,503,668	372,878	4.52%	10,803,275	192,608	3.57%
Total interest-bearing liabilities	65,414,173	\$1,371,780	4.19%	43,775,145	\$ 955,144	4.36%
Non-interest bearing deposits	4,467,207			68,488		
Other	4,252,920			4,339,123		
Total liabilities	74,134,300			48,182,756		
Equity	15,096,780			8,415,075		
Total liabilities and equity	\$89,231,080			\$56,597,831		
Net interest spread			5.42%			6.11%
Interest income to average earning assets			9.62%			10.47%
Interest expense to average earning assets			3.49%			3.72%
Net interest margin			6.12%			6.75%

(1) Interest income includes past-due fees on loans of approximately \$347.4 million and \$403.6 million for the six months ended June 30, 2006 and 2005, respectively.

TABLE B—INTEREST VARIANCE ANALYSIS

(Dollars in thousands)	Three Months Ended June 30, 2006 vs 2005			Six Months Ended June 30, 2006 vs 2005		
	Increase (Decrease)	Volume	Yield/ Rate	Increase (Decrease)	Volume	Yield/ Rate
Interest Income:						
Consumer loans						
Domestic	\$ 290,788	\$ 916,900	\$(626,112)	\$ 603,131	\$1,090,043	\$(486,912)
International	(9,440)	(51,791)	42,351	(33,598)	(46,419)	12,821
Total	281,348	849,534	(568,186)	569,533	1,027,595	(458,062)
Small business loans	75,090	120,318	(45,228)	147,409	188,939	(41,530)
Commercial loans	70,401	70,401	—	138,483	138,483	—
Total loans	426,839	1,265,635	(838,796)	855,425	1,574,726	(719,301)
Securities available for sale	76,559	52,488	24,071	151,495	109,701	41,794
Other						
Domestic	36,276	46,707	(10,431)	67,138	78,381	(11,243)
International	5,583	1,312	4,271	13,513	4,814	8,699
Total	41,859	37,685	4,174	80,651	73,402	7,249
Total interest income	545,257	1,240,017	(694,760)	1,087,571	1,699,796	(612,225)
Interest Expense:						
Deposits						
Domestic	143,354	256,693	(113,339)	285,190	396,460	(111,270)
International	(6,560)	(4,546)	(2,014)	(8,812)	(6,183)	(2,629)
Total	136,794	281,947	(145,153)	276,378	413,068	(136,690)
Senior notes	(19,886)	(30,151)	10,265	(40,012)	(34,240)	(5,772)
Other borrowings						
Domestic	103,819	64,925	38,894	180,383	119,710	60,673
International	(49)	(24)	(25)	(113)	(32)	(81)
Total	103,770	64,862	38,908	180,270	119,660	60,610
Total interest expense	220,678	257,430	(36,752)	416,636	524,004	(107,368)
Net interest income	<u>\$ 324,579</u>	<u>\$ 871,205</u>	<u>\$(546,626)</u>	<u>\$ 670,935</u>	<u>\$1,117,277</u>	<u>\$(446,342)</u>

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

TABLE C—MANAGED LOAN PORTFOLIO

(Dollars in thousands)	Three Months Ended June 30	
	2006	2005
Period-End Balances:		
Reported loans:		
Consumer loans:		
Credit cards		
Domestic	\$ 14,255,974	\$ 14,083,674
International	3,404,092	3,452,185
Total credit cards	17,660,066	17,535,859
Installment loans		
Domestic	6,716,247	4,780,296
International	627,735	565,090
Total installment loans	7,343,982	5,345,386
Auto loans	19,840,162	12,888,090
Mortgage loans	5,020,962	—
Total consumer loans	49,865,172	35,769,335
Small business loans	6,874,074	2,841,452
Commercial loans	3,863,557	—
Total reported loans	60,602,803	38,610,787
Securitization Adjustments:		
Consumer loans:		
Credit cards		
Domestic	34,499,030	32,300,174
International	7,279,059	6,410,107
Total credit cards	41,778,089	38,710,281
Installment loans		
Domestic	2,883,261	2,275,835
International	—	—
Total installment loans	2,883,261	2,275,835
Auto loans	718,293	1,632,126
Mortgage loans	—	—
Total consumer loans	45,379,643	42,618,242
Small business loans	2,450,993	1,722,323
Commercial loans	—	—
Total securitization adjustments	47,830,636	44,340,565
Managed loans:		
Consumer loans:		
Credit cards		
Domestic	48,755,004	46,383,848
International	10,683,151	9,862,292
Total credit cards	59,438,155	56,246,140
Installment loans		
Domestic	9,599,508	7,056,131
International	627,735	565,090
Total installment loans	10,227,243	7,621,221
Auto loans	20,558,455	14,520,216
Mortgage loans	5,020,962	—
Total consumer loans	95,244,815	78,387,577
Small business loans	9,325,067	4,563,775
Commercial loans	3,863,557	—
Total managed loans	\$ 108,433,439	\$ 82,951,352

[Table of Contents](#)

(Dollars in thousands)	Three Months Ended June 30	
	2006	2005
Average Balances:		
Reported loans:		
Consumer loans:		
Credit cards		
Domestic	\$ 13,940,706	\$ 14,198,506
International	3,122,612	3,793,973
Total credit cards	17,063,318	17,992,479
Installment loans		
Domestic	6,289,439	4,633,497
International	596,258	563,974
Total installment loans	6,885,697	5,197,471
Auto loans	19,367,480	12,193,305
Mortgage loans	5,072,396	—
Total consumer loans	48,388,891	35,383,255
Small business loans	6,627,218	2,854,208
Commercial loans	3,817,267	—
Total reported loans	58,833,376	38,237,463
Securitization Adjustments:		
Consumer loans:		
Credit cards		
Domestic	33,947,926	32,166,842
International	7,155,567	6,418,151
Total credit cards	41,103,493	38,584,993
Installment loans		
Domestic	2,881,616	2,275,124
International	—	—
Total installment loans	2,881,616	2,275,124
Auto loans	820,151	1,800,693
Mortgage loans	—	—
Total consumer loans	44,805,260	42,660,810
Small business loans	2,451,258	1,573,555
Commercial loans	—	—
Total securitization adjustments	47,256,518	44,234,365
Managed loans:		
Consumer loans:		
Credit cards		
Domestic	47,888,632	46,365,348
International	10,278,179	10,212,124
Total credit cards	58,166,811	56,577,472
Installment loans		
Domestic	9,171,055	6,908,621
International	596,258	563,974
Total installment loans	9,767,313	7,472,595
Auto loans	20,187,631	13,993,998
Mortgage loans	5,072,396	—
Total consumer loans	93,194,151	78,044,065
Small business loans	9,078,476	4,427,763
Commercial loans	3,817,267	—
Total	\$ 106,089,894	\$ 82,471,828

[Table of Contents](#)

(Dollars in thousands)	Six Months Ended June 30	
	2006	2005
Average Balances:		
Reported loans:		
Consumer loans:		
Credit cards		
Domestic	\$ 14,254,020	\$ 14,947,347
International	3,119,895	3,844,364
Total credit cards	17,373,915	18,791,711
Installment loans		
Domestic	6,129,167	4,580,630
International	574,533	537,241
Total installment loans	6,703,700	5,117,871
Auto loans	18,896,917	11,553,829
Mortgage loans	5,135,974	—
Total consumer loans	48,110,506	35,463,411
Small business loans	6,519,383	2,790,225
Commercial loans	3,859,917	—
Total reported loans	58,489,806	38,253,636
Securitization Adjustments:		
Consumer loans:		
Credit cards		
Domestic	33,805,921	32,089,346
International	7,024,773	6,195,952
Total credit cards	40,830,694	38,285,298
Installment loans		
Domestic	2,788,942	2,226,893
International	—	—
Total installment loans	2,788,942	2,226,893
Auto loans	918,540	1,860,751
Mortgage loans	—	—
Total consumer loans	44,538,176	42,372,942
Small business loans	2,326,153	1,488,252
Commercial loans	—	—
Total securitization adjustments	46,864,329	43,861,194
Managed loans:		
Consumer loans:		
Credit cards		
Domestic	48,059,941	47,036,693
International	10,144,668	10,040,316
Total credit cards	58,204,609	57,077,009
Installment loans		
Domestic	8,918,109	6,807,523
International	574,533	537,241
Total installment loans	9,492,642	7,344,764
Auto loans	19,815,457	13,414,580
Mortgage loans	5,135,974	—
Total consumer loans	92,648,682	77,836,353
Small business loans	8,845,536	4,278,477
Commercial loans	3,859,917	—
Total	<u>\$ 105,354,135</u>	<u>\$ 82,114,830</u>

TABLE D—COMPOSITION OF REPORTED LOAN PORTFOLIO

(Dollars in thousands)	As of June 30			
	2006		2005	
	Loans	% of Total Loans	Loans	% of Total Loans
Reported:				
Consumer loans	\$49,865,172	82.28%	\$35,769,335	92.64%
Small business loans	6,874,074	11.34%	2,841,452	7.36%
Commercial loans	3,863,557	6.38%	—	—
Total	<u>\$60,602,803</u>	<u>100.00%</u>	<u>\$38,610,787</u>	<u>100.00%</u>

TABLE E—DELINQUENCIES

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

(Dollars in thousands)	As of June 30			
	2006		2005	
	Loans	% of Total Loans	Loans	% of Total Loans
Reported:				
Loans outstanding	\$ 60,602,803	100.00%	\$38,610,787	100.00%
Loans delinquent:				
30-59 days	997,496	1.65%	739,705	1.92%
60-89 days	376,485	0.62%	301,974	0.78%
90-119 days	208,977	0.34%	172,150	0.44%
120-149 days	100,449	0.16%	99,206	0.26%
150 or more days	88,784	0.15%	86,517	0.22%
Total	<u>\$ 1,772,191</u>	<u>2.92%</u>	<u>\$ 1,399,552</u>	<u>3.62%</u>
Loans delinquent by geographic area:				
Domestic	\$ 1,675,540	2.96%	\$ 1,298,283	3.75%
International	96,651	2.40%	101,269	2.52%
Managed:				
Loans outstanding	\$108,433,439	100.00%	\$82,951,352	100.00%
Loans delinquent:				
30-59 days	1,560,217	1.44%	1,302,901	1.57%
60-89 days	711,829	0.66%	630,898	0.76%
90-119 days	471,946	0.43%	423,919	0.51%
120-149 days	301,476	0.28%	288,842	0.35%
150 or more days	260,925	0.24%	246,299	0.30%
Total	<u>\$ 3,306,393</u>	<u>3.05%</u>	<u>\$ 2,892,859</u>	<u>3.49%</u>

TABLE F—NET CHARGE-OFFS

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

(Dollars in thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Reported:				
Average loans outstanding	\$ 58,833,376	\$38,237,463	\$ 58,489,806	\$38,253,636
Net charge-offs	295,844	324,048	596,311	654,318
Net charge-offs as a percentage of average loans outstanding	2.01%	3.39%	2.04%	3.42%
Managed:				
Average loans outstanding	\$106,089,894	\$82,471,828	\$105,354,135	\$82,114,830
Net charge-offs	729,010	844,610	1,421,513	1,688,541
Net charge-offs as a percentage of average loans outstanding	2.75%	4.10%	2.70%	4.11%

[Table of Contents](#)

TABLE G—NONPERFORMING ASSETS

Table G shows a summary of nonperforming assets for the period indicated.

	As of June 30, 2006
Nonaccrual loans:	
Consumer	\$ 33,618
Small business	22,004
Commercial	34,918
Total nonperforming loans	<u>90,540</u>
Foreclosed assets	6,705
Excess bank-owned property	1,036
Total nonperforming assets	<u>\$ 98,281</u>

- (1) The Company assumed nonperforming assets in connection with the Hibernia acquisition and therefore did not have any nonperforming assets prior to December 31, 2005.

TABLE H—SUMMARY OF ALLOWANCE FOR LOAN LOSSES

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

(Dollars in thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Balance at beginning of period	\$1,675,000	\$1,440,000	\$1,790,000	\$1,505,000
Provision for loan losses:				
Domestic	289,724	236,576	398,246	449,265
International	72,721	55,024	134,469	101,966
Total provision for loan losses	362,445	291,600	532,715	551,231
Acquisitions	—	—	—	7,757
Other	10,520	(2,552)	11,434	(4,670)
Charge-offs:				
Consumer loans:				
Domestic	(321,912)	(356,068)	(665,317)	(721,620)
International	(59,755)	(45,673)	(114,083)	(91,668)
Total consumer loans	(381,667)	(401,741)	(779,400)	(813,288)
Small business loans	(35,490)	(36,196)	(64,607)	(70,191)
Commercial loans	(1)	—	(70)	—
Total charge-offs	(417,158)	(437,937)	(844,077)	(883,479)
Principal recoveries:				
Consumer loans:				
Domestic	113,714	97,475	236,336	196,346
International	12,073	10,662	23,646	21,567
Total consumer loans	125,787	108,137	259,982	217,913
Small business loans	8,330	5,752	14,736	11,248
Commercial loans	76	—	210	—
Total principal recoveries	134,193	113,889	274,928	229,161
Net charge-offs	(282,965)	(324,048)	(569,149)	(654,318)
Balance at end of period	\$1,765,000	\$1,405,000	\$1,765,000	\$1,405,000
Allowance for loan losses to loans at end of period	2.91%	3.64%	2.91%	3.64%
Allowance for loan losses by geographic distribution:				
Domestic	\$1,558,919	\$1,232,438	\$1,558,919	\$1,232,438
International	206,081	172,562	206,081	172,562
Allowance for loan losses by loan category:				
Consumer loans:				
Domestic	\$1,319,607	\$1,117,221	\$1,319,607	\$1,117,221
International	206,081	172,562	206,081	172,562
Total consumer loans	1,525,688	1,289,783	1,525,688	1,289,783
Small business loans	187,333	115,217	187,333	115,217
Commercial loans	41,400	—	41,400	—
Unallocated	10,579	—	10,579	—
Total loans	\$1,765,000	\$1,405,000	\$1,765,000	\$1,405,000

[Table of Contents](#)

Item 3. *Quantitative and Qualitative Disclosures about Market Risk.*

The information called for by this item is provided under the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005, Item 7A "Quantitative and Qualitative Disclosures about Market Risk". No material changes have occurred during the three and six month periods ended June 30, 2006.

Item 4. Controls and Procedures.

(a) *Disclosure Controls and Procedures.*

The Corporation's management carried out an evaluation of the effectiveness of the design and operation of the Corporation's disclosure controls and internal controls and procedures as of June 30, 2006, pursuant to Exchange Act Rules 13a-14 and 13a-15. These controls and procedures for financial reporting are the responsibility of the Corporation's management. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in alerting them in a timely manner to material information relating to the Corporation (including consolidated subsidiaries) required to be included in the Corporation's periodic filings with the Securities and Exchange Commission. The Corporation has established a Disclosure Committee consisting of members of senior management to assist in this evaluation.

Part II. Other Information

Item 1. Legal Proceedings.

The information required by Item 1 is included in this Quarterly Report under the heading “Notes to Condensed Consolidated Financial Statements – Note 8– Commitments and Contingencies.”

Item 1A. Risk Factors

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

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

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

We Face Intense Competition in All of Our Markets

We face intense competition from many other providers of credit cards, automobile loans, branch retail banking services and other consumer financial products and services. In particular, in our credit card activities, we compete with international, national, regional and local bank card issuers, with other general purpose credit or charge card issuers, and to a certain extent, issuers of smart cards and debit cards. Our credit card business also competes with providers of other types of financial services and consumer loans such as home equity lines and other mortgage related products that offer consumer debt consolidation. Thus, the cost to acquire new accounts will continue to vary among product lines and may rise. Other companies may compete with us for customers by offering lower initial interest rates and fees, higher credit limits and/or customer services or product features that are or may appear to be more attractive than those we offer. Because customers often choose credit card issuers (or other sources of financing) based on price (primarily interest rates and fees), credit limit and other product features, customer loyalty is limited. In addition, intense competition may lead to product and pricing practices that may adversely impact long-term customer loyalty; we may choose to not engage in such practices, which may adversely impact our ability to compete, particularly in the short term. Increased competition has resulted in, and may continue to cause, a decrease in credit card response rates and reduced productivity of marketing dollars invested in certain lines of business. Competition may also have an impact on customer attrition as our customers accept offers from other credit card lenders and/or providers of other consumer lending products, such as home equity financing.

[Table of Contents](#)

Our other consumer lending businesses, including auto lending, small business lending, home loan lending, installment lending, our commercial lending businesses, and our businesses in international markets also compete on a similar variety of factors, including price, product features and customer service. These businesses may also experience a decline in marketing efficiency and/or an increase in customer attrition. Finally, our banking business competes with national and state banks for deposits, loans, and trust accounts, and also competes with other financial services companies in offering various types of financial services.

Some of our competitors may be substantially larger than we are, which may give those competitors advantages, including a more diversified product and customer base, operational efficiencies, broad-based local distribution capabilities, lower-cost funding and more versatile technology platforms. These competitors may also consolidate with other financial institutions in ways that enhance these advantages and intensify our competitive environment.

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

We May Experience Increased Delinquencies and Credit Losses

Like other lenders, we face the risk that our customers will not repay their loans. Rising losses or leading indicators of rising losses (higher delinquencies or bankruptcy rates; lower collateral values) may require us to increase our allowance for loan losses and may degrade our profitability if we are unable to raise revenue or reduce costs to compensate for higher losses. The favorable credit environment we experienced in the first half of the year may not continue. In particular, we face the following risks in this area:

- *Missed Payments.* We face the risk that customers will miss payments. Loan charge-offs are generally preceded by missed payments or other indications of worsening financial condition. Our reported delinquency levels measure these trends. In some instances, customers declare bankruptcy without first missing payments. We usually charge-off at least a portion of a customer's outstanding loan balance in the case of bankruptcy. Our bankruptcy experience is generally correlated with national bankruptcy filing trends.
- *Collateral.* We face the risk that collateral, when we have it, will be insufficient to compensate us for loan losses. When customers default on their loans and we have collateral, we attempt to seize it. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan and we may be unsuccessful in recovering the remaining balance from our customers. Our automobile loans are subject to collateral risk through declining used car prices. Our commercial and real-estate exposures are also subject to collateral risk, especially those that were affected by the Gulf Coast hurricanes.

[Table of Contents](#)

- *Estimates of future losses.* We face the risk that we may underestimate our future losses and fail to hold a loan loss allowance sufficient to account for these losses. We update our forecast of future losses and analyze certain scenarios each quarter. We incorporate these estimates into our financial plans, strategies, loan loss allowance, and forward looking statements. These estimates are based on observed trends in delinquency, charge-offs, bankruptcies, and collateral recoveries; on our marketing strategies and underwriting models; and on our views about future economic, interest rate, and competitive conditions. Incorrect assumptions could lead to material underestimates of future losses and inadequate allowance for loan losses. In addition, our estimate of future losses impacts the amount of reserves we build to account for those losses. The build or release of reserves impacts our current financial results.
- *Underwriting.* We face the risk that our ability to assess the credit worthiness of our customers may diminish. We market our products to a wide range of customers including those with less experience with credit products and those with a history of missed payments. We select our customers, manage their accounts and establish prices and credit limits using proprietary models and other techniques designed to predict future charge-offs. Our goal is to set prices and credit limits such that we are appropriately compensated for the credit risk we accept for both high and low risk customers. If the models and approaches we use to select, manage, and underwrite our customers become less predictive of future charge-offs (due, for example, to changes in the competitive environment or in the economy), our credit losses and returns may deteriorate.
- *Business mix.* We face the risk that our business mix will change in ways that could adversely affect credit losses. We participate in a mix of businesses with a broad range of credit loss characteristics. Consequently, changes in segment mix may change our charge-off rate. In addition, significant changes in our organic growth rate may change our charge-off rate since young accounts tend to have lower charge-offs than older accounts (i.e. slower organic growth may drive a higher charge-off rate).
- *Charge-off recognition.* We face the risk that the rules governing charge-off recognition could change. We record charge-offs according to accounting practices consistent with accounting and regulatory guidelines and rules. These guidelines and rules, including among other things, the FFIEC Account Management Guidance, could change and cause our charge-offs to increase for reasons unrelated to the underlying performance of our portfolio.
- *Industry practices.* We face the risk that our charge-off and delinquency rates may be impacted by industry developments. For example, actions by our competitors to change minimum payment practices in response to advice from the regulators regarding the application of FFIEC Account Management Guidance may adversely impact industry charge-off and delinquency rates and, in turn, our rates.

We Face Risk From Economic Downturns

Delinquencies and credit losses in the consumer finance industry generally increase during economic downturns or recessions. Likewise, consumer demand may decline during an economic downturn or recession. In the United States, we face the risk that the effects of higher energy costs, higher interest rates and pressure on housing prices may place added strain on consumers' ability to sustain their recent strong credit performance. Accordingly, an economic downturn in the United States (either local or national), can hurt our financial performance as accountholders default on their loans or, in the case of

credit card accounts, carry lower balances and reduce credit card purchase activity. Furthermore, because our business model is to lend across the credit spectrum, we make loans to lower credit quality customers. These customers generally have higher rates of charge-offs and delinquencies than do higher credit quality customers. Additionally, we face the risk that the downturn in consumer credit in the United Kingdom may continue to worsen which could also hurt our financial performance.

We Face Strategic Risks in Sustaining Our Growth and Pursuing Diversification

Our growth strategy has multiple components. First, we seek to continue to grow our established businesses, such as our domestic credit card and automobile finance businesses. Second, we hope to continue to diversify our business, both geographically and in product mix. We seek to do this by identifying, pursuing and expanding new business opportunities, such as branch banking and other consumer loan products, and by growing our lending businesses internationally, principally in the United Kingdom and Canada. Our acquisition of Hibernia enabled us to expand into the branch banking business, which we believe can be a growth business for the Company, and is a key component of our ongoing diversification strategy. Our agreement to acquire North Fork Bancorporation, Inc. (“North Fork”) continues us on that strategic path. Our ability to continue to grow is driven by the success of our fundamental business plan, the level of our investments in new businesses or regions and our ability to apply our risk management skills to new businesses. This risk has many components, including:

- *Customer and Account Growth.* Our growth is highly dependent on our ability to retain existing customers and attract new ones, grow existing and new account balances, develop new market segments and have sufficient funding available for marketing activities to generate these customers and account balances. Our ability to grow and retain customers is also dependent on customer satisfaction, which may be adversely affected by factors outside of our control, such as postal service and other marketing and customer service channel disruptions and costs.
- *Product and Marketing Development.* Difficulties or delays in the development, production, testing and marketing of new products or services, which may be caused by a number of factors including, among other things, operational constraints, technology functionality, regulatory and other capital requirements and legal difficulties, will affect the success of such products or services and can cause losses arising from the costs to develop unsuccessful products and services, as well as decreased capital availability. In addition, customers may not accept the new products and services offered.

[Table of Contents](#)

- *Diversification Risk.* An important element of our strategy is our effort to continue diversifying beyond our U.S. credit card business. Our ability to successfully diversify is impacted by a number of factors, including: successfully integrating acquired businesses, including Hibernia and North Fork, developing and executing strategies to grow our existing consumer financial services businesses, identifying appropriate acquisition targets, entering into successful negotiations with such targets and executing on acquisition transactions, and our financial ability to undertake these diversification activities. As a regulated financial institution, our pursuit of attractive acquisition opportunities could be negatively impacted due to regulatory delays or other regulatory issues. Regulatory and/or legal issues relating to the pre-acquisition operations of an acquired business may harm our reputation following the acquisition and integration of the acquired business into ours and may result in additional future costs and expenses arising as a result of those issues. In addition, part of our diversification strategy has been to grow internationally. Our growth internationally faces additional challenges, including changing regulatory and legislative environments, political developments, possible economic downturns in other countries, exchange rates and differences from the historical experience of portfolio performance in the United States and other countries.

We May Fail To Realize All of the Anticipated Benefits of our Merger with Hibernia Corporation

The success of the merger will depend, in part, on our ability to realize the anticipated benefits from combining the businesses of Capital One and Hibernia. However, to realize these anticipated benefits, we must successfully combine the businesses of Capital One and Hibernia. If we are not able to achieve these objectives, the anticipated benefits of the merger, such as cost savings and other synergies, may not be realized fully or at all or may take longer to realize than expected.

Prior to the completion of the merger, Capital One and Hibernia operated independently. It is possible that the ongoing integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on the Company during such transition period. The acquisition of Hibernia also involves our entry into new businesses and new geographic or other markets, this present risks resulting from our relative inexperience in these new areas.

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

We operate in a heavily regulated industry and are therefore subject to a wide array of banking, consumer lending and deposit laws and regulations that apply to almost every element of our business. Failure to comply with these laws and regulations could result in financial, structural and operational penalties, including receivership. In addition, establishing systems and processes to achieve compliance with these laws and regulations, may increase our costs and/or limit our ability to pursue certain business opportunities. As our business grows in size and complexity, including as we grow by acquisition, establishing systems and processes to achieve compliance may become more difficult and costly. See "Supervision and Regulation" above.

Federal and state laws and regulations, as well as laws and regulations to which we are subject in foreign jurisdictions in which we conduct business, significantly limit the types of activities in which we may engage. For example, federal and state consumer protection laws and regulations, and laws and regulations of foreign jurisdictions where we conduct business, limit the manner in which we may offer and extend credit. From time to time, the U.S. Congress, the states and foreign governments consider

[Table of Contents](#)

changing these laws and may enact new laws or amend existing laws and regulatory authorities may issue new regulations. Such new laws or regulations could limit the amount of interest or fees we can charge, restrict our ability to collect on account balances, or materially affect us or the banking or credit card industries in some other manner. Additional federal, state and foreign consumer protection legislation also could seek to expand the privacy protections afforded to customers of financial institutions and restrict our ability to share or receive customer information. See “Supervision and Regulation” above.

Banking regulators possess broad discretion to issue or revise regulations, or to issue guidance, which may significantly impact us. For example, the Federal Trade Commission has issued, and will continue to issue, a variety of regulations under the FACT Act of 2003, the Federal Reserve has announced proposed rule-making, and has issued some final rules, and in the UK the Office of Fair Trading has concluded its industry investigation on the calculation of default charges, all of which may impact us. Additionally, the new bankruptcy reform legislation will put additional requirements on us regarding disclosures on the effects on consumers of making only minimum payments on their accounts. We face similar risks in our international businesses, where changing laws and regulations may have an adverse impact on our results. See “International Regulation” above.

Each banking regulatory agency which has supervisory authority over one of our banks has broad authority to review and monitor our business activities. Under this authority, our regulators interpret the applicable laws, regulations and guidance and how these numerous requirements apply to our activities. The regulators also evaluate the degree to which we have satisfactorily complied with these requirements. We cannot, however, predict whether and how any new regulations or guidelines issued by the banking or other regulators would be applicable to the activities of the Bank, the National Bank or the Savings Bank, in what manner such regulations or guidelines might be interpreted or applied, or the resulting effect on us, the Bank, the National Bank or the Savings Bank. There can be no assurance that this kind of regulatory action will not have a negative impact on us and/or our financial results.

We Face Risk Related to the Strength of our Operational, Technological and Organizational Infrastructure

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

We continuously monitor our operational and technological capabilities and make modifications and improvements when we believe it will be cost effective to do so. In some instances, we may build and maintain these capabilities ourselves. We also outsource some of these functions to third parties. These third parties may experience errors or disruptions that could adversely impact us and over which we may have limited control. As we increase the amount of our infrastructure that we outsource to third parties, we increase our exposure to this risk. We also face risk from the integration of new infrastructure platforms and/or new third party providers of such platforms into our existing businesses. We are currently undertaking a project with Total System Services, Inc. (“TSYS”) to transfer to a new technological platform that will result in TSYS providing processing services for Capital One’s North

[Table of Contents](#)

American portfolio of consumer and small business credit card accounts. Our ability to successfully transition to this new platform as well as TSYS's ongoing ability to provide services to us, could impact our performance in the future.

In addition to creating a solid infrastructure platform, we are also dependent on recruiting management and operations personnel with the experience to run an increasingly large and complex business. Although we take steps to retain our existing management talent and recruit new talent as needed, we face a competitive market for such talent and there can be no assurance that we will continue to be able to maintain and build a management team capable of running our increasingly large and complex business.

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

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

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

As part of our capital markets financing, we actively securitize our consumer loans. The occurrence of certain events may cause the securitization transactions to amortize earlier than scheduled, which would accelerate the need for additional funding. This early amortization could, among other things, have a significant effect on the ability of the Bank and the Savings Bank to meet the capital adequacy requirements as all off-balance sheet loans experiencing such early amortization would have to be recorded on the balance sheet. See pages 54-56 in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity Risk Management" contained in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.

Finally, Hibernia has experienced a significant increase in deposits since the Gulf Coast hurricanes, most likely as a result of customers receiving federal funds and insurance payments relating to the hurricanes. Currently, it is unclear what customers will do with these deposits in the long-term. It is possible that as rebuilding and reinvesting in the Gulf Coast area begins, the amount of these incremental deposits with Hibernia could decrease significantly.

We May Experience Changes in Our Debt Ratings

In general, ratings agencies play an important role in determining, by means of the ratings they assign to issuers and their debt, the availability and cost of wholesale funding. We currently receive ratings from several ratings entities for our secured and unsecured borrowings. As private entities, ratings agencies

[Table of Contents](#)

have broad discretion in the assignment of ratings. A rating below investment grade typically reduces availability and increases the cost of market-based funding, both secured and unsecured. A debt rating of Baa3 or higher by Moody's Investors Service, or BBB- or higher by Standard & Poor's and Fitch Ratings, is considered investment grade. Currently, all three ratings agencies rate the unsecured senior debt of the Bank, Hibernia and the Corporation as investment grade. The following chart shows ratings for Capital One Financial Corporation, Capital One Bank and Hibernia National Bank as of June 30, 2006. As of that date, the ratings outlooks were as follows:

	<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Fitch</u>
Capital One Financial Corporation	BBB	Baa1	BBB+
Capital One Financial Corporation—Outlook	Positive	Positive	Positive
Capital One Bank	BBB+	A3	BBB+
Capital One Bank—Outlook	Positive	Positive	Positive
Capital One, National Association	BBB+	A3	BBB+
Capital One, National Association—Outlook	Positive	Positive	Positive

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

We Face Market Risk of Interest Rate and Exchange Rate Fluctuations

Like other financial institutions, we borrow money from institutions and depositors, which we then lend to customers. We earn interest on the consumer loans we make, and pay interest on the deposits and borrowings we use to fund those loans. Changes in either or both of these two interest rates affect the value of our assets and liabilities. If the rate of interest we pay on our borrowings increases more than the rate of interest we earn on our loans, our net interest income, and therefore our earnings, would fall. Our earnings could also be hurt if the rates on our consumer loans fall more quickly than those on our borrowings. We also seek to minimize market risk to a level that is immaterial to our net income. The financial instruments and techniques we use to manage the risk of interest rate and exchange rate fluctuations, such as asset/liability matching and interest rate and exchange rate swaps and hedges and some forward exchange contracts, may not always work successfully or may not be available at a reasonable cost. Furthermore, if these techniques become unavailable or impractical, our earnings could be subject to volatility and decreases as interest rates and exchange rates change.

Changes in interest rates also affect the balances our customers carry on their credit cards and affect the rate of pre-payment for installment loan and mortgage products. These changes can reduce the overall yield on our portfolio if we do not adequately provide for them in our interest rate hedging strategies. When interest rates rise, there are fewer low-rate alternatives available to customers. Consequently, credit card balances may rise (or fall more slowly) and pre-payment rates on installment lending and mortgage products may fall. In this circumstance, we may have to raise additional funds at higher interest rates. In our credit card business, we could, subject to legal and competitive constraints, mitigate this risk by increasing the interest rates we charge, although such changes may increase opportunities for our competitors to offer attractive products to our customers and consequently increase customer attrition from our portfolio. We could also mitigate this risk through hedging strategies, if available; if we are unable to do so, we could suffer adverse impacts on overall portfolio yield. Rising interest rates across the industry may also lead to higher delinquencies as customers face increasing interest payments both on our products and on other loans they may hold. See pages 56-57 in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Interest Rate Risk Management" contained in the Annual Report on Form 10-K for the year ended December 31, 2005.

The Credit Card Industry Faces Increased Litigation Risks Relating to Industry Structure

We face possible risks from the outcomes of certain credit card industry litigation. In 1998, the United States Department of Justice filed an antitrust lawsuit against the MasterCard and Visa membership associations composed of financial institutions that issue MasterCard or Visa credit or debit cards (“associations”), alleging, among other things, that the associations had violated antitrust law and engaged in unfair practices by not allowing member banks to issue cards from competing brands, such as American Express and Discover Financial Services. In 2001, a New York district court entered judgment in favor of the Department of Justice and ordered the associations to repeal these policies. The United States Court of Appeals for the Second Circuit affirmed the district court and, on October 4, 2004, the United States Supreme Court denied certiorari in the case. In November 2004, American Express filed an antitrust lawsuit (the “Amex lawsuit”) against the associations and several member banks alleging that the associations and member banks jointly and severally implemented and enforced illegal exclusionary agreements that prevented member banks from issuing American Express and Discover cards. The complaint requests civil monetary damages, which could be trebled. We, the Bank, and the Savings Bank are named defendants in this lawsuit.

Separately, a number of entities, each purporting to represent a class of retail merchants, have also filed antitrust lawsuits (the “Interchange lawsuits”) against the associations and several member banks, including us and our subsidiaries, alleging among other things, that the associations and member banks conspired to fix the level of interchange fees. The complaints request civil monetary damages, which could be trebled. In October 2005, the Interchange lawsuits were consolidated before the United States District Court for the Eastern District of New York for certain purposes, including discovery.

We believe that we have meritorious defenses with respect to these cases and intend to defend these cases vigorously. At the present time, management is not in a position to determine whether the resolution of these cases will have a material adverse effect on either our consolidated financial position or our results of operations in any future reporting period.

In addition, several merchants filed class action antitrust lawsuits, which were subsequently consolidated, against the associations relating to certain debit card products. In April 2003, the associations agreed to settle the lawsuit in exchange for payments to plaintiffs and for changes in policies and interchange rates for debit cards. Certain merchant plaintiffs have opted out of the settlements and have commenced separate lawsuits. Additionally, consumer class action lawsuits with claims mirroring the merchants’ allegations have been filed in several courts. Finally, the associations, as well as certain member banks, continue to face additional lawsuits regarding policies, practices, products and fees.

With the exception of the Interchange lawsuits and the Amex lawsuit, we and our subsidiaries are not parties to the lawsuits against the associations described above and therefore will not be directly liable for any amount related to any possible or known settlements of such lawsuits. However, our subsidiary banks are member banks of MasterCard and Visa and thus may be affected by settlements or lawsuits relating to these issues, including changes in interchange payments. In addition, it is possible that the scope of these lawsuits may expand and that other member banks, including our subsidiary banks, may be brought into the lawsuits or future lawsuits. The associations are also subject to additional litigation, including suits regarding foreign exchange fees.

In part as a result of such litigation, the associations are expected to continue to evolve as corporate entities, including by changing their governance structures, as previously announced by the associations. During the second quarter MasterCard successfully completed its initial public offering and Visa revised its governance structure. Both associations now rely upon independent directors for certain decisions, including the setting of interchange rates.

[Table of Contents](#)

Given the complexity of the issues raised by these lawsuits and the uncertainty regarding: (i) the outcome of these suits, (ii) the likelihood and amount of any possible judgments, (iii) the likelihood, amount and validity of any claim against the associations' member banks, including the banks and us, and (iv) changes in industry structure that may result from the suits and (v) the effects of these suits, in turn, on competition in the industry, member banks, and interchange and association fees, we cannot determine at this time the long-term effects of these suits on us.

We Face the Risk of Fluctuations in Our Expenses and Other Costs that May Hurt Our Financial Results

Our expenses and other costs, such as operating and marketing expenses, directly affect our earnings results. In light of the extremely competitive environment in which we operate, and because the size and scale of many of our competitors provides them with increased operational efficiencies, it is important that we are able to successfully manage such expenses. Many factors can influence the amount of our expenses, as well as how quickly they may increase. Investments in infrastructure, which may be necessary to maintain a competitive business, may increase operational expenses in the short-run. As our business develops, changes or expands, additional expenses can arise from management of outsourced services, asset purchases, structural reorganization, a reevaluation of business strategies and/or expenses to comply with new or changing laws or regulations. Other factors that can affect the amount of our expenses include legal and administrative cases and proceedings, which can be expensive to pursue, defend or settle.

We Face Risks Related to the Impact of the Gulf Coast Hurricanes That May Be Substantial and Cannot Be Predicted

Our branch banking business is currently headquartered in New Orleans, Louisiana, and maintains branches in the areas of Louisiana and Texas that sustained significant damage from the Gulf Coast hurricanes. Our operations in other parts of Louisiana and Texas have not been impacted, either significantly or at all, by the hurricanes.

The Gulf Coast hurricanes have also affected our branch banking businesses' consumer, mortgage, auto, commercial and small business loan portfolios by damaging properties pledged as collateral and by impairing certain borrowers' ability to repay their loans. The hurricanes may continue to affect loan originations and loan portfolio quality in the impacted areas into the future and could also adversely impact our deposit base. The severity and duration of these effects will depend on a variety of factors that are beyond our control, including the amount and timing of government, private and philanthropic investment (including deposits) in the region, the pace of rebuilding and economic recovery in the region generally, the extent to which the hurricanes' property damage is covered by insurance, and the pace at which we restore our business operations in the various markets in which it operates.

None of the effects described above can be accurately predicted or quantified. As a result, significant uncertainty remains regarding the impact the hurricanes will have on the business, financial condition and results of operations of the combined company and the ability of the combined company to realize the anticipated benefits from the merger. Further, the area in which the branch banking business currently operates may experience hurricanes and other storms in the future, and some of those hurricanes and storms may have effects similar to those caused by the Gulf Coast hurricanes.

We Face Risks Related to our Proposed Merger with North Fork

Completion of the proposed merger between Capital One and North Fork is subject to the satisfaction of various conditions, including the receipt of approval from the stockholders of Capital One and the

[Table of Contents](#)

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

We must receive federal regulatory approval before we can acquire North Fork. In determining whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, financial condition and future prospects including current and projected capital ratios and levels, the competence, experience and integrity of management and record of compliance with laws and regulations, the convenience and needs of the communities to be served, including the acquiring institution's record of compliance under the Community Reinvestment Act and the effectiveness of the acquiring institution in combating money laundering activities. In addition, we cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. We may be required to take certain actions as a condition to receiving regulatory approval.

Finally, the timing of the closing of the transaction and the market conditions on the date of closing that determine purchase accounting adjustments, may have a significant impact on our financial results. We face the risk that market conditions may be anomalous on the date the transaction closes, resulting in unexpected impacts on our financial statements.

Reputational Risk and Social Factors May Impact our Results

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

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

[Table of Contents](#)**Item 2. Unregistered Sales of Equity Securities and Uses of Proceeds.**

<u>Period</u>	(a) <u>Total Number of Shares Purchased⁽¹⁾</u>	(b) <u>Average Price Paid per Share</u>	(c) <u>Total Number of Shares Purchased as Part of Publicly Announced Plans</u>	(d) <u>Maximum Number of Shares that May Yet Be Purchased Under the Plans</u>
April 1-30, 2006	11,810	\$ 82.46	N/A	N/A
May 1-31, 2006	42	\$ 85.16	N/A	N/A
June 1-30, 2006	51,711	\$ 81.11	N/A	N/A
Total	63,563	\$ 81.36	N/A	N/A

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

Item 5. Other Information

The following information is provided pursuant to Item 2.03 of Form 8-K, "Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant," with respect to the Company's entry into a syndicated bridge loan facility arranged by J.P. Morgan Securities Inc. and Citigroup Global Markets Inc. (the "Facility") on May 9, 2006. The Facility is available to the Company to finance, on an interim basis, up to \$4.2 billion of the cash consideration payable to shareholders of North Fork in connection with the Agreement and Plan of Merger by and between North Fork and the Company dated as of March 12, 2006 (the "Acquisition"). The Facility is available until May 7, 2007 and borrowings under the Facility will mature on the earlier of 364 days from the date of borrowing or December 1, 2007. In addition, the Facility size will automatically decrease by the amount of proceeds received by the Company from the issuance of securities intended to fund the cash consideration of the Acquisition. Currently, there have been no draw downs under the Facility, and \$3.2 billion is available to the Company under the Facility. Entry into the Facility was reported previously under Item 1.01 in a Form 8-K filed on May 12, 2006. Additional information regarding the North Fork acquisition is included in Note 9 to the condensed consolidated financial statements in this Form 10-Q.

[Table of Contents](#)

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated as of March 6, 2005, between Capital One Financial Corporation and Hibernia Corporation (incorporated by reference to Exhibit 2.1 of the Corporation's Current Report on Form 8-K, filed on March 9, 2005).
2.2	Amendment No. 1, dated as of September 6, 2005, to the Agreement and Plan of Merger, dated as of March 6, 2005, between Capital One Financial Corporation and Hibernia Corporation (incorporated by reference to Exhibit 2.1 of the Corporation's Current Report on Form 8-K, filed on September 8, 2005).
3.1	Restated Certificate of Incorporation of Capital One Financial Corporation and Certificate of Amendment to Restated Certificate of Incorporation of Capital One Financial Corporation (incorporated by reference to Exhibit 3.1.2 of the Corporation's Current Report on Form 8-K, filed on January 16, 2001).
3.2	Amended and Restated Bylaws of Capital One Financial Corporation (as amended November 18, 1999) (incorporated by reference to Exhibit 3.2 of the Corporation's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1999, filed on March 23, 2000).
4.1	Specimen certificate representing the Common Stock (incorporated by reference to Exhibit 4.1 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed on March 3, 2004).
4.2	Amended and Restated Issuing and Paying Agency Agreement dated as of April 30, 1996 between Capital One Bank and Chemical Bank (including exhibits A-1, A-2, A-3 and A-4 thereto) (incorporated by reference to Exhibit 4.3 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed on March 17, 2003).
4.3.1	Amended and Restated Distribution Agreement, dated May 8, 2003, among Capital One Bank, J.P. Morgan Securities, Inc. and the agents named therein (incorporated by reference to Exhibit 4.1 of the Corporation's Quarterly Report on Form 10-Q for the period ending June 30, 2003, filed on August 11, 2003).
4.3.2	Copy of 6.50% Notes, due 2004, of Capital One Bank (incorporated by reference to Exhibit 4.4.5 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, filed on March 22, 2002).
4.3.3	Copy of 6.875% Notes due 2006, of Capital One Bank (incorporated by reference to Exhibit 4.4.6 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, filed on March 22, 2002).
4.3.4	Copy of 4.25% Notes, due 2008, of Capital One Bank (incorporated by reference to Exhibit 4.4.4 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed on March 5, 2004).
4.3.5	Copy of 5.75% Notes, due 2010, of Capital One Bank (incorporated by reference to Exhibit 4.4.5 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed on March 5, 2004).
4.3.6	Copy of 6.50% Notes, due 2013, of Capital One Bank (incorporated by reference to Exhibit 4.4.6 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed on March 5, 2004).

Table of Contents

- 4.3.7 Copy of 4.875% Notes, due 2008, of Capital One Bank (incorporated by reference to Exhibit 4.4.7 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed on March 5, 2004).
- 4.3.8 Copy of 8.25% Notes, due 2005, of Capital One Bank (incorporated by reference to Exhibit 4.4.4 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2000, filed on March 29, 2001).
- 4.4.1 Senior Indenture and Form T-1 dated as of November 1, 1996 among Capital One Financial Corporation and Harris Trust and Savings Bank (incorporated by reference to Exhibit 4.5.1 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed on March 17, 2003).
- 4.4.2 Copy of 8.75% Notes, due 2007, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.5 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, filed on March 22, 2002).
- 4.4.3 Copy of 7.125% Notes, due 2008, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.8.2 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, filed on March 26, 1999).
- 4.4.4 Copy of 7.25% Notes, due 2006, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.10 of the Corporation's Annual Report on Form 10-K/A for the fiscal year ended December 31, 1999, filed on March 23, 2000).
- 4.4.5 Copy of 6.25% Notes, due 2013, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.5 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed on March 5, 2004).
- 4.4.6 Copy of 5.25% Notes, due 2017, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.6 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed on March 9, 2005).
- 4.4.7 Copy of 4.80% Notes, due 2012, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.7 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2004, filed on March 9, 2005).
- 4.4.8 Copy of 5.50% Senior Notes, due 2015, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation's Quarterly Report on Form 10-Q for the period ending June 30, 2005, filed August 4, 2005).
- 4.5.1 Declaration of Trust, dated as of January 28, 1997, between Capital One Bank and The First National Bank of Chicago, as trustee (including the Certificate of Trust executed by First Chicago Delaware Inc., as Delaware trustee) (incorporated by reference to Exhibit 4.6.1 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed on March 17, 2003).
- 4.5.2 Copies of Certificates Evidencing Capital Securities (incorporated by reference to Exhibit 4.6.2 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed on March 17, 2003).
- 4.5.3 Amended and Restated Declaration of Trust, dated as of January 31, 1997, by and among Capital One Bank, The First National Bank of Chicago and First Chicago Delaware Inc (incorporated by reference to Exhibit 4.6.3 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed on March 5, 2004).

Table of Contents

4.6	Issue and Paying Agency Agreement, dated as of October 24, 1997, between Capital One Bank, Morgan Guaranty Trust Company of New York, London Office, and the Paying Agents named therein (incorporated by reference to Exhibit 4.9 of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, filed on March 26, 1999).
4.7	Upper DECS [®] form of certificate (incorporated by reference to Exhibit 4.9 of the Corporation's Report on Current Form 8-K, filed on April 23, 2002).
10.1	Bridge Loan Agreement, dated as of May 9, 2006, by and among Capital One Financial Corporation and J.P. Morgan Securities Inc. and Citigroup Global Markets Inc., as Joint Book Managers and Joint Lead Arrangers, and the lenders named therein.
31.1	Section 302 Certification of Richard D. Fairbank
31.2	Section 302 Certification of Gary L. Perlin
32.1	Section 906 Certification of Richard D. Fairbank*
32.2	Section 906 Certification of Gary L. Perlin*

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

[Table of Contents](#)

SIGNATURES

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

CAPITAL ONE FINANCIAL CORPORATION
(Registrant)

Date: August 07, 2006

/s/ GARY L. PERLIN

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

CAPITAL ONE FINANCIAL CORPORATION

\$4,200,000,000

BRIDGE LOAN AGREEMENT

Dated as of May 9, 2006

J.P. MORGAN SECURITIES INC.
and
CITIGROUP GLOBAL MARKETS INC.
as Joint Book Managers and Joint Lead Arrangers

CITIGROUP GLOBAL MARKETS INC.
as Syndication Agent

JPMORGAN CHASE BANK, N.A.
as Administrative Agent

TABLE OF CONTENTS

	<u>Page</u>
SECTION 1. Definitions and Accounting Matters.	1
1.01 Certain Defined Terms.	1
1.02 Accounting Terms and Determinations.	15
1.03 Types of Loans.	16
SECTION 2. Commitments, Etc.	16
2.01 Loans.	16
2.02 The Borrowing.	16
2.03 Changes of Commitments.	16
2.04 Facility Fee.	17
2.05 Lending Offices.	17
2.06 Several Obligations; Remedies Independent.	17
2.07 Evidence of Debt.	17
2.08 Conversion and Continuation.	18
2.09 Prepayments and Mandatory Commitment Reductions.	18
SECTION 3. Payments of Principal and Interest.	19
3.01 Repayment of Loans.	19
3.02 Interest.	19
SECTION 4. Payments; Pro Rata Treatment; Computations; Etc.	20
4.01 Payments.	20
4.02 Pro Rata Treatment.	21
4.03 Computations.	21
4.04 Minimum Amounts.	22
4.05 Certain Notices.	22
4.06 Non-Receipt of Funds by the Administrative Agent.	23
4.07 Sharing of Payments, Etc.	23
SECTION 5. Yield Protection, Etc.	25
5.01 Additional Costs.	25
5.02 Limitation on Types of Loans.	27
5.03 Illegality.	27
5.04 Treatment of Affected Loans.	27
5.05 Compensation.	28
5.06 Taxes.	28
5.07 Replacement of Lenders.	31
SECTION 6. Conditions Precedent.	32
6.01 Conditions to Effectiveness.	32
6.02 The Borrowing.	33

Bridge Loan Agreement

SECTION 7. Representations and Warranties.	34
7.01 Corporate Existence.	34
7.02 Financial Condition.	34
7.03 Litigation.	34
7.04 No Breach.	35
7.05 Action.	35
7.06 Approvals.	35
7.07 ERISA.	35
7.08 Taxes.	35
7.09 Investment Company Act.	36
7.10 Environmental Matters.	36
7.11 True and Complete Disclosure.	36
SECTION 8. Covenants.	36
8.01 Financial Statements Etc.	37
8.02 Litigation.	39
8.03 Existence, Etc.	40
8.04 Insurance.	41
8.05 Prohibition of Fundamental Changes.	41
8.06 Limitation on Liens.	42
8.07 Financial Covenants.	43
8.08 Regulatory Capital.	43
8.09 Lines of Business.	44
8.10 Use of Proceeds.	44
SECTION 9. Events of Default.	44
SECTION 10. The Administrative Agent.	47
10.01 Appointment, Powers and Immunities.	47
10.02 Reliance by Administrative Agent.	48
10.03 Defaults.	48
10.04 Rights as a Lender.	49
10.05 Indemnification.	49
10.06 Non-Reliance on Administrative Agent and Other Lenders.	49
10.07 Failure to Act.	50
10.08 Resignation or Removal of Administrative Agent.	50
10.09 Co-Agents; Etc.	50
SECTION 11. Miscellaneous.	50
11.01 Waiver.	51
11.02 Notices.	51
11.03 Expenses, Etc.	52
11.04 Amendments, Etc.	52
11.05 Successors and Assigns.	53

Bridge Loan Agreement

11.06	Assignments and Participations.	53
11.07	Survival.	57
11.08	Captions.	57
11.09	Counterparts.	57
11.10	Governing Law; Submission to Jurisdiction.	57
11.11	Waiver of Jury Trial.	57
11.12	Treatment of Certain Information; Confidentiality.	58
11.13	USA PATRIOT Act	59
SCHEDULE 2.01	— Commitments	
SCHEDULE 7.03	— Certain Litigation	
EXHIBIT A	— Form of Note	
EXHIBIT B-1	— Form of Opinion of Clifford Chance US LLP, special New York counsel to the Borrower	
EXHIBIT B-2	— Form of Opinion of Internal Counsel of the Borrower	
EXHIBIT C	— Form of Opinion of Milbank, Tweed, Hadley & McCloy LLP, special New York counsel to JPMorgan	
EXHIBIT D	— Form of Notice of Borrowing	
EXHIBIT E	— Form of Confidentiality Agreement	
EXHIBIT F	— Form of Assignment and Assumption	
EXHIBIT G	— Form of Continuation Notice	

Bridge Loan Agreement

BRIDGE LOAN AGREEMENT dated as of May 9, 2006 among:

CAPITAL ONE FINANCIAL CORPORATION, a corporation organized under the laws of the State of Delaware (the "Borrower");

each lender that is a signatory hereto identified under the caption "LENDERS" on the signature pages hereto and each lender that becomes a "Lender" after the date hereof pursuant to Section 11.06(b) hereof (individually, a "Lender" and, collectively, the "Lenders"); and

JPMORGAN CHASE BANK, N.A., as agent for the Lenders (in such capacity, together with its successors in such capacity, the "Administrative Agent").

The Borrower has requested that the Lenders agree to make loans to it in an aggregate amount up to but not exceeding \$4,200,000,000, to be used to assist in financing the merger of North Fork Bancorporation, Inc. ("North Fork") with and into the Borrower pursuant to the Merger Agreement as defined below, and the Lenders and the Administrative Agent are willing to make such loans, on and subject to the terms and conditions provided herein.

Accordingly, the parties hereto hereby agree as follows:

SECTION 1. Definitions and Accounting Matters.

1.01 Certain Defined Terms. As used herein, the following terms shall have the following meanings (all terms defined in this Section 1.01 or in other provisions of this Agreement in the singular to have the same meanings when used in the plural and vice versa):

"Administrative Agent's Account" shall mean the account of the Administrative Agent most recently designated by the Administrative Agent for such purpose by notice to the Lenders.

"Administrative Questionnaire" shall mean an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" shall mean, with respect to any specified Person, any other Person that directly or indirectly controls, or is under common control with, or is controlled by, the specified Person. As used in this definition, "control" (including, with its correlative meanings, "controlled by," and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise). Notwithstanding the foregoing, (a) no individual shall be an Affiliate of a specified Person solely by reason of his or her being a director, officer or employee of such specified Person or any of its Subsidiaries and (b) a Person and its Subsidiaries shall not be Affiliates of one another.

Bridge Loan Agreement

“Applicable Facility Fee Percentage” or “Applicable Margin” shall mean, for any day, the respective rate per annum set forth in the table below opposite the reference to the Rating Level prevailing on such day under the caption “Applicable Facility Fee Percentage” or “Applicable Margin”, as the case may be:

<u>Rating Level</u>	<u>Applicable Facility Fee Percentage</u>	<u>Applicable Margin</u>
Rating Level 1	0.030%	0.200%
Rating Level 2	0.045%	0.250%
Rating Level 3	0.050%	0.300%
Rating Level 4	0.070%	0.400%
Rating Level 5	0.090%	0.500%

Each change in the Applicable Facility Fee Percentage or Applicable Margin resulting from a change in the Debt Rating shall become effective on the date of announcement or publication by the relevant Rating Agency of a change in the Debt Rating or, in the absence of such announcement or publication, on the effective date of such change.

“Applicable Lending Office” shall mean, for each Lender and for each Type of Loan, the “Lending Office” of such Lender (or of an affiliate of such Lender) designated for such Type of Loan in its Administrative Questionnaire or such other office of such Lender (or of an affiliate of such Lender) as such Lender may from time to time specify to the Administrative Agent and the Borrower as its Applicable Lending Office.

“Assignment and Assumption” shall mean an assignment and assumption agreement entered into by a Lender and an assignee (with the consent of any Person whose consent is required by Section 11.06(b) hereof), and accepted by the Administrative Agent, in the form of Exhibit F or any other form approved by the Administrative Agent.

“Availability Period” shall mean the period from and including the date of this Agreement to but not including the date that is 364 days following the date of this Agreement.

“Bank Regulatory Authority” shall mean the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation and any other relevant bank regulatory authority (including, without limitation, relevant state bank regulatory authorities) having jurisdiction over the Borrower.

Bridge Loan Agreement

“Bankruptcy Code” shall mean the Federal Bankruptcy Code of 1978, as amended from time to time.

“Base Rate” shall mean, for any day, a rate per annum equal to the higher of (a) the Federal Funds Rate for such day plus 1/2 of 1% per annum and (b) the Prime Rate for such day. Each change in any interest rate provided for herein based upon the Base Rate resulting from a change in the Base Rate shall take effect at the time of such change in the Base Rate.

“Base Rate Loans” shall mean Loans that at the time bear interest at rates based upon the Base Rate.

“Basle Accord” shall mean the proposals for risk-based capital framework described by the Basle Committee on Banking Regulations and Supervisory Practices in its paper entitled “International Convergence of Capital Measurement and Capital Standards” dated July 1988, as amended, modified and supplemented and in effect from time to time or any replacement thereof.

“BHC Act” shall mean the Bank Holding Company Act of 1956, as amended.

“Borrowing” shall mean the borrowing by the Borrower of the Loans.

“Borrowing Date” shall mean the date of the Loans.

“Business Day” shall mean any day (a) on which commercial banks are not authorized or required to close in New York City and (b) if such day relates to a payment or prepayment of principal of or interest on, or an Interest Period for, a Eurodollar Loan or a notice by the Borrower with respect to any such payment, prepayment or Interest Period, that is also a day on which dealings in Dollar deposits are carried out in the London interbank market.

“Capital Lease Obligations” shall mean, for any Person, all obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) Property to the extent such obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP, and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

“COB” shall mean Capital One Bank, a bank organized under the laws of the Commonwealth of Virginia.

“COBE” shall mean Capital One Bank (Europe) PLC, a corporation organized under the laws of England.

“Code” shall mean the Internal Revenue Code of 1986, as amended from time to time.

Bridge Loan Agreement

“Commitment” shall mean, with respect to each Lender, the commitment of such Lender to make its Loan, as such commitment may be (a) reduced from time to time pursuant to Section 2.03 hereof or (b) reduced or increased pursuant to assignments by or to such Lender pursuant to Section 11.06 hereof. The initial amount of each Lender’s Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Commitment, as applicable.

“CONA” shall mean Capital One, National Association (f/k/a Hibernia National Bank), a national banking association organized under the laws of the United States of America.

“Continue”, “Continuation” and “Continued” each refer to the continuation of Loans as Eurodollar Loans from one Interest Period to the next.

“Continuing Directors” shall mean (a) persons who are members of the Board of Directors of the Borrower on the date hereof and (b) persons who become members of the Board of Directors of the Borrower after the date hereof (i) whose election or nomination for election was approved by a vote of a majority of the then Continuing Directors and (ii) who were not so elected or nominated in connection with, or in contemplation of, any transaction of the type referred to in Section 8.05.

“Convert”, “Conversion” and “Converted” each refers to a conversion of Loans of one Type into Loans of the other Type pursuant to Section 2.08.

“Cumulative Equity Proceeds” shall mean, as of any date of determination, the aggregate amount of all cash received on or prior to such date of determination by the Borrower and its Subsidiaries in respect of any Equity Issuance effected after March 31, 2006 net of expenses incurred by the Borrower and its Subsidiaries in connection therewith.

“Cumulative Net Income” shall mean, as of any date of determination, the aggregate net operating income of the Borrower and its consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) for each fiscal quarter of the Borrower (a) commencing with the fiscal quarter ended June 30, 2006 and (b) ending with the fiscal quarter most recently ended on or prior to such date of determination; provided that Cumulative Net Income shall be determined exclusive of any fiscal quarter for which the net operating income of the Borrower and its consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) is less than zero.

“Debt Rating” shall mean, as of any date of determination thereof, the rating most recently published by a Rating Agency relating to the unsecured, unsupported, non-credit enhanced senior long-term Dollar-denominated debt obligations of the Borrower.

“Default” shall mean an Event of Default or an event that with notice or lapse of time or both would become an Event of Default.

“Defaulting Lender” shall have the meaning assigned to such term in Section 11.04 hereof.

Bridge Loan Agreement

“Delinquency Ratio” shall mean, on any date, the ratio of (a) all Past Due Receivables on such date to (b) the aggregate amount of all Managed Receivables on such date.

“Dollars” and “\$” shall mean lawful money of the United States of America.

“Double Leverage Ratio” shall mean, on any date, the ratio of (a) the sum of (i) Intangibles (other than goodwill) on such date plus (ii) the aggregate investment of the Borrower on such date in the capital stock of its Subsidiaries as reported pursuant to Section 8.01(a) or 8.01(b) hereof (including the Borrower’s interest in undistributed earnings of its Subsidiaries), to (b) Net Worth on such date.

“Effective Date” shall mean the first date on which the Administrative Agent notifies the Borrower and the Lenders that all of the conditions set forth in Section 6.01 hereof have been satisfied.

“Environmental Laws” shall mean any and all present and future Federal, state, local and foreign laws, rules or regulations, and any orders or decrees, in each case as now or hereafter in effect, relating to the regulation or protection of the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals or toxic or hazardous substances or wastes into the indoor or outdoor environment, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals or toxic or hazardous substances or wastes.

“Equity Issuance” shall mean (a) any issuance or sale by the Borrower or any of its Subsidiaries of (i) any of its capital stock, (ii) any warrants or options exercisable in respect of its capital stock (other than any capital stock of the Borrower or any warrants or options to purchase any capital stock of the Borrower that are issued to directors, officers or employees of the Borrower or any of its Subsidiaries pursuant to employee benefit plans established in the ordinary course of business, or any capital stock of the Borrower issued upon the exercise of any such warrants or options) or (iii) any other security or instrument representing an equity interest (or the right to obtain any equity interest) in the Borrower or any of its Subsidiaries or (b) the receipt by the Borrower or any of its Subsidiaries from any Person not a shareholder of the Borrower of any capital contribution (whether or not evidenced by any equity security issued by the recipient of such contribution); provided that Equity Issuance shall not include (i) any such issuance or sale by any Subsidiary of the Borrower to the Borrower or any Wholly Owned Subsidiary of the Borrower or (ii) any capital contribution by the Borrower or any Wholly Owned Subsidiary of the Borrower to any Subsidiary of the Borrower.

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ERISA Affiliate” shall mean any corporation or trade or business that is a member of any group of organizations (i) described in Section 414(b) or (c) of the Code of which

Bridge Loan Agreement

the Borrower is a member and (ii) solely for purposes of potential liability under Section 302(c)(11) of ERISA and Section 412(c)(11) of the Code and the lien created under Section 302(f) of ERISA and Section 412(n) of the Code, described in Section 414(m) or (o) of the Code of which the Borrower is a member.

“Eurodollar Loans” shall mean Loans that at the time bear interest at rates based on the Eurodollar Rate.

“Eurodollar Rate” shall mean, with respect to any Eurodollar Loan for any Interest Period, the rate for deposits in Dollars for a period comparable to such Interest Period which appears on Page 3750 of the Telerate Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to deposits in Dollars in the London interbank market) as of 11:00 a.m., London time, on the day that is two London Banking Days preceding the first day of such Interest Period; provided that, if such rate does not appear on the relevant Telerate Service Page, the “Eurodollar Rate” shall be the arithmetic mean (rounded upwards, if necessary, to the nearest four decimal places), as determined by the Administrative Agent, of the rates per annum quoted by the respective Reference Lenders at approximately 11:00 a.m. London time (or as soon thereafter as practicable) on the day that is two London Banking Days prior to the first day of such Interest Period for the offering by the respective Reference Lenders to leading banks in the London interbank market of deposits denominated in Dollars having a term comparable to such Interest Period and in an amount comparable to the principal amount of such Eurodollar Loan to be made by the respective Reference Lenders. If any Reference Lender does not timely furnish such information for determination of any Eurodollar Rate, the Administrative Agent shall determine such Eurodollar Rate on the basis of the information timely furnished by the remaining Reference Lenders.

“Events of Default” shall have the meaning assigned to such term in Section 9 hereof.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended from time to time.

“Excluded Representations” shall mean the representations and warranties made in (a) the last sentence of Section 7.02 hereof and (b) Section 7.03 hereof (but only insofar as the representation and warranty in Section 7.03 hereof relates to proceedings that could have a Material Adverse Effect of the type referred to clause (a), (b) or (e) of the definition thereof in this Section 1.01, but not of the type referred to in clause (c) or (d) of said definition thereof).

“Existing Credit Agreement” shall mean the Credit Agreement, dated as of June 29, 2004, as amended, among the Borrower, COB, FSB, COBE, the lenders party thereto and JPMorgan Chase Bank, as administrative agent.

Bridge Loan Agreement

“FDIA” shall mean the Federal Deposit Insurance Act, as amended from time to time.

“Federal Funds Rate” shall mean, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (a) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day and (b) if such rate is not so published for any Business Day, the Federal Funds Rate for such Business Day shall be the average rate charged to JPMorgan on such Business Day on such transactions as determined by the Administrative Agent.

“FSB” shall mean Capital One, F.S.B., a Federal savings bank organized under the laws of the United States of America.

“GAAP” shall mean generally accepted accounting principles in the United States of America, applied on a basis consistent with those that, in accordance with the second sentence of Section 1.02(a) hereof, are to be used in making the calculations for purposes of determining compliance with this Agreement.

“Guarantee” shall mean a guarantee, an endorsement, a contingent agreement to purchase or to furnish funds for the payment or maintenance of, or otherwise to be or become contingently liable under or with respect to, the Indebtedness, other obligations, net worth, working capital or earnings of any Person, or a guarantee of the payment of dividends or other distributions upon the stock or equity interests of any Person, or an agreement to purchase, sell or lease (as lessee or lessor) Property, products, materials, supplies or services primarily for the purpose of enabling a debtor to make payment of such debtor’s obligations or an agreement to assure a creditor against loss, and including, without limitation, causing a bank or other financial institution to issue a letter of credit or other similar instrument for the benefit of another Person, but excluding endorsements for collection or deposit in the ordinary course of business. The terms “Guarantee” and “Guaranteed” used as a verb shall have a correlative meaning.

“Indebtedness” shall mean, for any Person (a) obligations created, issued or incurred by such Person for borrowed money (whether by loan, the issuance and sale of debt securities or the sale of Property to another Person subject to an understanding or agreement, contingent or otherwise, to repurchase such Property from such Person); (b) obligations of such Person to pay the deferred purchase or acquisition price of Property or services, other than trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business so long as such trade accounts payable are payable within 90 days of the date the respective goods are delivered or the respective services are rendered; (c) Indebtedness of others secured by a Lien on the Property of such Person, whether or not the respective indebtedness so secured has been assumed by such Person; (d) non-contingent

Bridge Loan Agreement

obligations of such Person (and, for the purposes of Section 9(b) hereof, all contingent obligations of such Person) in respect of letters of credit, bankers' acceptances or similar instruments issued or accepted by banks and other financial institutions for account of such Person; (e) Capital Lease Obligations of such Person; and (f) Indebtedness of others Guaranteed by such Person.

"Insured Subsidiary" shall mean any insured depository institution (as defined in 12 U.S.C. §1813(c) (or any successor provision), as amended, re-enacted or redesignated from time to time), that is controlled (within the meaning of 12 U.S.C. §1841 (or any successor provision), as amended, re-enacted or redesignated from time to time) by the Borrower.

"Intangibles" shall mean, as at any date, the aggregate amount (to the extent reflected in determining the consolidated stockholders' equity of the Borrower and its consolidated Subsidiaries) of (a) all write-ups (other than write-ups resulting from foreign currency translations and write-ups of assets of a going concern business made within 12 months after the acquisition of such business) subsequent to September 30, 1996 in the book value of any asset by the Borrower or any of its consolidated Subsidiaries, (b) all Investments in unconsolidated Subsidiaries and all equity investments in Persons that are not Subsidiaries and (c) all unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, anticipated future benefit of tax loss carry-forwards, copyrights, organization or developmental expenses and other intangible assets.

"Interest Period" shall mean, with respect to any Eurodollar Loan, the period commencing on the date such Loan is made or Converted to a Eurodollar Loan or on the last day of the preceding Interest Period and ending on the numerically corresponding day in the first, second, third or sixth calendar month thereafter, as the relevant Borrower may select as provided in Section 4.05 hereof or any other period acceptable to all of the Lenders, except that each Interest Period that commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month. Notwithstanding the foregoing: (i) if any Interest Period for any Loan would otherwise end after the Maturity Date, such Interest Period shall end on the Maturity Date; (ii) each Interest Period that would otherwise end on a day that is not a Business Day shall end on the next succeeding Business Day unless such succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day; (iii) except as provided in clause (iv) below, no Interest Period shall have a duration of less than one month and, if an Interest Period would otherwise be a shorter period, the relevant Loan shall be a Base Rate Loan for such period; and (iv) if each Lender shall have notified the Administrative Agent that the requested Interest Period is available (but subject to the foregoing clauses (i) and (ii)), a Eurodollar Loan may be made available for a specified Interest Period of less than one month or for an Interest Period of nine or 12 months.

"Investment" shall mean, for any Person: (a) the acquisition (whether for cash, Property, services or securities or otherwise) of capital stock, bonds, notes, debentures,

Bridge Loan Agreement

partnership or other ownership interests or other securities of any other Person or any agreement to make any such acquisition (including, without limitation, any “short sale” or any sale of any securities at a time when such securities are not owned by the Person entering into such sale); (b) the making of any deposit with, or advance, loan or other extension of credit to, any other Person (including the purchase of Property from another Person subject to an understanding or agreement, contingent or otherwise, to resell such Property to such Person), but excluding any such advance, loan or extension of credit having a term not exceeding 90 days arising in connection with the sale of inventory or supplies by such Person in the ordinary course of business; or (c) the entering into of any Guarantee of, or other contingent obligation with respect to, Indebtedness or other liability of any other Person and (without duplication) any amount committed to be advanced, lent or extended to such Person.

“JPMorgan” shall mean JPMorgan Chase Bank, N.A.

“Lien” shall mean, with respect to any Property, any mortgage, lien, pledge, charge, security interest, encumbrance or arrangement for priority or preference of any kind in respect of such Property. For purposes of this Agreement, a Person shall be deemed to own subject to a Lien any Property that it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement (other than an operating lease) or, in the case of any security, any third party right to purchase, in each case relating to such Property.

“Loans” shall mean the loans provided for by Section 2.01(a) hereof.

“London Banking Day” shall mean any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London, England.

“Majority Lenders” shall mean, subject to the last paragraph of Section 11.04 hereof, Lenders having more than 50% of the aggregate amount of the Commitments or, if the Commitments shall have terminated, Lenders holding more than 50% of the aggregate unpaid principal amount of the Loans.

“Managed Receivables” shall mean, on any date, the sum for the Borrower and its consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) of (a) all on-balance sheet credit card loans and other finance receivables plus (b) all on-balance sheet credit card loans and other finance receivables held for securitization plus (c) all securitized credit card loans and other finance receivables; provided that, as the term “Managed Receivables” is used in the definition of “Tier 1 Capital to Managed Receivables Ratio”, clauses (a), (b) and (c) above shall be determined exclusive of securitized on-balance sheet finance receivables.

“Margin Stock” shall mean “margin stock” within the meaning of Regulations T, U and X.

Bridge Loan Agreement

“Material Adverse Effect” shall mean a material adverse effect on (a) the Property, business, operations, financial condition or capitalization of the Borrower and its Subsidiaries taken as a whole, (b) the ability of the Borrower to perform its material obligations under this Agreement or the Notes, (c) the validity or enforceability of the obligations of the Borrower under this Agreement or the Notes, (d) the rights and remedies of the Lenders and the Administrative Agent against the Borrower under this Agreement or the Notes or (e) the timely payment of the principal of or interest on the Loans or other amounts payable by the Borrower in connection therewith.

“Material Subsidiary” shall mean, at any time, any Subsidiary of the Borrower which, at the time any determination is being made, would constitute a “significant subsidiary” of the Borrower as defined in Rule 1-02 of Regulation S-X of the SEC as in effect on the date hereof.

“Maturity Date” shall mean the earlier of (a) the date 364 days after the date by which the conditions set forth in Sections 6.01 and 6.02 shall have been satisfied or waived in accordance with this Agreement and (b) December 1, 2007, provided, that if such date is not a Business Day, the Maturity Date shall be the immediately preceding Business Day.

“Merger” shall mean the merger of North Fork with and into the Borrower pursuant to the Merger Agreement.

“Merger Agreement” shall mean the Agreement and Plan of Merger dated as of March 12, 2006 by and between North Fork and the Borrower, as amended.

“Multiemployer Plan” shall mean a multiemployer plan defined as such in Section 3(37) of ERISA to which contributions have been made by the Borrower or any ERISA Affiliate and that is covered by Title IV of ERISA.

“Net Worth” shall mean, on any date, the consolidated stockholders’ equity of the Borrower and its consolidated Subsidiaries determined as of such date on a consolidated basis without duplication in accordance with GAAP.

“NFB” shall mean North Fork Bank, a bank organized under the laws of the State of New York.

“North Fork” shall have the meaning assigned to such term in the recitals hereto.

“Note” shall mean a promissory note of the Borrower in substantially the form of Exhibit A hereto issued pursuant to Section 2.07(d) hereof, and all promissory notes delivered in substitution or exchange thereof, in each case as the same shall be modified and supplemented and in effect from time to time.

“Notice of Borrowing” shall mean a notice substantially in the form of Exhibit D hereto, duly completed, executed and delivered by the Borrower.

Bridge Loan Agreement

“Notice of Continuation” shall mean a notice substantially in the form of Exhibit G hereto, duly completed, executed and delivered by the Borrower.

“Other Taxes” shall have the meaning assigned to such term in Section 5.06(b) hereof.

“Participant” shall have the meaning assigned to such term in Section 11.06(c) hereof.

“Past-Due Receivables” shall mean, on any date, the sum for the Borrower and its consolidated Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP) of (a) all Managed Receivables the minimum payments on which are at least 90 days overdue on such date plus (b) all other assets which have been, in accordance with the Borrower’s or the relevant Subsidiary’s credit policies with respect to such assets, classified as non-performing assets; provided that, Managed Receivables that are credit card loans, whether or not at least 90 days overdue, shall not constitute “Past-Due Receivables” to the extent of any cash balance of the account debtor on such loan on deposit with the creditor (but only to the extent such creditor is entitled under an agreement governing such credit card loan to set off such cash balances against the obligations of the account debtor under such loan and to the extent such cash balances are not subject to any other set-off or deduction by such creditor or any of its affiliates against a matured obligation owing by such debtor).

“PBGC” shall mean the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Person” shall mean any individual, corporation, company, voluntary association, partnership, limited liability company, joint venture, trust, unincorporated organization or government (or any agency, instrumentality or political subdivision thereof).

“Plan” shall mean an employee benefit or other plan established or maintained by the Borrower or any ERISA Affiliate and that is covered by Title IV of ERISA, other than a Multiemployer Plan.

“Post-Default Rate” shall mean a rate equal to 2% per annum plus the Base Rate as in effect from time to time plus the Applicable Margin, provided that, with respect to principal of a Eurodollar Loan that shall become due (whether at stated maturity, by acceleration, by optional or mandatory prepayment or otherwise) on a day other than the last day of the Interest Period therefor, the “Post-Default Rate” shall be, for the period from and including such due date to but excluding the last day of such Interest Period, 2% per annum plus the interest rate for such Loan as provided in Section 3.02 hereof and, thereafter, the rate provided for above in this definition.

“Prime Rate” shall mean the rate of interest from time to time announced by JPMorgan at the Principal Office as its prime commercial lending rate.

Bridge Loan Agreement

“Principal Office” shall mean the principal office of JPMorgan, located on the date hereof at 270 Park Avenue, New York, New York 10017.

“Principal Subsidiary” shall mean (i) each of COB, FSB, CONA and (after the Effective Time (as defined in the Merger Agreement)) NFB, and (ii) any other direct or indirect Subsidiary of the Borrower engaged primarily in commercial banking or in the extension of consumer credit to third parties or securitizations of receivables related to commercial loans or such consumer credit that constitutes a “significant subsidiary” within the meaning of Regulation S-X adopted by the SEC.

“Property” shall mean any right or interest in or to property of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible.

“Quarterly Dates” shall mean the last Business Day of March, June, September and December in each year, the first of which shall be the first such day after the date hereof.

“Rating Agencies” shall mean Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services or, in each case, any successor nationally recognized statistical rating organization.

“Rating Levels” shall mean, on any date of determination, (a) Rating Level 1 if the Debt Rating by the Rating Agencies is at least equal to “A1” or “A+”, (b) Rating Level 2 if the Debt Rating by the Rating Agencies is at least equal to “A2” or “A”, but does not fall within Rating Level 1, (c) Rating Level 3 if the Debt Rating by the Rating Agencies is at least equal to “A3” or “A-”, but does not fall within Rating Level 1 or Rating Level 2, (d) Rating Level 4 if the Debt Rating by the Rating Agencies is at least equal to “Baa1” or “BBB+”, but does not fall within Rating Level 1, Rating Level 2 or Rating Level 3 or (e) Rating Level 5 if the Debt Rating by the Rating Agencies is at least equal to “Baa2” or “BBB”, but does not fall within Rating Level 1, Rating Level 2, Rating Level 3 or Rating Level 4 or if none of the foregoing is applicable. If the Debt Rating of any Rating Agency is one level below the Debt Rating of the other Rating Agency, the “Rating Level” will be determined without regard to the Debt Rating of such Rating Agency with the lower Rating Level. If the Debt Rating of any Rating Agency is two or more levels below the Debt Rating of the other Rating Agency, the “Rating Level” will be determined on the basis of the Rating Level which is one level lower than the highest of the Rating Agencies’ Debt Ratings.

“Receivables” shall mean, with respect to the Borrower or any Principal Subsidiary, any amount owing, from time to time, with respect to a commercial loan, credit card, revolving or installment loan account, home equity line of credit or residential mortgage loan account or other receivable owned by the Borrower or such Principal Subsidiary, including, without limitation, amounts owing to the Borrower or such Principal Subsidiary for payment of goods and services, cash advances, convenience checks, membership fees, finance charges, late charges, credit insurance premiums and cash advance fees and fees relating to additional lending products, and any other receivables arising out of financing transactions by the Borrower or such

Bridge Loan Agreement

Principal Subsidiary; provided that the term “Receivables” shall not include any of the foregoing that is subject to a securitization (whether on or off balance sheet for the Borrower or such Principal Subsidiary) effected in the ordinary course of business, including any “seller interest” or retained portion of any securitization.

“Reference Lenders” shall mean JPMorgan and Citibank, N.A. (or their respective Applicable Lending Offices, as the case may be).

“Register” shall have the meaning assigned to such term in Section 11.06(b)(iv) hereof.

“Regulations A, D, T, U and X” shall mean, respectively, Regulations A, D, T, U and X of the Board of Governors of the Federal Reserve System (or any successor), as the same may be modified and supplemented and in effect from time to time.

“Regulatory Change” shall mean, with respect to any Lender, any change after the date hereof in Federal, state or foreign law or regulations (including, without limitation, Regulation D) or the adoption or making after such date of any interpretation, directive or request applying to a class of banks including such Lender of or under any Federal, state or foreign law or regulations (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

“Reserve Requirement” shall mean, for any Interest Period for any Eurodollar Loan, the average maximum rate at which reserves (including, without limitation, any marginal, supplemental or emergency reserves) are required to be maintained during such Interest Period under Regulation D by member banks of the Federal Reserve System in New York City with deposits exceeding one billion Dollars against “Eurocurrency liabilities” (as such term is used in Regulation D). Without limiting the effect of the foregoing, the Reserve Requirement shall include any other reserves required to be maintained by such member banks by reason of any Regulatory Change with respect to (i) any category of liabilities that includes deposits by reference to which the Eurodollar Rate is to be determined as provided in the definition of “Eurodollar Rate” in this Section 1.01 or (ii) any category of extensions of credit or other assets that includes Eurodollar Loans.

“Restricted Shares” shall mean shares of stock of or other ownership interests in any Principal Subsidiary.

“SEC” shall mean the Securities and Exchange Commission, or any successor agency charged with the administration and enforcement of the Securities Act and the Exchange Act.

“Securities Act” shall mean the Securities Act of 1933, as amended from time to time.

Bridge Loan Agreement

“Subsidiary” shall mean, with respect to any Person, any corporation, partnership, limited liability company or other entity of which at least a majority of the Voting Securities issued by such corporation, partnership, limited liability company or other entity is at the time directly or indirectly owned or controlled by such Person or one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person; provided, however, that any special purpose subsidiary of the Borrower or any of its Subsidiaries organized and operated solely to facilitate or conduct securitizations shall not be deemed to be a Subsidiary of the Borrower.

“Swap Agreement” shall have the meaning given to such term in Section 101(53B) of the Bankruptcy Code (as in effect on the date hereof).

“Syndication Agent” shall mean Citigroup Global Markets Inc.

“Tangible Net Worth” shall mean, on any date and with respect to the Borrower, the consolidated stockholders’ equity of the Borrower and its consolidated Subsidiaries less Intangibles, all determined as of such date on a consolidated basis without duplication in accordance with GAAP.

“Taxes” shall have the meaning assigned to such term in Section 5.06(a) hereof.

“Tier 1 Capital” shall mean, on any date, the amount, for the Borrower and its consolidated Subsidiaries (determined on a consolidated basis) on such date, of “Tier 1 capital”, within the meaning given to such term in the Capital Adequacy Guidelines for State Member Banks published by the Board of Governors of the Federal Reserve System (12 C.F.R. Part 208, Appendix A, as amended, modified and supplemented and in effect from time to time or any replacement thereof).

“Tier 1 Capital to Managed Receivables Ratio” shall mean, on any date, the ratio of (a) Tier 1 Capital (determined, for the purposes of this definition, in accordance with GAAP) on such date to (b) Managed Receivables on such date.

“Total Commitments” shall mean \$4,200,000,000, as such amount may be reduced pursuant to Section 2.03 hereof.

“Transferee” shall have the meaning assigned to such term in Section 5.06(a) hereof.

“Type” shall have the meaning assigned to such term in Section 1.03 hereof.

“Voting Securities” shall mean, with respect to any Person, securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such Person, irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such Person shall have or might have voting power by reason of the happening of any contingency.

Bridge Loan Agreement

“Wholly Owned Subsidiary” shall mean, with respect to any Person, any corporation, partnership, limited liability company or other entity of which all of the Voting Securities issued by such corporation, partnership, limited liability company or other entity (other than, in the case of a corporation, directors’ qualifying shares) are directly or indirectly owned or controlled by such Person or one or more Wholly Owned Subsidiaries of such Person or by such Person and one or more Wholly Owned Subsidiaries of such Person.

1.02 Accounting Terms and Determinations.

(a) Except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be delivered to the Lenders hereunder shall (unless otherwise disclosed to the Lenders in writing at the time of delivery thereof in the manner described in subsection (b) below) be prepared in accordance with generally accepted accounting principles in the United States of America, applied on a basis consistent with those used in the preparation of the latest financial statements furnished to the Lenders hereunder (which, prior to the delivery of the first financial statements under Section 8.01(a) or (b) hereof, shall mean the audited financial statements as at December 31, 2005 referred to in Section 7.02 hereof). All calculations made for the purposes of determining compliance with this Agreement shall (except as otherwise expressly provided herein) be made by application of generally accepted accounting principles in the United States of America applied on a basis consistent with those used in the preparation of the latest annual or quarterly financial statements furnished to the Lenders pursuant to Section 8.01 hereof (or, prior to the delivery of the first financial statements under Section 8.01(a) or (b) hereof, used in the preparation of the audited financial statements as at December 31, 2005 referred to in Section 7.02 hereof) unless (i) the Borrower shall have objected to determining such compliance on such basis at the time of delivery of such financial statements or (ii) the Majority Lenders shall so object in writing within 30 days after delivery of such financial statements, in either of which events such calculations shall be made on a basis consistent with those used in the preparation of the latest financial statements as to which such objection shall not have been made (which, if objection is made in respect of the first financial statements delivered under Section 8.01(a) or (b) hereof, shall mean the audited financial statements referred to in Section 7.02 hereof). Notwithstanding the foregoing, the accounting term “Tier 1 Capital” defined in Section 1.01 hereof shall be interpreted by reference to the statutes or regulations referred to in said definitions, as such statutes or regulations are amended, modified, supplemented or replaced and in effect from time to time.

(b) The Borrower shall deliver to the Lenders at the same time as the delivery of any annual or quarterly financial statement under Section 8.01 hereof (i) a description in reasonable detail of any material variation between the application of accounting principles in the United States of America employed in the preparation of such statement and the application of accounting principles in the United States of America employed in the preparation of the next preceding annual or quarterly financial statements as to which no objection has been made in accordance with the last sentence of subsection (a) above and (ii) reasonable estimates of the difference between such statements arising as a consequence thereof.

Bridge Loan Agreement

(c) To enable the ready and consistent determination of compliance with the covenants set forth in Section 8 hereof, the Borrower will not change the last day of its fiscal year from December 31 of each year, or the last days of the first three fiscal quarters in each of its fiscal years from March 31, June 30 and September 30 of each year, respectively.

1.03 Types of Loans. Loans hereunder are distinguished by "Type". The "Type" of a Loan refers to whether such Loan is a Base Rate Loan or a Eurodollar Loan, each of which constitutes a Type.

SECTION 2. Commitments, Etc.

2.01 Loans. Each Lender severally agrees, on the terms and conditions of this Agreement, to make one Loan to the Borrower in Dollars on a Business Day during the Availability Period in a principal amount up to but not exceeding the amount of the Commitment of such Lender and, as to all Lenders, in an aggregate principal amount up to but not exceeding the Total Commitments.

2.02 The Borrowing. The Borrower shall give the Administrative Agent notice of the Borrowing as provided in Section 4.05 hereof. Not later than 1:00 p.m. New York time on the date specified for the Borrowing, each Lender shall make available the amount of the Loan to be made by it to the Administrative Agent at the Administrative Agent's Account, in immediately available funds, for account of the Borrower. The amount so received by the Administrative Agent shall, subject to the terms and conditions of this Agreement, be made available to the Borrower by remitting the same to the Exchange Agent as defined in and in accordance with the Merger Agreement; provided that if such proceeds are not required to be remitted immediately to said Exchange Agent, they shall be remitted to and held by the Borrower in a segregated account in trust for the Lenders until so remitted or applied as specified in Section 2.09(b)(ii) hereof or shall have been used to pay fees and expenses due under this Agreement.

2.03 Changes of Commitments.

- (a) The Total Commitments shall be automatically reduced to zero on the last day of the Availability Period.
- (b) The Commitments shall be reduced as provided in Section 2.09(b)(i).
- (c) The Commitments shall be deemed terminated immediately upon the making of the Borrowing.
- (d) The Borrower shall have the right at any time or from time to time (i) to

Bridge Loan Agreement

terminate the Commitments and (ii) to reduce the Total Commitments; provided that (x) the Borrower shall give notice of each such termination or reduction as provided in Section 4.05 hereof, (y) each partial reduction shall aggregate to an integral multiple of \$1,000,000 and not less than \$25,000,000 and (z) no such termination or reduction shall be effected unless such notice shall have been given by the Borrower.

(e) The Commitments, once terminated or reduced, may not be reinstated.

2.04 Facility Fee. The Borrower shall pay to the Administrative Agent for account of each Lender a facility fee on the daily average amount of such Lender's Commitment (regardless of utilization thereof), for the period from and including October 2, 2006, to but not including the earlier of (a) the date the Commitments are terminated or reduced to zero as provided herein and (b) the last day of the Availability Period, at a rate per annum equal to the Applicable Facility Fee Percentage, such fee to be payable on each Quarterly Date and on the date the Commitments are terminated or reduced to zero; provided, that the facility fee shall not accrue or become payable by the Borrower on the Commitment of any Defaulting Lender during the period that such Lender is a Defaulting Lender.

2.05 Lending Offices. The Loans of each Type made by each Lender shall be maintained at such Lender's Applicable Lending Office for Loans of such Type.

2.06 Several Obligations; Remedies Independent. The failure of any Lender to make the Loan to be made by it on the date specified therefor shall not relieve any other Lender of its obligation to make its Loan on such date, but neither any Lender nor the Administrative Agent shall be responsible for the failure of any other Lender to make the Loan to be made by such other Lender, and (except as otherwise provided in Section 4.06 hereof) no Lender shall have any obligation to the Administrative Agent or any other Lender for the failure by such other Lender to make the Loan required to be made by such other Lender. The amounts payable by the Borrower at any time hereunder and under the Notes to each Lender shall be a separate and independent debt, and each Lender shall (without prejudice to the provisions of Section 9 hereof) be entitled to protect and enforce its rights arising out of this Agreement and the Notes, and it shall not be necessary for any other Lender or the Administrative Agent to consent to, or be joined as an additional party in, any proceedings for such purposes.

2.07 Evidence of Debt.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from the Loan made by such Lender, including the date, amount, Type, interest rate and duration of each Interest Period thereof, and amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(b) The Administrative Agent shall maintain accounts in which it shall record (i) the amounts of the Loans made to the Borrower hereunder, the Type thereof and the interest rate and each Interest Period applicable thereto, (ii) the amount of any principal

Bridge Loan Agreement

or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent from the Borrower hereunder for the account of the Lenders and each Lender's share thereof.

(c) The entries made in the accounts maintained pursuant to paragraph (a) or (b) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(d) Any Lender may request through the Administrative Agent that its Loan be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note payable to the order of such Lender. Each Note shall be dated the Borrowing Date, duly executed by the Borrower and payable to such Lender in a principal amount equal to the amount of its Loan and otherwise duly completed.

(e) No Lender shall be entitled to have its Note substituted or exchanged for any reason, or subdivided for promissory notes of lesser denominations, except in connection with a permitted assignment of all or any portion of such Lender's Commitment, Loan and Note pursuant to Section 5.07 or 11.06 hereof (and, if requested by any Lender, the Borrower agrees to so exchange any Note).

2.08 Conversion and Continuation. The Borrower may, upon notice given to the Agent in accordance with Section 4.04 hereof, Convert all or a portion of Loans of one Type into Loans of the other Type or Continue any Eurodollar Loans; provided, however, that any Conversion of Eurodollar Loans into Base Rate Loans shall be made only on the last day of an Interest Period for such Eurodollar Loan and any Conversion of Base Rate Loans into Eurodollar Loans shall be in an amount not less than the minimum amount specified in Section 4.04. Each such notice of a Conversion or Continuation shall, within the restrictions specified above, specify (i) the date of such Conversion or Continuation, (ii) the Loans to be Converted or Continued, and (iii) if such Conversion is into Eurodollar Loans, the duration of the initial Interest Period for each such Loan. Each notice of Conversion or Continuation shall be irrevocable and binding on the Borrower.

2.09 Prepayments and Mandatory Commitment Reductions.

(a) Optional Prepayments. Subject to Section 4.04 hereof, the Borrower shall have the right to prepay the Loans, at any time or from time to time, provided that: (i) the Borrower shall give the Administrative Agent notice of each such prepayment as provided in Section 4.05 hereof (and, upon the date specified in any such notice of prepayment, the amount to be prepaid shall become due and payable hereunder) and (ii) any prepayment of a Eurodollar Loan on a day other than the last day of an Interest Period for such Loan shall be subject to the payment of any compensation payable under Section 5.05 hereof.

Bridge Loan Agreement

(b) Mandatory Prepayments and Commitment Reductions.

(i) The Commitments shall automatically be reduced, and if the Borrowing has been made the Borrower shall prepay the outstanding Loans, on the date one Business Day after the date of issuance by the Borrower of (x) hybrid securities (including “enhanced TRUPS”), (y) subordinated debt securities and (z) senior debt securities (other than senior debt securities having a maturity less than one year from the date of issuance thereof, and other than Applicable Senior Debt Securities (as defined below)), in each case in an aggregate amount equal to the amount of the net cash proceeds of each such issuance. For purposes hereof, “Applicable Senior Debt Securities” means senior debt securities of the Borrower the proceeds of which are used to refinance other Indebtedness of the Borrower, and senior debt securities of the Borrower the proceeds of which are to be used within 90 days from the date of issuance thereof to refinance other Indebtedness of the Borrower (as certified in writing by the Borrower to the Administrative Agent within one Business Day following the date of issuance of such securities).

(ii) If for any reason the Borrowing occurs but the Merger is not consummated within five Business Days thereafter in accordance with the Merger Agreement, the Borrower shall forthwith prepay the Loans in full (and any amounts in the segregated account referred to in Section 2.02 hereof shall be applied to such purpose).

(c) Prepayments in General. Amounts repaid or prepaid may not be reborrowed. All prepayments shall be made together with interest accrued on the principal amount prepaid.

SECTION 3. Payments of Principal and Interest.

3.01 Repayment of Loans. The Borrower hereby promises to pay to the Administrative Agent for account of each Lender on the Maturity Date the full principal amount of the Loan of such Lender.

3.02 Interest.

(a) Rate. The Borrower hereby promises to pay to the Administrative Agent for account of each Lender interest on the unpaid principal amount of the Loan made by such Lender for the period from and including the Borrowing Date to but excluding the date such Loan shall be paid in full, at the following rates per annum:

(i) while such Loan is a Base Rate Loan, the Base Rate (as in effect from time to time); and

Bridge Loan Agreement

(ii) while such Loan is a Eurodollar Loan, the Eurodollar Rate for each Interest Period therefor plus the Applicable Margin.

Notwithstanding the foregoing, the Borrower hereby promises to pay to the Administrative Agent for account of each Lender interest at the applicable Post-Default Rate on any principal of the Loan made by such Lender, and on any other amount payable by the Borrower to or for account of such Lender hereunder or under any Note, that shall not be paid in full when due (whether at stated maturity, by acceleration, by mandatory prepayment or otherwise), for the period from and including the due date thereof to but excluding the date the same is paid in full.

(b) Payment. Accrued interest on each Loan shall be payable (i) in the case of any Base Rate Loan, on each Quarterly Date and on the Maturity Date, (ii) in the case of any Eurodollar Loan, on the last day of each Interest Period therefor and, if such Interest Period is longer than three months, at three-month intervals following the first day of such Interest Period and (iii) in the case of any Loan, upon the payment or prepayment thereof (but only on the principal amount so paid or prepaid), except that interest payable at the Post-Default Rate shall be payable from time to time on demand.

(c) Notice. Promptly after the determination of any interest rate provided for herein or any change therein, the Administrative Agent shall give notice thereof to the Lenders and to the Borrower.

SECTION 4. Payments; Pro Rata Treatment; Computations; Etc.

4.01 Payments.

(a) Except to the extent otherwise provided herein, all payments of principal of and interest on the Loans and of all other amounts to be made by the Borrower under this Agreement and any Notes shall be made in Dollars and in immediately available funds, without deduction, set-off or counterclaim, to the Administrative Agent at the Administrative Agent's Account not later than 1:00 p.m. New York time on the date on which such payment shall become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day). All amounts owing under this Agreement and any Notes are denominated and payable in Dollars.

(b) Any Lender for whose account any such payment is to be made may (but shall not be obligated to) debit the amount of any such payment that is not made by such time to any ordinary deposit account of the Borrower with notice to the Borrower and the Administrative Agent, provided that such Lender's failure to give such notice shall not affect the validity thereof.

(c) The Borrower shall, at the time of making each payment under this

Bridge Loan Agreement

Agreement or any Note for account of any Lender, specify to the Administrative Agent (which shall notify the intended recipient(s) thereof) the Loans or other amounts payable by the Borrower hereunder to which such payment is to be applied (and in the event that the Borrower fails to so specify, or if an Event of Default has occurred and is continuing, the Administrative Agent may distribute such payment to the Lenders for application in such manner as it or the Majority Lenders, subject to Section 4.02 hereof, may determine to be appropriate).

(d) Each payment received by the Administrative Agent under this Agreement or any Note for account of any Lender shall be paid by the Administrative Agent promptly to such Lender, in Dollars and in immediately available funds, for account of such Lender's Applicable Lending Office.

(e) If the due date of any payment under this Agreement or any Note would otherwise fall on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day unless such succeeding Business Day would fall in the next calendar month, in which case such payment shall be made on the next preceding Business Day.

4.02 Pro Rata Treatment. Except to the extent otherwise provided herein:

(a) the Loans shall be made by the Lenders, each payment of facility fee shall be made to the Lenders, and each reduction under Section 2.09(b)(i) hereof and termination or reduction under Section 2.03(d) hereof of the Commitments and all Conversions and Continuations shall be applied to the respective Commitments of the Lenders pro rata according to the amounts of their respective Commitments;

(b) except as otherwise provided in Section 5.04 hereof, Eurodollar Loans having the same Interest Period shall be allocated among the Lenders pro rata according to the amounts of their respective Commitments;

(c) each payment or prepayment of principal of the Loans shall be made by the Borrower for account of the Lenders pro rata according to the respective unpaid principal amounts of the Loans held by such Lenders; and

(d) each payment of interest on the Loans shall be made by the Borrower for account of the Lenders pro rata according to the amounts of interest on the Loans then due and payable by the Borrower to such Lenders.

4.03 Computations. Interest on Eurodollar Loans and facility fee shall be computed on the basis of a year of 360 days and actual days elapsed (including the first day but excluding the last day) occurring in the period for which payable, and interest on Base Rate Loans shall be computed on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed (including the first day but excluding the last day) occurring in the period for which payable. Notwithstanding the foregoing, for each day that the Base Rate is calculated by reference to the Federal Funds Rate, interest on Base Rate Loans shall be computed on the basis of a year of 360 days and actual days elapsed.

Bridge Loan Agreement

4.04 Minimum Amounts. Each partial prepayment of principal of the Loans shall aggregate to an integral multiple of \$1,000,000 and not less than \$25,000,000 (prepayments of Loans of different Types or, in the case of Eurodollar Loans, having different Interest Periods at the same time hereunder to be deemed separate prepayments for purposes of the foregoing, one for each Type or Interest Period), provided that (a) the aggregate principal amount of Eurodollar Loans having the same Interest Period shall aggregate to an integral multiple of \$1,000,000 and not less than \$25,000,000 and (b) if any Eurodollar Loans would otherwise be in a lesser principal amount for any period, such Loans shall be Base Rate Loans during such period.

4.05 Certain Notices. The Notice of Borrowing and notices by the Borrower to the Administrative Agent of terminations or reductions of the Commitments, of Conversions and Continuations and of optional prepayments of Loans and the duration of Interest Periods shall be irrevocable and shall be effective only if received by the Administrative Agent not later than 11:00 a.m. New York time on the number of Business Days prior to the date of the relevant termination, reduction, borrowing or prepayment or the first day of such Interest Period specified below:

<u>Type</u>	<u>Number of Business Days Prior same day</u>
Notice of Borrowing if for Base Rate Loans and notices of prepayment of Base Rate Loans	3
Termination or reduction of Commitments	3
Notice of Borrowing if for Eurodollar Loans or notices of prepayment of, Conversion into, Continuation of, and duration of an Interest Period for, Eurodollar Loans	3

Each such notice of termination or reduction shall specify the aggregate amount of the Commitments to be terminated or reduced and each notice of prepayment shall specify the amount to be prepaid and the date of prepayment and each notice of Conversion or Continuation shall specify the amount to be Converted or Continued and the duration of the ensuing Interest Period therefor. The Notice of Borrowing shall be in substantially the form of Exhibit D hereto and shall specify the amount of the Borrowing (subject to Section 4.04 hereof) and the Borrowing Date. The Notice of Continuation shall be substantially in the form of Exhibit G hereto; provided, that if the Borrower shall fail to provide a timely Notice of Continuation, the applicable Interest Period shall be deemed to be one month. The Administrative Agent shall promptly notify the affected Lenders of the contents of each such notice.

Bridge Loan Agreement

4.06 Non-Receipt of Funds by the Administrative Agent. Unless the Administrative Agent shall have been notified by a Lender or the Borrower (the "Payor") prior to the date on which the Payor is to make payment to the Administrative Agent of (in the case of a Lender) the proceeds of the Loan to be made by such Lender hereunder or (in the case of the Borrower) a payment to the Administrative Agent for account of one or more of the Lenders hereunder (such payment being herein called the "Required Payment"), which notice shall be effective upon receipt, that the Payor does not intend to make the Required Payment to the Administrative Agent, the Administrative Agent may assume that the Required Payment has been made and may, in reliance upon such assumption (but shall not be required to), make the amount thereof available to the intended recipient(s) on such date; and, if the Payor has not in fact made the Required Payment to the Administrative Agent, the recipient(s) of such payment shall, on demand, repay to the Administrative Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date (the "Advance Date") such amount was so made available by the Administrative Agent until the date the Administrative Agent recovers such amount at a rate per annum equal to the Federal Funds Rate for such day and, if such recipient(s) shall fail promptly to make such payment, the Administrative Agent shall be entitled to recover such amount, on demand, from the Payor, together with interest as aforesaid, provided that if neither the recipient(s) nor the Payor shall return the Required Payment to the Administrative Agent within three Business Days of the Advance Date, then, retroactively to the Advance Date, the Payor and the recipient(s) shall each be obligated to pay interest on the Required Payment as follows:

(i) if the Required Payment shall represent a payment to be made by the Borrower to the Lenders, the Borrower and the recipient(s) shall each be obligated retroactively to the Advance Date to pay interest in respect of the Required Payment at the Post-Default Rate (without duplication of the obligation of the Borrower under Section 3.02 hereof to pay interest on the Required Payment at the Post-Default Rate), it being understood that the return by the recipient(s) of the Required Payment to the Administrative Agent shall not limit such obligation of the Borrower under said Section 3.02 to pay interest at the Post-Default Rate in respect of the Required Payment; and

(ii) if the Required Payment shall represent proceeds of the Loans to be made by the Lenders to the Borrower, the Payor and the Borrower shall each be obligated retroactively to the Advance Date to pay interest in respect of the Required Payment pursuant to Section 3.02 hereof, it being understood that the return by the Borrower of the Required Payment to the Administrative Agent shall not limit any claim the Borrower may have against the Payor in respect of such Required Payment.

4.07 Sharing of Payments, Etc.

(a) The Borrower agrees that, in addition to (and without limitation of) any right of set-off, banker's lien or counterclaim a Lender may otherwise have, each Lender

Bridge Loan Agreement

shall be entitled, at its option (to the fullest extent permitted by law), to set off and apply any deposit (general or special, time or demand, provisional or final), or other indebtedness, held by it for the credit or account of the Borrower at any of its offices, in Dollars, against any principal of or interest on such Lender's Loan or any other amount payable by the Borrower to such Lender hereunder, that is not paid when due (regardless of whether such deposit or other indebtedness is then due to the Borrower), in which case it shall promptly notify the Borrower and the Administrative Agent thereof, provided that such Lender's failure to give such notice shall not affect the validity thereof.

(b) If any Lender shall obtain from the Borrower payment of any principal of or interest on the Loan owing to such Lender or payment of any other amount owing under this Agreement through the exercise of any right of set-off, banker's lien or counterclaim or similar right or otherwise (other than from the Administrative Agent as provided herein), and, as a result of such payment, such Lender shall have received a greater percentage of the principal of or interest on such Loan or such other amounts due hereunder from the Borrower to such Lender than the percentage received by any other Lender, it shall promptly purchase from such other Lenders participations in (or, if and to the extent specified by such Lender, direct interests in) the Loans or such other amounts, respectively, owing to such other Lenders (or in interest due thereon, as the case may be) in such amounts, and make such other adjustments from time to time as shall be equitable, to the end that all the Lenders shall share the benefit of such excess payment (net of any expenses that may be incurred by such Lender in obtaining or preserving such excess payment) pro rata in accordance with the unpaid principal of and/or interest on the Loans or such other amounts, respectively, owing to each of the Lenders. To such end all the Lenders shall make appropriate adjustments among themselves (by the resale of participations sold or otherwise) if such payment is rescinded or must otherwise be restored.

(c) The Borrower agrees that any Lender so purchasing such a participation (or direct interest) may exercise all rights of set-off, banker's lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of Loans or other amounts (as the case may be) owing to such Lender in the amount of such participation.

(d) Nothing contained herein shall require any Lender to exercise any such right or shall affect the right of any Lender to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of the Borrower. If, under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a set-off to which this Section 4.07 applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Lenders entitled under this Section 4.07 to share in the benefits of any recovery on such secured claim.

Bridge Loan Agreement

SECTION 5. Yield Protection, Etc.

5.01 Additional Costs.

(a) The Borrower shall pay directly to each Lender from time to time such amounts as such Lender may determine to be necessary to compensate such Lender for any costs that such Lender determines are attributable to its maintaining any Eurodollar Loan or any reduction in any amount receivable by such Lender hereunder in respect of any such Loan (such increases in costs and reductions in amounts receivable being herein called "Additional Costs"), resulting from any Regulatory Change that:

(i) subjects such Lender (or its Applicable Lending Office) to any Taxes; or

(ii) imposes or modifies any reserve, special deposit or similar requirements (other than, in the case of any Lender for any period as to which the Borrower is required to pay any amount under Section 5.01(d) hereof, the reserves against "Eurocurrency liabilities" under Regulation D referred to therein) relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, such Lender (including, without limitation, its Loan or any deposits referred to in the definition of "Eurodollar Rate" in Section 1.01 hereof), or the Commitment of such Lender); or

(iii) imposes any other condition affecting this Agreement or its Loan or Note (if any) or its Commitment.

(b) Without limiting the effect of the foregoing provisions of this Section 5.01 (but without duplication), if any Lender shall have determined that any law or regulation or any interpretation, directive or request (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) of any court or governmental or monetary authority, (i) following any Regulatory Change or (ii) implementing any risk-based capital guideline or other requirement (whether or not having the force of law and whether or not the failure to comply therewith would be unlawful) hereafter issued by any government or governmental or supervisory authority implementing at the national level any change in the Basle Accord, has or would have the effect of reducing the rate of return on assets or equity of such Lender (or any Applicable Lending Office of such Lender or any bank holding company of which such Lender is a subsidiary) as a consequence of such Lender's Commitment or its Loan to a level below that which such Lender (or such Applicable Lending Office or such bank holding company) could have achieved but for such law, regulation, interpretation, directive or request, then the Borrower shall pay directly to such Lender from time to time on request such amounts as such Lender may determine to be necessary to compensate such Lender (or, without duplication, such Applicable Lending Office or such bank holding company) for such reduction.

(c) Each Lender shall notify the Borrower of any event occurring after the

Bridge Loan Agreement

date hereof entitling such Lender to compensation from the Borrower under paragraph (a) or (b) of this Section 5.01 as promptly as practicable, but in any event within 45 days, after such Lender obtains actual knowledge thereof; provided that (i) if any Lender fails to give such notice within 45 days after it obtains actual knowledge of such an event, such Lender shall, with respect to compensation payable by the Borrower pursuant to this Section 5.01 in respect of any costs resulting from such event, be entitled to payment under this Section 5.01 only for costs incurred from and after the date 45 days prior to the date that such Lender does give such notice and (ii) each Lender will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the sole opinion of such Lender, be disadvantageous to such Lender, except that such Lender shall have no obligation to designate an Applicable Lending Office located in the United States of America. Each Lender will furnish to the Borrower a certificate setting forth the basis and amount of each request by such Lender for compensation under paragraph (a) or (b) of this Section 5.01. Determinations and allocations by any Lender for purposes of this Section 5.01 of the effect of any Regulatory Change pursuant to paragraph (a) of this Section 5.01, or of the effect of capital maintained pursuant to paragraph (b) of this Section 5.01, on its costs or rate of return of maintaining its Loan or its obligation to make its Loan, or on amounts receivable by it in respect of its Loan, and of the amounts required to compensate such Lender under this Section 5.01, shall be conclusive, provided that such determinations and allocations are made on a reasonable basis.

(d) Without limiting the effect of the foregoing, the Borrower shall pay to each Lender on the last day of each Interest Period so long as such Lender is maintaining reserves against "Eurocurrency liabilities" under Regulation D (or, unless the provisions of paragraph (b) above are applicable, so long as such Lender is, by reason of any Regulatory Change, maintaining reserves against any other category of liabilities that includes deposits by reference to which the interest rate on Eurodollar Loans is determined as provided in this Agreement or against any category of extensions of credit or other assets of such Lender that includes any Eurodollar Loans) an additional amount (determined by such Lender and notified to the Borrower through the Administrative Agent) equal to the product of the following for each Eurodollar Loan for each day during such Interest Period:

(i) the principal amount of such Eurodollar Loan outstanding on such day; and

(ii) the remainder of (x) a fraction the numerator of which is the rate (expressed as a decimal) at which interest accrues on such Eurodollar Loan for such Interest Period as provided in this Agreement (not including the Applicable Margin) and the denominator of which is one minus the effective rate (expressed as a decimal) at which such Reserve Requirements are imposed on such Lender on such day minus (y) such numerator; and

(iii) 1/360.

Bridge Loan Agreement

Notwithstanding the foregoing, this Section 5.01 does not apply to the extent that any costs referred to in this Section 5.01 are compensated for by Section 5.06.

5.02 Limitation on Types of Loans. Anything herein to the contrary notwithstanding, if, on or prior to the determination of the Eurodollar Rate for any Interest Period:

(a) the Administrative Agent determines, which determination shall be conclusive, that quotations of interest rates for the relevant deposits referred to in the definition of "Eurodollar Rate" in Section 1.01 hereof are not being provided in the relevant amounts or for the relevant maturities for purposes of determining rates of interest for Eurodollar Loans as provided herein; or

(b) the Majority Lenders determine, which determination shall be conclusive, and notify (or notifies, as the case may be) the Administrative Agent that the relevant rates of interest referred to in the definition of "Eurodollar Rate" in Section 1.01 hereof upon the basis of which the rate of interest for Eurodollar Loans for such Interest Period is to be determined will not adequately and fairly reflect the cost to such Lenders of making or maintaining Eurodollar Loans for such Interest Period;

then the Administrative Agent shall give the Borrower and Lender prompt notice thereof and, so long as such condition remains in effect, the Lenders shall be under no obligation to Convert their Loans into or Continue their Loans as Eurodollar Loans and any Loans that are Eurodollar Loans shall, on the last day of the then current Interest Period therefor, be Converted into Base Rate Loans.

5.03 Illegality. Notwithstanding any other provision of this Agreement, in the event that it becomes unlawful for any Lender or its Applicable Lending Office to honor its obligation to Convert its Loan into, or Continue or maintain its Loan as, a Eurodollar Loan (and, in the sole opinion of such Lender, the designation of a different Applicable Lending Office would either not avoid such unlawfulness or would be disadvantageous to such Lender), then such Lender shall promptly notify the Borrower thereof (with a copy to the Administrative Agent) and such Lender's obligation to Convert its Loan into, or Continue or maintain its Loan as, a Eurodollar Loan shall be suspended until such time as such Lender may again Convert its Loan into and Continue or maintain its Loan as a Eurodollar Loan (in which case the provisions of Section 5.04 hereof shall be applicable).

5.04 Treatment of Affected Loans. If the obligation of any Lender to Convert its Loan into, or Continue or maintain, its Loan as, a Eurodollar Loan shall be suspended pursuant to Section 5.03 hereof, then, unless and until such Lender gives notice as provided below that the circumstances specified in Section 5.03 hereof that gave rise to such suspension no longer exist (which such Lender agrees to do promptly upon such circumstances ceasing to exist), such Lender's Loan shall be maintained as a Base Rate Loan.

Bridge Loan Agreement

5.05 Compensation. The Borrower shall pay to the Administrative Agent for account of each Lender, upon the request of such Lender through the Administrative Agent, such amount or amounts as shall be sufficient (in the reasonable opinion of such Lender) to compensate such Lender for any loss, cost or expense that such Lender determines is attributable to any payment or mandatory or optional prepayment of a Eurodollar Loan (which shall not include the return by the Borrower pursuant to Section 4.06 hereof of any Required Payment previously advanced to the Borrower by the Administrative Agent on behalf of a Lender) for any reason (including, without limitation, the acceleration of the Loans pursuant to Section 9 hereof) on a date other than the last day of the Interest Period for such Loan. Such compensation shall be equal to an amount equal to the excess, if any, of (i) the amount of interest that otherwise would have accrued on the principal amount so paid or prepaid for the period from the date of such payment or prepayment to the last day of the then current Interest Period for such Loan at the Eurodollar Rate for such Loan for such Interest Period over (ii) the amount of interest that otherwise would have accrued on such principal amount at a rate per annum equal to the interest component of the amount such Lender would have bid in the London interbank market in amounts comparable to such principal amount and with maturities comparable to such period (as reasonably determined by such Lender). Any Lender requesting compensation pursuant to this Section 5.05 will furnish to the relevant Borrower a certificate setting forth its computation of the amount of such compensation, which certificate shall be conclusive as to the amount of such compensation provided that the computations made therein are made on a reasonable basis.

5.06 Taxes.

(a) Any and all payments by the Borrower hereunder shall be made, in accordance with Section 4.01, free and clear of and without deduction or liability for any and all current or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes (including, without limitation, taxes on net income, profits or gains) imposed on the Administrative Agent or any Lender (or any transferee or assignee thereof, including a participation holder (any such entity a "Transferee")) as a result of a present, former or future connection between the jurisdiction of the governmental authority imposing such tax or any political subdivision or taxing authority thereof or therein and the Administrative Agent or such Lender (other than a connection resulting from or attributable to the Administrative Agent or such Lender having executed, delivered or performed its obligations, or enforced, this Agreement or any Note) (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities, collectively or individually, "Taxes"). If the Borrower shall be required to deduct any Taxes from or in respect of any sum payable hereunder to any Lender (or any Transferee) or the Administrative Agent, or any Lender (or any Transferee) or the Administrative Agent shall be required to pay such Taxes, (i) the sum payable shall be increased by the amount (an "additional amount") necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 5.06) such Lender (or Transferee) or the Administrative Agent (as the case may be) shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant governmental authority in accordance with applicable law.

Bridge Loan Agreement

(b) In addition, the Borrower agrees to pay to the relevant governmental authority in accordance with applicable law any current or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any Note ("Other Taxes").

(c) The Borrower will indemnify each Lender (or Transferee) and the Administrative Agent on an after-tax basis for the full amount of Taxes and Other Taxes paid by such Lender (or Transferee) or the Administrative Agent, as the case may be, and any liability (including penalties, interest and expenses (including reasonable attorney's fees and expenses)) arising therefrom or with respect thereto (except in the case of gross negligence or willful misconduct of such Lender (or Transferee) or the Administrative Agent), whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant governmental authority. A certificate as to the amount of such payment or liability prepared by a Lender (or Transferee), or the Administrative Agent, absent manifest error, shall be final, conclusive and binding for all purposes. Such indemnification shall be made within 30 days after the date such Lender (or Transferee) or the Administrative Agent, as the case may be, makes written demand therefor.

(d) If the Borrower determines in good faith that a reasonable basis exists for contesting a Tax, the relevant Lender (or Transferee), or the Administrative Agent, as applicable, shall cooperate with the Borrower in challenging such Tax in the Borrower's name at the Borrower's expense if requested by the Borrower.

(e) As soon as practicable after the date of any payment of Taxes or Other Taxes by the Borrower to the relevant governmental authority, the Borrower will deliver to the Administrative Agent, at its address referred to in Section 11.02, the original or a certified copy of a receipt issued by such governmental authority evidencing payment thereof.

(f) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section 5.06 shall survive the payment in full of the principal of and interest on all Loans made hereunder.

(g) The Borrower agrees to pay to each Lender that is not a U.S. Person such additional amounts as are necessary in order that the net payment of any amount due from the Borrower to such non-U.S. Person hereunder after deduction for or withholding in respect of any U.S. Taxes imposed with respect to such payment (or in lieu thereof, payment of such U.S. Taxes by such non-U.S. Person), will not be less than the amount stated herein to be then due and payable, provided that the foregoing obligation to pay such additional amounts shall not apply:

Bridge Loan Agreement

(i) to any payment to any Lender hereunder unless such Lender is, on the date hereof (or on the date it becomes a Lender hereunder as provided in Section 5.07 or 11.06(b) hereof) and on the date of any change in the Applicable Lending Office of such Lender either entitled to submit a Form W-8BEN (relating to such Lender and entitling it to a complete exemption from withholding on all interest to be received by it hereunder in respect of the Loans) or Form W-8ECI (relating to all interest to be received by such Lender hereunder in respect of the Loans), or

(ii) to any U.S. Taxes imposed solely by reason of the failure by such non-U.S. Person to comply with applicable certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connections with the United States of America of such non-U.S. Person if such compliance is required by statute or regulation of the United States of America as a precondition to relief or exemption from such U.S. Taxes.

For the purposes of this Section 5.06(g), (A) "U.S. Person" shall mean a citizen, national or resident of the United States of America, a corporation, partnership or other entity created or organized in or under any laws of the United States of America or any State thereof, or any estate or trust that is subject to Federal income taxation regardless of the source of its income, (B) "U.S. Taxes" shall mean any present or future tax, assessment or other charge or levy imposed by or on behalf of the United States of America or any taxing authority thereof or therein, (C) "Form W-8BEN" shall mean Form W-8BEN (Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding) of the Department of the Treasury of the United States of America and (D) "Form W-8ECI" shall mean Form W-8ECI (Certificate of Foreign Person's Claim for Exemption from Withholding of Tax on Income Effectively Connected with the Conduct of a Trade or Business in the United States) of the Department of the Treasury of the United States of America. Each of the Forms referred to in the foregoing clauses (C) and (D) shall include such successor and related forms as may from time to time be adopted by the relevant taxing authorities of the United States of America to document a claim to which such Form relates.

(h) Within 30 days after paying any amount to the Administrative Agent or any Lender from which it is required by law to make any deduction or withholding, and within 30 days after it is required by law to remit such deduction or withholding to any relevant taxing or other authority, the Borrower shall deliver to the Administrative Agent for delivery to such non-U.S. Person evidence satisfactory to such Person of such deduction, withholding or payment (as the case may be).

(i) If the Administrative Agent or a Lender or Transferee determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 5.06, it shall pay over such refund to the

Bridge Loan Agreement

Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 5.06 with respect to the Taxes or Other Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses of the Administrative Agent or such Lender or Transferee and without interest (other than any interest paid by the relevant governmental authority with respect to such refund); provided, that the Borrower, upon the request of the Administrative Agent or such Lender or Transferee, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant governmental authority) to the Administrative Agent or such Lender or Transferee in the event the Administrative Agent or such Lender is required to repay such refund to such governmental authority. This Section shall not be construed to require the Administrative Agent or any Lender or Transferee to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Borrower or any other Person.

5.07 Replacement of Lenders. If any Lender requests compensation pursuant to Section 5.01 or 5.06 hereof, or any Lender's obligation to Convert its Loan into, or Continue or maintain its Loan as, a Eurodollar Loan shall be suspended pursuant to Section 5.03 hereof, or any Lender becomes a Defaulting Lender pursuant to Section 11.04 hereof (any such Lender requesting such compensation, or whose obligations are so suspended, or that becomes and remains a Defaulting Lender, being herein called a "Subject Lender"), the Borrower, upon three Business Days notice, may require that such Subject Lender transfer all of its right, title and interest under this Agreement and such Subject Lender's Note to any bank or other financial institution (a "Proposed Lender") identified by the Borrower that is reasonably satisfactory to the Administrative Agent (i) if such Proposed Lender agrees to assume all of the obligations of such Subject Lender hereunder, and to purchase all of such Subject Lender's Loans hereunder for consideration equal to the aggregate outstanding principal amount of such Subject Lender's Loans, together with interest thereon to the date of such purchase, and satisfactory arrangements are made for payment to such Subject Lender of all other amounts payable hereunder to such Subject Lender on or prior to the date of such transfer (including any fees accrued hereunder and any amounts that would be payable under Section 5.05 hereof as if all of such Subject Lender's Loans were being prepaid in full on such date) and (ii) if such Subject Lender has requested compensation pursuant to Section 5.01 or 5.06 hereof, such Proposed Lender's aggregate requested compensation, if any, pursuant to said Section 5.01 or 5.06 with respect to such Subject Lender's Loans is lower than that of the Subject Lender. Subject to the provisions of Section 11.06(b) hereof, such Proposed Lender shall be a "Lender" for all purposes hereunder. Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements of the Borrower contained in Sections 5.01, 5.06 and 11.03 hereof (without duplication of any payments made to such Subject Lender by the Borrower or the Proposed Lender) shall survive for the benefit of such Subject Lender under this Section 5.07 with respect to the time prior to such replacement.

Bridge Loan Agreement

SECTION 6. Conditions Precedent.

6.01 Conditions to Effectiveness. The obligation of the Lenders to make the Loans is subject to the conditions precedent that the Administrative Agent shall have received the following documents, each of which shall be satisfactory to the Administrative Agent and special New York counsel to JPMorgan in form and substance:

(a) Corporate Documents. Certified copies of the charter and by-laws (or equivalent documents) of the Borrower and of all corporate authority for the Borrower (including, without limitation, board of director resolutions and evidence of the incumbency, including specimen signatures, of officers) with respect to the execution, delivery and performance of this Agreement and the Notes and each other document to be delivered by the Borrower from time to time in connection herewith and the Loans hereunder (and the Administrative Agent and each Lender may conclusively rely on such certificate until it receives notice in writing from the Borrower to the contrary).

(b) Officer's Certificate. A certificate of a senior officer of the Borrower, dated the Effective Date, to the effect that (i) no Default has occurred and is continuing, (ii) the representations and warranties made by the Borrower in Section 7 hereof (including the last sentence of Section 7.02 hereof and in Section 7.03 hereof) are true and complete on and as of the Effective Date with the same force and effect as if made on and as of such date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date) and (iii) based upon December 31, 2005 financial information, the Borrower is in compliance with each of the financial covenants in Section 8.07 hereof after giving effect on a pro forma basis to the consummation of the Merger.

(c) Opinion of Special New York Counsel to the Borrower. An opinion, dated the Effective Date, of Clifford Chance US LLP, special U.S. counsel to the Borrower, substantially in the form of Exhibit B-1 hereto and covering such other matters as the Administrative Agent may reasonably request (and the Borrower hereby instructs such counsel to deliver such opinion to the Lenders and the Administrative Agent).

(d) Opinion of Counsel to the Borrower. An opinion, dated the Effective Date, of (i) the Executive Vice President, Deputy General Counsel and Assistant Secretary of the Borrower, (ii) the Managing Vice President, Chief Counsel of the Borrower or (iii) other internal counsel of the Borrower acceptable to the Administrative Agent, in each case substantially in the form of Exhibit B-2 hereto and covering such other matters as the Administrative Agent may reasonably request (and the Borrower hereby instructs such counsel to deliver such opinion to the Lenders and the Administrative Agent).

(e) Opinion of Special New York Counsel to JPMorgan. An opinion, dated the Effective Date, of Milbank, Tweed, Hadley & McCloy LLP, special New York counsel to JPMorgan, substantially in the form of Exhibit C hereto (and JPMorgan hereby instructs such counsel to deliver such opinion to the Lenders).

Bridge Loan Agreement

(f) Merger Agreement. A certified or conformed copy of the Merger Agreement together with all amendments thereto.

(g) Financial Statements. Pro forma financial statements as of December 31, 2005 of the Borrower and its Subsidiaries, on a consolidated basis, and of the Borrower on a stand-alone basis, in each case giving effect on a pro forma basis to the consummation of the Merger.

(h) Other Documents. Such other documents relating to this Agreement and the transactions contemplated hereby as the Administrative Agent or special New York counsel to JPMorgan may reasonably request.

The effectiveness of the obligations of any Lender hereunder is also subject to the payment by the Borrower of such fees as the Borrower shall have agreed to pay or deliver to any Lender or the Administrative Agent in connection herewith, including, without limitation, the reasonable fees and expenses of Milbank, Tweed, Hadley & McCloy LLP, special New York counsel to JPMorgan, in connection with the negotiation, preparation, execution and delivery of this Agreement and any Notes (to the extent that statements for such fees and expenses have been delivered to the Borrower).

6.02 The Borrowing. The obligation of each Lender to make its Loan is subject to the further conditions precedent that:

(a) the Borrower shall have given the Notice of Borrowing to the Administrative Agent;

(b) both immediately prior to the making of such Loan and also after giving effect thereto and to the intended use thereof:

(i) no Default shall have occurred and be continuing; and

(ii) the representations and warranties made by the Borrower in Section 7 hereof (other than the Excluded Representations) shall be true and complete in all material respects on and as of the Borrowing Date with the same force and effect as if made on and as of such date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date);

(c) if such Lender has requested a Note pursuant to Section 2.07(d) hereof, such Lender shall have received such Note; and

Bridge Loan Agreement

(d) the Administrative Agent shall have received a certificate from the Borrower stating that (i) the Merger Agreement has not been materially amended since the date of this Agreement in a way which is adverse to the interests of the Lenders, (ii) the Merger has been or is contemporaneously being or is expected within three Business Days to be consummated in accordance with the terms of the Merger Agreement, and (iii) the proceeds of the Borrowing will be used to pay the Cash Consideration, as defined in the Merger Agreement, together with cash in lieu of fractional shares of the Borrower's Common Stock as required by the Merger Agreement and fees and expenses related to the transactions contemplated by this Agreement and the Merger Agreement.

SECTION 7. Representations and Warranties. The Borrower represents and warrants to the Administrative Agent and the Lenders that:

7.01 Corporate Existence. The Borrower and each of its Subsidiaries (a) is a corporation, partnership, limited liability company or other entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization; (b) (i) has all requisite corporate or other power and (ii) except to the extent it could not reasonably be expected to have a Material Adverse Effect, has all governmental licenses, authorizations, consents and approvals necessary to own its assets and carry on its business as now being conducted; and (c) is qualified to do business and is in good standing in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure so to qualify could (either individually or in the aggregate) reasonably be expected to have a Material Adverse Effect. The Borrower is duly registered as a bank holding company under the BHC Act and is a financial holding company pursuant to Section 4(l) of the BHC Act and meets the applicable requirements for qualification as such.

7.02 Financial Condition. The Borrower has heretofore furnished to each of the Lenders a consolidated balance sheet of the Borrower and its Subsidiaries as at December 31, 2005 and the related consolidated statements of income, changes in stockholders'/division equity and cash flows of the Borrower and its Subsidiaries for the fiscal year ended on said date, with the opinion thereon of Ernst & Young LLP. Such financial statements present fairly, in all material respects, the consolidated financial condition of the Borrower and its Subsidiaries as at said date and the consolidated results of their operations and their cash flows for the fiscal year ended on said date, all in accordance with generally accepted accounting principles in the United States of America and practices applied on a consistent basis. Since December 31, 2005, there has been no material adverse change in the Property, business, operations or condition (financial or otherwise) or capitalization of the Borrower and its Subsidiaries taken as a whole from that set forth in said financial statements as at said date.

7.03 Litigation. Except as identified in Schedule 7.03 hereto, there are no legal or arbitral proceedings, or any proceedings by or before any governmental or regulatory authority or agency, now pending or (to the knowledge of the Borrower) threatened against or

Bridge Loan Agreement

affecting the Borrower or any of its Subsidiaries as to which there is a reasonable possibility of an adverse determination that could (either individually or in the aggregate) have a Material Adverse Effect.

7.04 No Breach. None of the execution and delivery of this Agreement and the Notes, the consummation of the transactions herein contemplated or compliance with the terms and provisions hereof will conflict with or result in a breach of, or require any consent under, the charter or by-laws (or equivalent documents) of the Borrower, or any applicable law or regulation, or any order, writ, injunction or decree of any court or governmental authority or agency, or any agreement or instrument to which the Borrower or any of its Subsidiaries is a party or by which any of them or any of their Property is bound or to which any of them is subject, or constitute a default under any such agreement or instrument, except for any such conflict, breach or default that, or consent that if not obtained, could not reasonably be expected (either individually or in the aggregate) to have a Material Adverse Effect and could not subject the Administrative Agent or any Lender to any material liability.

7.05 Action. The Borrower has all necessary corporate power, authority and legal right to execute, deliver and perform its obligations under this Agreement and the Notes and to consummate the transactions contemplated thereby; the execution, delivery and performance by the Borrower of this Agreement and the Notes and the consummation of the transactions contemplated thereby have been duly authorized by all necessary corporate or other action on its part (including, without limitation, any required shareholder approvals); and this Agreement has been duly and validly executed and delivered by the Borrower and constitutes, and each Note when executed and delivered by it for value will constitute, its legal, valid and binding obligation, enforceable against the Borrower in accordance with its terms, except as may be limited by (a) bankruptcy, insolvency, receivership, conservatorship, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights and (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

7.06 Approvals. No authorizations, approvals or consents of, and no filings or registrations with, any governmental or regulatory authority or agency, or any securities exchange, are necessary for the execution, delivery or performance by the Borrower of this Agreement or the Notes or for the consummation of any the transactions contemplated hereby or thereby or for the legality, validity or enforceability hereof or thereof.

7.07 ERISA. Each Plan, and, to the knowledge of the Borrower, each Multiemployer Plan, is in compliance with, and has been administered in compliance with, the applicable provisions of ERISA, the Code and the Age Discrimination in Employment Act, as amended except for non-compliance which could not reasonably be expected to have a Material Adverse Effect.

7.08 Taxes. The Borrower and its Subsidiaries are members of an affiliated group of corporations filing consolidated returns for Federal income tax purposes, of which the

Bridge Loan Agreement

Borrower is the “common parent” (within the meaning of Section 1504 of the Code) of such group. The Borrower and its Subsidiaries have filed all Federal income tax returns and all other material tax returns that are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or any of its Subsidiaries, except in each case for taxes being contested in good faith by appropriate proceedings and as to which appropriate reserves are being maintained. The charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of taxes and other governmental charges have been made in accordance with GAAP.

7.09 Investment Company Act. Neither the Borrower nor any of its Subsidiaries is an “investment company”, or a company “controlled” by an “investment company”, within the meaning of the Investment Company Act of 1940, as amended.

7.10 Environmental Matters. Each of the Borrower and its Subsidiaries has obtained all environmental, health and safety permits, licenses and other authorizations required under all Environmental Laws to carry on its business as now being or as proposed to be conducted, except to the extent failure to have any such permit, license or authorization could not (either individually or in the aggregate) reasonably be expected to have a Material Adverse Effect. Each of such permits, licenses and authorizations is in full force and effect, and the Borrower and each of its Subsidiaries is in compliance with the terms and conditions thereof, and is also in compliance with all other limitations, restrictions, conditions, standards, prohibitions, requirements, obligations, schedules and timetables contained in any applicable Environmental Law or in any regulation, code, plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder, except to the extent failure to comply therewith could not (either individually or in the aggregate) reasonably be expected to have a Material Adverse Effect.

7.11 True and Complete Disclosure. As of the date hereof, the information, reports, financial statements, exhibits and schedules furnished in writing by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation, preparation or delivery of this Agreement, when taken as a whole, do not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements herein or therein, in light of the circumstances under which they were made, not misleading. All written information furnished after the date hereof by or on behalf of the Borrower to the Administrative Agent and the Lenders in connection with this Agreement and the transactions contemplated hereby will be true, complete and accurate in every material respect, or (in the case of projections) based on reasonable estimates, on the date as of which such information is stated or certified.

SECTION 8. Covenants. The Borrower covenants and agrees with the Lenders and the Administrative Agent that, so long as any Commitment is outstanding and until payment in full of the principal of and interest on the Loans and all other amounts payable by the

Bridge Loan Agreement

Borrower hereunder:

8.01 Financial Statements Etc. The Borrower shall deliver or cause to be delivered or otherwise made available through electronic media (provided that the Borrower shall give prior written notice to the Administrative Agent (which shall notify the Lenders) of such availability) to the Administrative Agent:

(a) as soon as available and in any event within 60 days after the end of each of the first three quarterly fiscal periods of each fiscal year of the Borrower, consolidated statements of income, changes in stockholders'/division equity and cash flows and the related consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such period, setting forth in each case in comparative form the corresponding consolidated figures for the corresponding periods in the preceding fiscal year (except that, in the case of balance sheets, such comparison shall be to the last day of the prior fiscal year), accompanied by a certificate of a senior financial officer of the Borrower, which certificate shall state that said financial statements present fairly, in all material respects, the consolidated financial condition and results of operations of the Borrower and its Subsidiaries in accordance with GAAP, consistently applied, as at the end of, and for, such period (subject to normal year-end audit adjustments and absence of footnotes);

(b) as soon as available and in any event within 120 days after the end of each fiscal year of the Borrower, consolidated statements of income, changes in stockholders'/division equity and cash flows and the related consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal year, setting forth in each case in comparative form the corresponding consolidated figures as of the end of and for the preceding fiscal year, and accompanied by an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that said financial statements present fairly, in all material respects, the consolidated financial condition and results of operations and cash flows of the Borrower and its Subsidiaries as at the end of, and for, such fiscal year in accordance with GAAP (or, in lieu thereof, copies of the Borrower's Annual Report on Form 10-K as filed with the SEC containing such financial statements and information);

(c) promptly, notice of the filing of all registration statements (excluding exhibits to such registration statements, and other than registration statements filed on Form S-8 or any successor form) and regular periodic reports filed on Form 10-K, Form 10-Q or Form 8-K (or any successor form), if any, that the Borrower shall have filed with the SEC or any national securities exchange;

(d) promptly upon the mailing thereof to the shareholders of the Borrower generally, copies of all financial statements, reports and proxy statements so mailed, to the extent not otherwise made available;

(e) as soon as possible, and in any event within ten days after the Borrower

Bridge Loan Agreement

knows that any of the events or conditions specified below with respect to any Plan or Multiemployer Plan has occurred or exists, a statement signed by a senior financial officer of the Borrower setting forth details respecting such event or condition and the action, if any, that the Borrower or its ERISA Affiliate proposes to take with respect thereto (and a copy of any report or notice required to be filed with or given to the PBGC by the Borrower or an ERISA Affiliate with respect to such event or condition, except that a copy of any notice required to be filed for an event described in subparagraph (i) below may be provided at a later date (to be no later than the date such notice is filed) if it has not been filed as of the date of the signed statement described above):

(i) any reportable event, as defined in Section 4043(c) of ERISA and the regulations issued thereunder, with respect to a Plan, as to which the requirement to provide 30 days' notice to the PBGC under Section 4043(a) or Section 4043(b) of ERISA applies, other than a reportable event for which the requirement to provide such notice has been waived by regulation or for which the PBGC has announced in Technical Update 95-3 (or any subsequent administrative guideline) that it will not apply a penalty for failure to provide such notice (provided that a failure to meet the minimum funding standard of Section 412 of the Code or Section 302 of ERISA, including, without limitation, the failure to make on or before its due date a required installment under Section 412(m) of the Code or Section 302(e) of ERISA, shall be a reportable event regardless of the issuance of any waivers in accordance with Section 412(d) of the Code); and any request for a waiver under Section 412(d) of the Code for any Plan;

(ii) the distribution under Section 4041(c) of ERISA of a notice of intent to terminate any Plan or any action taken by the Borrower or an ERISA Affiliate to terminate any Plan under Section 4041(c) of ERISA;

(iii) the institution by the PBGC of proceedings under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Borrower or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan;

(iv) the complete or partial withdrawal from a Multiemployer Plan by the Borrower or any ERISA Affiliate that results in liability under Section 4201 or 4204 of ERISA (including the obligation to satisfy secondary liability as a result of a purchaser default) or the receipt by the Borrower or any ERISA Affiliate of notice from a Multiemployer Plan that it is in reorganization or insolvency pursuant to Section 4241 or 4245 of ERISA or that it intends to terminate or has terminated under Section 4041A of ERISA;

(v) the institution of a proceeding by a fiduciary of any Multiemployer Plan against the Borrower or any ERISA Affiliate to enforce Section 515 of ERISA, which proceeding is not dismissed within 30 days; and

Bridge Loan Agreement

(vi) the adoption of an amendment to any Plan that, pursuant to Section 401(a)(29) of the Code or Section 307 of ERISA, would result in the loss of tax-exempt status of the trust of which such Plan is a part if the Borrower or an ERISA Affiliate fails to timely provide security to such Plan in accordance with the provisions of said Sections;

(f) within five days after any executive officer of the Borrower obtains knowledge of the occurrence of any Default, if such Default is continuing, a notice of such Default describing the same in reasonable detail and, together with such notice or as soon thereafter as possible, a description of the action that the Borrower has taken or proposes to take with respect thereto;

(g) promptly after any executive officer of the Borrower knows that a change in the Debt Rating assigned by any Rating Agency has occurred, a notice describing the same;

(h) at the time of or within one Business Day after the issuance by the Borrower or any of its Subsidiaries of any securities of the kind contemplated by Section 2.09(b)(i) hereof, notice thereof together with certification by the Borrower of the amount of the net cash proceeds of such issuance;

(i) promptly upon the consummation of the Merger, notice thereof;

(j) at the time any set of financial statements is furnished pursuant to paragraph (a) or (b) above, a certificate of a senior financial officer of the Borrower (i) to the effect that no Default has occurred and is continuing (or, if any Default has occurred and is continuing, describing the same in reasonable detail and describing the action that the Borrower has taken or proposes to take with respect thereto) and (ii) setting forth in reasonable detail (including, without limitation, as to the component parts of relevant definitions of accounting terms included in Section 1.01 hereof) the computations necessary to determine whether the Borrower is in compliance with its obligations under Sections 8.07 and 8.08 hereof as of the end of the respective quarterly fiscal period or fiscal year; and

(k) from time to time such other information regarding the financial condition, operations or business of the Borrower or any of its Subsidiaries as any Lender or the Administrative Agent may reasonably request.

8.02 Litigation. The Borrower will promptly give to the Administrative Agent (which shall forward the same to each Lender) notice of all legal or arbitral proceedings, and of all investigations or proceedings by or before any governmental or regulatory authority or agency, and any material development in respect of such legal or other proceedings, against or

Bridge Loan Agreement

affecting the Borrower or any of its Subsidiaries, except investigations or proceedings (a) as to which there is no reasonable possibility of an adverse determination or (b) that could not reasonably be expected to (either individually or in the aggregate) have a Material Adverse Effect.

8.03 Existence, Etc. The Borrower will, and will cause each of its Subsidiaries to:

(a) (i) preserve and maintain its legal existence and (ii) preserve and maintain all of its rights, privileges, licenses and franchises necessary or desirable (in the Borrower's judgment) in the normal conduct of its business except, in the case of this clause (ii), to the extent that failure to preserve and maintain the same could not reasonably be expected to have a Material Adverse Effect (provided that nothing in this Section 8.03 shall prohibit any transaction expressly permitted under Section 8.05 hereof);

(b) comply with the requirements of all applicable laws, rules, regulations and orders of governmental or regulatory authorities (including, without limitation, ERISA, all Environmental Laws and the FDIA and all rules and regulations promulgated thereunder) if failure to comply with such requirements could (either individually or in the aggregate) reasonably be expected to have a Material Adverse Effect;

(c) pay and discharge all taxes, assessments and governmental charges or levies imposed on it or on its income or profits or on any of its Property prior to the date on which penalties attach thereto, except for any such tax, assessment, charge or levy the payment of which is being contested in good faith and by proper proceedings and against which reserves are being maintained in accordance with GAAP;

(d) maintain all of its Properties used or useful in its business in good working order and condition ordinary wear and tear excepted, except to the extent that the failure to maintain any such Property in good working order and condition could not (either individually or in the aggregate) reasonably be expected to have a Material Adverse Effect and would not interfere in any material respect in the ordinary conduct of its business or operations;

(e) keep records and books of account, in which complete entries will be made in accordance with GAAP; and

(f) permit representatives of the Administrative Agent, during normal business hours and following reasonable advance notice, to examine, copy and make extracts from its books and records, to inspect any of its Properties, and to discuss its business and affairs with its officers, all to the extent reasonably requested by the Administrative Agent; provided that the Borrower shall not be required to provide (i) the names of, or other information that could be used to identify, account holders, (ii) any proprietary strategic insights or statistical models concerning account holders or potential

Bridge Loan Agreement

account holders or other similar or related proprietary information, (iii) information regarding the specific nature or application of any of the information-based strategies employed by the Borrower and its Subsidiaries in the conduct of their business or (iv) any proprietary plans or other proprietary information relating to the development of the business of the Borrower and its Subsidiaries; provided, further, that no advance notice shall be required if an Event of Default has occurred and is continuing and Loans are outstanding.

8.04 Insurance. The Borrower will, and will cause each of its Subsidiaries to, maintain (either in its own name or in the name of the Borrower) with financially sound and responsible insurance companies, insurance on all its respective properties in at least such amounts and against at least such risks (and with such risk retention) as are usually insured against in the same general area by companies of established repute engaged in the same or a similar business; and will furnish to the Lenders, upon request from the Administrative Agent, information presented in reasonable detail as to the insurance so carried.

8.05 Prohibition of Fundamental Changes. The Borrower will not, nor will it permit any of its Material Subsidiaries to: (a) enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution); or (b) convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions (a "Transfer"), all or substantially all of its business or Property; provided that:

(i) any Subsidiary of COB may be merged or consolidated with or into, or Transfer all or substantially all of its business or Property (including, without limitation, interests in Subsidiaries) to, (x) COB if COB is the continuing, surviving or transferee corporation or (y) any other Subsidiary of COB;

(ii) any Subsidiary of FSB may be merged or consolidated with or into, or Transfer all or substantially all of its business or Property (including, without limitation, interests in Subsidiaries) to, (x) FSB if FSB is the continuing, surviving or transferee corporation or (y) any other Subsidiary of FSB;

(iii) any Subsidiary of COBE may be merged or consolidated with or into, or Transfer all or substantially all of its business or Property (including, without limitation, interests in Subsidiaries) to, (x) COBE if COBE is the continuing, surviving or transferee corporation or (y) any other Subsidiary of COBE;

(iv) the restriction set forth in clause (b) above shall apply, in the case of COB, only to a Transfer of Managed Receivables;

(v) any Subsidiary of the Borrower (other than COB, FSB or any of their respective Subsidiaries) may be merged or consolidated with or into, or Transfer all or substantially all of its business or Property (including, without limitation, interests in Subsidiaries) to, (x) the Borrower if the Borrower is the continuing, surviving or transferee corporation or (y) any other Subsidiary of the Borrower;

Bridge Loan Agreement

(vi) any Subsidiary of the Borrower may be merged or consolidated with or into, or Transfer all or substantially all of its business or Property (including, without limitation, interests in Subsidiaries) to, COB; or any Subsidiary of the Borrower (other than FSB) may be merged or consolidated with or into, or Transfer all or substantially all of its business or Property to, FSB;

(vii) any Subsidiary of the Borrower may merge or consolidate with or into, or Transfer all or substantially all of its business or Property (including, without limitation, interests in Subsidiaries) to, any Person so long as (x) the continuing, surviving or transferee corporation is the Borrower (in the case of any such merger or consolidation with or into, or Transfer to, the Borrower) or a Subsidiary of the Borrower (in all other cases) and (y) no Event of Default has occurred and is continuing immediately prior to such merger, consolidation or Transfer or would result therefrom;

(viii) the Borrower may merge or consolidate with or into, or Transfer all or substantially all of its business or Property (including without limitation, interests in Subsidiaries) to, any Person provided that (x) no Event of Default has occurred and is continuing immediately prior to such merger, consolidation or Transfer or would result therefrom and (y) either (A) in the case of any such merger or consolidation, the Borrower is the continuing or surviving corporation or (B) in the case of any such merger, consolidation or Transfer, (1) the corporation which is the continuing, surviving or transferee corporation shall expressly assume the due and punctual payment and performance of the obligations of, and the performance of each covenant, agreement and condition of this Agreement binding on, the Borrower pursuant to documentation (including, without limitation, an opinion of counsel to the continuing, surviving or transferee corporation) in form and substance reasonably satisfactory to the Administrative Agent and (2) after giving effect to such merger, consolidation or Transfer, the Continuing Directors of the Borrower shall constitute a majority of the Board of Directors of the continuing, surviving or transferee corporation; and

(ix) nothing in this Section 8.05 shall prohibit the Borrower or any of its Subsidiaries from (A) the sale of credit card loans and other finance receivables pursuant to securitizations (whether or not such securitization received off-balance sheet treatment for the entity effecting such securitization), (B) the transfer of receivables in the ordinary course of its business, (C) selling or otherwise disposing of any Margin Stock or (D) consummating the Merger in accordance with the Merger Agreement.

8.06 Limitation on Liens. The Borrower will not, nor will it permit any of its Subsidiaries to, create, incur, assume or suffer to exist any Lien upon any (1) Receivables of the Borrower or any of its Principal Subsidiaries or (2) Restricted Shares, in each case whether now owned or hereafter acquired, except:

Bridge Loan Agreement

(a) Liens for taxes not yet due or Liens for taxes being contested in good faith by appropriate proceedings for which adequate reserves (in the good faith judgment of the management of the Borrower) have been established;

(b) Liens imposed by law (i) which are incurred in the ordinary course of business and (x) which do not in the aggregate materially detract from the value of such Receivables or Restricted Shares or materially impair the use thereof in the operation of the business of the Borrower or any of its Subsidiaries or (y) which are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the Receivables or Restricted Shares subject to such Lien or (ii) which do not relate to material liabilities of the Borrower and its Subsidiaries and do not in the aggregate materially detract from the value of the Receivables or Restricted Shares of the Borrower and its Subsidiaries taken as a whole; provided that no Lien permitted under this clause (b) may secure any obligation in an amount exceeding \$100,000,000 and all Liens permitted under this clause (b) may not secure obligations in an aggregate amount exceeding \$150,000,000; and

(c) any pledge of Receivables to a Federal Reserve Bank or a Federal Home Loan Bank made in the ordinary course of business to secure advances or other transactions and manage the liquidity position of the Borrower or such Principal Subsidiary.

8.07 Financial Covenants.

(a) The Borrower will not permit the Delinquency Ratio as of the last day of any calendar month to exceed 6.0%.

(b) The Borrower will not permit the Tier 1 Capital to Managed Receivables Ratio as of the last day of any fiscal quarter to be less than 4.0%.

(c) The Borrower will not permit Tangible Net Worth as of any date of determination to be less than the sum of 75% of Tangible Net Worth as of March 31, 2006, plus 60% of Cumulative Net Income as of the last day of the fiscal quarter of the Borrower most recently ended after such date, plus 60% of Cumulative Equity Proceeds as of such date of determination, plus 75% of the net increase (or minus 75% of the net decrease) in Tangible Net Worth resulting from the consummation of the Merger.

(d) The Borrower will not permit the Double Leverage Ratio as of the last day of any fiscal quarter to exceed 1.25 to 1.

8.08 Regulatory Capital.

(a) The Borrower will cause each of its Insured Subsidiaries to be at all times "well capitalized" for purposes of 12 U.S.C. §1831o, as amended, re-enacted or redesignated from time to time, and at all times to maintain such amount of capital as may be prescribed from time to time, whether by regulation, agreement or order, by each Bank Regulatory Authority having jurisdiction over such Insured Subsidiary.

Bridge Loan Agreement

(b) The Borrower shall, and shall ensure that each of its Insured Subsidiaries, at all times maintain compliance with any rules, regulations, orders or guidelines issued by any Bank Regulatory Authority having jurisdiction over such Insured Subsidiary related to subprime lending.

8.09 Lines of Business. The Borrower will not, nor will it permit any of its Subsidiaries to, engage to any material extent in any line or lines of business activity other than as permitted by its charter.

8.10 Use of Proceeds. The Borrower will use the proceeds of the Loans solely to (i) pay the Cash Consideration as defined in the Merger Agreement (in compliance with all applicable legal and regulatory requirements, including, without limitation, Regulations T, U and X and the Securities Act and the Exchange Act and the regulations thereunder) without prejudice to the provisions of Section 2.09(b) hereof; provided that neither the Administrative Agent nor any Lender shall have any responsibility as to the use of any of such proceeds and (ii) pay fees and expenses due under this Agreement.

SECTION 9. Events of Default. If one or more of the following events (herein called "Events of Default") shall occur and be continuing:

(a) The Borrower shall (i) default in the payment of any principal of any Loan when due (whether at stated maturity or at mandatory or optional prepayment); or (ii) default in the payment of any interest on any Loan, any fee or any other amount payable by it hereunder when due and such default shall have continued unremedied for five or more Business Days; or

(b) (i) The Borrower or any of its Subsidiaries shall default in the payment when due of any principal of or interest on any of its other Indebtedness aggregating \$100,000,000 (or its equivalent in any other currency or currencies) or more, or any event specified in any note, agreement, indenture or other document evidencing or relating to any such Indebtedness shall occur, and such event shall continue after any applicable grace period, if the effect of such event is to cause, or to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to cause, such Indebtedness to become due, or to be prepaid in full (whether by redemption, purchase, offer to purchase or otherwise), prior to its stated maturity; or

(ii) an "Event of Default" under and as defined in the Existing Credit Agreement shall occur; or

Bridge Loan Agreement

(iii) the Borrower or any of its Material Subsidiaries shall default in the payment or delivery when due (whether upon termination or liquidation or otherwise), under one or more Swap Agreements, of amounts or property required to be paid or delivered having an aggregate fair market value of \$100,000,000 (or its equivalent in any other currency or currencies) or more; or

(c) Any representation, warranty or certification made or deemed made herein (or in any modification or supplement hereto) by the Borrower, or any certificate furnished to any Lender or the Administrative Agent pursuant to the provisions hereof, shall prove to have been false or misleading in any material respect as of the time made, deemed made or furnished; or

(d) The Borrower shall default in the performance of any of its obligations under any of Sections 8.05, 8.06, 8.07, 8.08, 8.09 and 8.10 hereof, or shall, for 30 or more days, default in the performance of its obligations under Section 8.01(f); or the Borrower shall default in the performance of any of its other obligations in this Agreement and such default shall continue unremedied for a period of 30 or more days after notice thereof to the Borrower by the Administrative Agent or any Lender (through the Administrative Agent); or

(e) The Borrower or any of its Material Subsidiaries shall admit in writing its inability to, or be generally unable to, pay its debts as such debts become due; or

(f) The Borrower or any of its Material Subsidiaries shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, conservator, custodian, trustee, examiner or liquidator of itself or of all or a substantial part of its Property, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the Bankruptcy Code, (iv) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, liquidation, dissolution, arrangement or winding-up, or composition or readjustment of debts, (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the Bankruptcy Code or (vi) take any corporate action for the purpose of effecting any of the foregoing; or

(g) A proceeding or case shall be commenced, without the application or consent of the Borrower or any of its Material Subsidiaries, in any court of competent jurisdiction, seeking (i) its reorganization, liquidation, dissolution, arrangement or winding-up, or the composition or readjustment of its debts, (ii) the appointment of a receiver, conservator, custodian, trustee, examiner, liquidator or the like of the Borrower or Material Subsidiary or of all or any substantial part of its Property or (iii) similar relief in respect of the Borrower or Material Subsidiary under any law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for

Bridge Loan Agreement

a period of 60 or more days; or an order for relief against the Borrower or any of its Material Subsidiaries shall be entered in an involuntary case under the Bankruptcy Code; or

(h) Any Insured Subsidiary shall cease accepting deposits or making commercial loans on the instruction of any Bank Regulatory Authority with authority to give such instruction other than pursuant to an instruction generally applicable to banks organized under the jurisdiction of organization of such Insured Subsidiary; or

(i) Any Insured Subsidiary shall cease to be an insured bank under the FDIA and all rules and regulations promulgated thereunder; or

(j) Any Insured Subsidiary shall be required (whether or not the time allowed by the appropriate Bank Regulatory Authority for the submission of such plan has been established or elapsed) to submit a capital restoration plan of the type referred to in 12 U.S.C. §1831o(b)(2)(C), as amended, re-enacted or redesignated from time to time; or

(k) The Borrower shall Guarantee in writing the capital of any Insured Subsidiary as part of or in connection with any agreement or arrangement with any Bank Regulatory Authority; or

(l) A final judgment or judgments for the payment of money of \$100,000,000 ((i) exclusive of amounts covered by insurance or subject to indemnification by a solvent third party or (ii) its equivalent in any other currency or currencies) or more in the aggregate shall be rendered by one or more courts, administrative tribunals or other bodies having jurisdiction against the Borrower or any of its Material Subsidiaries and the same shall not be discharged (or provision shall not be made for such discharge), or a stay of execution thereof shall not be procured, within 30 days from the date of entry thereof and the Borrower or Material Subsidiary shall not, within said period of 30 days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal; or

(m) An event or condition specified in Section 8.01(e) hereof shall occur or exist with respect to any Plan or Multiemployer Plan and, as a result of such event or condition, together with all other such events or conditions, the Borrower or any ERISA Affiliate shall incur or shall be reasonably likely to incur a liability (exclusive of liabilities incurred in the ordinary course of business such as premiums) to a Plan, a Multiemployer Plan or the PBGC (or any combination of the foregoing) that, in the determination of the Majority Lenders, would (either individually or in the aggregate) have a Material Adverse Effect; or

(n) Any of COB, FSB, CONA or, after the Effective Time as defined in the Merger Agreement, NFB shall cease to be a Wholly Owned Subsidiary of the Borrower (but no transaction expressly permitted by Section 8.05 hereof shall constitute an Event of Default under this clause (n)); or

Bridge Loan Agreement

(o) During any period of 25 consecutive calendar months, a majority of the Board of Directors of the Borrower shall no longer be composed of individuals (i) who were members of said Board on the first day of such period, (ii) whose election or nomination to said Board was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of said Board or (iii) whose election or nomination to said Board was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of said Board; or

(p) Any person or group of persons (within the meaning of Section 13 or 14 of the Exchange Act, as amended) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the SEC under the Exchange Act) of 20% or more of the issued and outstanding shares of voting common stock issued by the Borrower;

THEREUPON: (1) in the case of an Event of Default, other than one referred to in clause (f) or (g) of this Section 9 with respect to the Borrower, (A) upon request of the Majority Lenders, the Administrative Agent will, by notice to the Borrower, terminate the Commitments and they shall thereupon terminate, and (B) upon request of Lenders holding more than 50% of the aggregate unpaid principal amount of the Loans owing by the Borrower, the Administrative Agent will, by notice to the Borrower declare the principal amount then outstanding of, and the accrued interest on, the Loans and all other amounts payable by the Borrower hereunder and under the Notes (including, without limitation, any amounts payable under Section 5.05 hereof) to be forthwith due and payable, whereupon such amounts shall be immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Borrower; and (2) in the case of the occurrence of an Event of Default referred to in clause (f) or (g) of this Section 9 with respect to the Borrower, the Commitments shall automatically be terminated and the principal amount then outstanding of, and the accrued interest on, the Loans and all other amounts payable by the Borrower hereunder and under the Notes (including, without limitation, any amounts payable under Section 5.05 hereof) shall automatically become immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Borrower.

SECTION 10. The Administrative Agent.

10.01 Appointment, Powers and Immunities. Each Lender hereby appoints and authorizes the Administrative Agent to act as its agent hereunder with such powers as are specifically delegated to the Administrative Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. The Administrative Agent (which term as used in this sentence and in Section 10.05 and the first sentence of Section 10.06 hereof shall include reference to its affiliates and its own and its affiliates' officers, directors, employees and agents):

Bridge Loan Agreement

(a) shall have no duties or responsibilities except those expressly set forth in this Agreement, and shall not by reason of this Agreement be a trustee for any Lender;

(b) shall not be responsible to the Lenders for any recitals, statements, representations or warranties made by any other Person contained in this Agreement, or in any certificate or other document referred to or provided for in, or received by any of them from any other Person under, this Agreement, or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, any Note or any other document referred to or provided for herein or for any failure by the Borrower or any other Person to perform any of its obligations hereunder or thereunder;

(c) shall not be required to initiate or conduct any litigation or collection proceedings hereunder; and

(d) shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other document or instrument referred to or provided for herein or in connection herewith, except for its own gross negligence or willful misconduct.

The Administrative Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith. The Administrative Agent may deem and treat the payee of a Note as the holder thereof for all purposes hereof unless and until a notice of the assignment or transfer thereof shall have been filed with the Administrative Agent, together with the consent of the Borrower to such assignment or transfer (to the extent required by Section 11.06(b) hereof).

10.02 Reliance by Administrative Agent. The Administrative Agent shall be entitled to rely upon any certification, notice or other communication (including, without limitation, any thereof by telephone, telecopy, telegram or cable) reasonably and in good faith believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Administrative Agent. As to any matters not expressly provided for by this Agreement, the Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder in accordance with instructions given by the Majority Lenders (or such other number of Lenders as may be expressly required hereby), and such instructions of the Majority Lenders and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders.

10.03 Defaults. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of a Default unless the Administrative Agent has received notice from a Lender or the Borrower specifying such Default and stating that such notice is a "Notice of Default". In the event that the Administrative Agent receives such a notice of the occurrence of a Default, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall (subject to Sections 10.07 and 11.04 hereof) take such action with respect to such Default as shall be directed by the Majority Lenders, provided that,

Bridge Loan Agreement

unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interest of the Lenders except to the extent that this Agreement expressly requires that such action be taken, or not be taken, only with the consent or upon the authorization of the Majority Lenders or all of the Lenders.

10.04 Rights as a Lender. With respect to its Commitment and the Loans made by it, JPMorgan (and any successor acting as Administrative Agent) in its capacity as a Lender hereunder shall have the same rights and powers hereunder as any other Lender and may exercise the same as though it were not acting as the Administrative Agent, and the term “Lender” or “Lenders” shall, unless the context otherwise indicates, include JPMorgan (and any successor acting as Administrative Agent) in its individual capacity. JPMorgan (and any successor acting as Administrative Agent) and its affiliates may (without having to account therefor to any Lender) accept deposits from, lend money to, make investments in and generally engage in any kind of banking, trust or other business with the Borrower (and any of its Subsidiaries or Affiliates) as if it were not acting as the Administrative Agent, and JPMorgan (and any such successor) and its affiliates may accept fees and other consideration from the Borrower for services in connection with this Agreement or otherwise without having to account for the same to the Lenders.

10.05 Indemnification. The Lenders agree to indemnify the Administrative Agent (to the extent not reimbursed under Section 11.03 hereof, but without limiting the obligations of the Borrower under said Section 11.03), ratably in accordance with their respective Commitments, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever that may be imposed on, incurred by or asserted against the Administrative Agent (including by any Lender) arising out of or by reason of any investigation in connection with or in any way relating to or arising out of this Agreement or any other documents contemplated by or referred to herein or the transactions contemplated hereby (including, without limitation, the costs and expenses that the Borrower is obligated to pay under Section 11.03 hereof, but excluding, unless a Default has occurred and is continuing, normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or of any such other documents, provided that no Lender shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Administrative Agent.

10.06 Non-Reliance on Administrative Agent and Other Lenders. Each Lender agrees that it has, independently and without reliance on the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Borrower and its Subsidiaries and decision to enter into this Agreement and that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement. The Administrative Agent shall not be required to keep itself informed as to the

Bridge Loan Agreement

performance or observance by the Borrower of this Agreement or any other document referred to or provided for herein or to inspect the Properties or books of the Borrower or any of its Subsidiaries. Except for notices, reports and other documents and information expressly required to be furnished to the Lenders by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the affairs, financial condition or business of the Borrower or any of its Subsidiaries (or any of their Affiliates) that may come into the possession of the Administrative Agent or any of its Affiliates.

10.07 Failure to Act. Except for action expressly required of the Administrative Agent hereunder, the Administrative Agent shall in all cases be fully justified in failing or refusing to act hereunder unless it shall receive further assurances to its satisfaction from the Lenders of their indemnification obligations under Section 10.05 hereof against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action.

10.08 Resignation or Removal of Administrative Agent. Subject to the appointment and acceptance of a successor Administrative Agent as provided below, the Administrative Agent may resign at any time by giving notice thereof to the Lenders and the Borrower, and the Administrative Agent may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders (in consultation with the Borrower) shall have the right to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed by the Majority Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent's giving of notice of resignation or the Majority Lenders' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, that shall be a bank with a combined capital and surplus of at least \$500,000,000 that has an office in New York, New York. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this Section 10 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Administrative Agent.

10.09 Co-Agents; Etc. None of the Joint Book Managers and Joint Lead Arrangers nor the Syndication Agent named on the cover page hereof shall have any obligations under this Agreement except (a) in its capacity as a "Lender" hereunder and (b) if and so long as such Person is the "Administrative Agent" hereunder, in its capacity as Administrative Agent hereunder.

Bridge Loan Agreement

SECTION 11. Miscellaneous.

11.01 Waiver. No failure on the part of the Administrative Agent or any Lender to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement or any Note shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement or any Note preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

11.02 Notices. (a) Except in the case of notices and other communications expressly permitted to be given by telephone (and subject to paragraph (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(i) if to the Borrower, to it at 1680 Capital One Dr., McLean, VA 22102-2980, Attention of the Director of Capital Markets (Telephone No. 703-720-1000, Facsimile No. 703-720-3169);

(ii) if to the Administrative Agent, to JPMorgan Chase Bank, N.A., Loan & Agency Services, 1111 Fanin, 10th Floor, Houston, TX 77002, Attention of Mr. Jeremy M. Jones (Facsimile No. 713-750-2223), with a copy to JPMorgan Chase Bank, N.A., 270 Park Avenue, New York, New York 10017, Attention of Financial Institutions Corporate Banking (Telephone No. 212-270-6261, Facsimile No. 212-270-0670); and

(iii) if to any Lender, to it at the address(es) (or telecopy number(s)) set forth in its Administrative Questionnaire.

(b) Notices and other communications to the Lenders hereunder (including all documents delivered pursuant to Section 8.01 hereof, with the exception of documents delivered pursuant to Section 8.01(f)) may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent; provided, that the foregoing shall not apply to notices pursuant to Section 2 unless otherwise agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided, that approval of such procedures may be limited to particular notices or communications.

(c) Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto (or, in the case of any such change by a Lender, by notice to the Borrower and the Administrative Agent). All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

Bridge Loan Agreement

11.03 Expenses, Etc.

(a) The Borrower agrees to pay or reimburse each of the Lenders and the Administrative Agent for (1) all reasonable out-of-pocket costs and expenses of the Administrative Agent (including, without limitation, the reasonable fees and expenses of Milbank, Tweed, Hadley & McCloy LLP, special New York counsel to JPMorgan) in connection with the negotiation, preparation, execution and delivery of this Agreement and the making of the Loans hereunder and the negotiation or preparation of any modification, supplement or waiver of any of the terms of this Agreement or any Note requested by the Borrower (whether or not consummated); (2) all out-of-pocket costs and expenses of the Lenders and the Administrative Agent (including, without limitation, the fees and expenses of legal counsel) in connection with (i) any Default and any enforcement or collection proceedings resulting therefrom, including, without limitation, all manner of participation in or other involvement with (x) bankruptcy, insolvency, receivership, foreclosure, winding up or liquidation proceedings, (y) judicial or regulatory proceedings and (z) workout, restructuring or other negotiations or proceedings (whether or not the workout, restructuring or transaction contemplated thereby is consummated) and (ii) the enforcement of this Section 11.03; and (3) all transfer, stamp, documentary or other similar taxes, assessments or charges levied by any governmental or revenue authority in respect of this Agreement or any Note or any other document referred to herein.

(b) The Borrower hereby agrees to indemnify the Administrative Agent and the Lenders and their affiliates and the respective directors, officers, employees, attorneys and agents thereof from, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses incurred by any of them (including, without limitation, any and all losses, liabilities, claims, damages or expenses incurred by the Administrative Agent to any Lender) arising out of or by reason of any investigation or litigation or other proceedings (including any threatened investigation or litigation or other proceedings, and whether or not the Administrative Agent or any Lender is a party to such litigation or other proceedings) relating to this Agreement or the Loans hereunder or any actual or proposed use by the Borrower or any of its Subsidiaries of the proceeds of any of the Loans hereunder, including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation or litigation or other proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified). No party shall have any liability to any other party for any indirect, consequential or punitive damages in connection with any matter relating hereto.

11.04 Amendments, Etc. Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by the Borrower and the Majority Lenders or by the Borrower and the Administrative Agent with the consent of the Majority Lenders; provided that no such agreement shall

Bridge Loan Agreement

- (i) increase the Commitment of any Lender without the written consent of such Lender,
- (ii) reduce the principal amount of any Loan or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender adversely affected thereby,
- (iii) postpone the scheduled date of payment of the principal amount of any Loan, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender adversely affected thereby,
- (iv) change Section 4.02 or 4.07 in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender, or
- (v) change any of the provisions of this Section or the definition of “Majority Lenders” or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender; and

provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent hereunder without the prior written consent of the Administrative Agent.

Anything in this Agreement to the contrary notwithstanding, if at a time when the conditions precedent set forth in Section 6 hereof are, in the opinion of the Majority Lenders, satisfied, any Lender shall fail to fulfill its obligations to make its Loan (any such Lender, a “Defaulting Lender”) then, for so long as such failure shall continue, the Defaulting Lender shall (unless the Borrower and the Majority Lenders, determined as if the Defaulting Lender were not a “Lender” hereunder, shall otherwise consent in writing) be deemed for all purposes relating to amendments, modifications, waivers or consents under this Agreement (including, without limitation, under this Section 11.04) to have no Loan or Commitment, shall not be treated as a “Lender” hereunder when performing the computation of Majority Lenders, and shall have no rights under the preceding paragraph of this Section 11.04; provided that any action taken by the other Lenders pursuant to this paragraph with respect to the matters referred to in clause (a) or (b) of the preceding paragraph shall not be effective as against the Defaulting Lender.

11.05 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

11.06 Assignments and Participations.

(a) Assignments Generally. The Borrower may not assign any of its rights or obligations hereunder or under the Notes without the prior consent of all of the Lenders and the Administrative Agent (and any attempted assignment or transfer by the Borrower

Bridge Loan Agreement

without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the Affiliates and directors, officers, employees, counsel and agents of each of the Administrative Agent and the Lenders and their Affiliates) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders.

(i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and its Loan) with the prior written consent (such consent not to be unreasonably withheld (it being understood that it will not be unreasonable for the Borrower to withhold consent to an assignment to any assignee whose long term debt obligations are then rated below Baa3 by Moody's Investor Service, Inc. or below BBB- by Standard & Poor's Rating Services)) of:

(A) the Borrower, provided that no consent of the Borrower shall be required for an assignment to a Lender, an Affiliate of a Lender or, if an Event of Default has occurred and is continuing, any other assignee; and

(B) the Administrative Agent, provided that no consent of the Administrative Agent shall be required for an assignment to a Lender or an Affiliate of a Lender.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loan, the amount of the Commitment or Loan of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$25,000,000 unless the Borrower and the Administrative Agent otherwise consent, provided that no such consent of the Borrower shall be required if a Default has occurred and is continuing;

(B) each partial assignment with respect to Loans shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations with respect to Loans under this Agreement;

(C) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with
a

Bridge Loan Agreement

processing and recordation fee of \$3,500, except in the case of an assignment referred to in Section 5.07, in which case the Borrower or the assignee shall pay such fee;

(D) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire; and

(E) any assignee or prospective assignee shall execute a confidentiality agreement pursuant to Section 11.12(b) prior to receiving any Confidential Information.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be subject to its obligations under Section 11.12 for a period of two years following the effective date specified in such Assignment and Assumption and entitled to the benefits of Sections 5.01, 5.05, 5.06 and 11.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 11.06 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive absent manifest error, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee's completed

Bridge Loan Agreement

Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c) Participations. (i) Any Lender may, without the consent of the Borrower or the Administrative Agent, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loan owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (C) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (D) any Participant or prospective Participant shall execute a confidentiality agreement pursuant to Section 11.12(b) prior to receiving any Confidential Information. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 11.04 that affects such Participant; and provided, further, that such sales may not cause any Loan to become a "plan asset" of an employee benefit plan or other plan subject to ERISA or Section 4975 of the Code under Section 2510.3-101 of the Regulations of the U.S. Department of Labor or otherwise. Subject to paragraph (c)(ii) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 5.01, 5.05 and 5.06 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 4.07(a) as though it were a Lender, provided such Participant agrees to be subject to Section 4.07 as though it were a Lender.

(ii) A Participant shall not be entitled to receive any greater payment under Section 5.01, 5.05 or 5.06 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent.

(d) Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including without limitation any pledge or assignment to secure obligations to a Federal

Bridge Loan Agreement

Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

11.07 Survival. The obligations of the Borrower under Sections 5.01, 5.05, 5.06 and 11.03 hereof, and the obligations of the Lenders under Section 10.05 hereof, shall survive the repayment of the Loans and the termination of the Commitments and, in the case of any Lender that may assign any interest in its Commitment or Loan hereunder, shall, in the case of any event or circumstance that occurred prior to the effective date of such assignment, survive the making of such assignment, notwithstanding that such assigning Lender may cease to be a "Lender" hereunder. In addition, each representation and warranty made, or deemed to be made by a notice of any Loan, herein or pursuant hereto shall survive the making of such representation and warranty, and no Lender shall be deemed to have waived, by reason of making its Loan, any Default that may arise by reason of such representation or warranty proving to have been false or misleading, notwithstanding that such Lender or the Administrative Agent may have had notice or knowledge or reason to believe that such representation or warranty was false or misleading at the time such Loan was made.

11.08 Captions. The table of contents and captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

11.09 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

11.10 Governing Law; Submission to Jurisdiction. This Agreement and the Notes shall be governed by, and construed in accordance with, the law of the State of New York. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of the Supreme Court of the State of New York sitting in New York County (including its Appellate Division), and of any other appellate court in the State of New York, for the purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower hereby irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

11.11 Waiver of Jury Trial. **THE BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY.**

Bridge Loan Agreement

11.12 Treatment of Certain Information; Confidentiality.

(a) The Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to the Borrower or one or more of its Subsidiaries (in connection with this Agreement or otherwise) by any Lender or by one or more subsidiaries or affiliates of such Lender, and the Borrower hereby authorizes each Lender to share any information delivered to such Lender by the Borrower and its Subsidiaries pursuant to this Agreement, or in connection with the decision of such Lender to enter into this Agreement, to any such subsidiary or affiliate, it being understood that any such subsidiary or affiliate receiving such information shall be bound by the provisions of paragraph (b) below as if it were a Lender hereunder. Such authorization shall survive the repayment of the Loans and the termination of the Commitments.

(b) Each Lender and the Administrative Agent agrees (on behalf of itself and each of its affiliates, directors, officers, employees and representatives) to keep confidential any non-public information supplied to it by the Borrower pursuant to this Agreement, provided that nothing herein shall limit the disclosure of any such information (i) after such information shall have become public (other than through a violation of this Section 11.12), (ii) to the extent required by statute, rule, regulation or judicial process, (iii) to counsel for any of the Lenders or the Administrative Agent, (iv) to bank examiners (or any other regulatory authority or self-regulatory body having jurisdiction over any Lender or the Administrative Agent), or to auditors or accountants, (v) to the Administrative Agent or any other Lender, (vi) in connection with the enforcement of rights or remedies hereunder, (vii) to a subsidiary or affiliate of such Lender as provided in paragraph (a) above or (viii) to any assignee or Participant (or prospective, assignee or Participant), so long as such assignee or Participant (or prospective assignee or Participant) first executes and delivers to the respective Lender a Confidentiality Agreement substantially in the form of Exhibit E hereto (or executes and delivers to such Lender an acknowledgement to the effect that it is bound by the provisions of this Section 11.12(b), which acknowledgement may be included as part of the respective assignment or participation agreement pursuant to which such assignee or participant acquires an interest in the Loans hereunder); provided, further, that in no event shall any Lender or the Administrative Agent be obligated or required to return any materials furnished by the Borrower. The obligations of any assignee that has executed a Confidentiality Agreement in the form of Exhibit E hereto shall be superseded by this Section 11.12 upon the date upon which such assignee becomes a Lender hereunder pursuant to Section 5.07 or 11.06(b) hereof.

(c) EACH LENDER ACKNOWLEDGES THAT INFORMATION FURNISHED TO IT PURSUANT TO THIS AGREEMENT MAY INCLUDE

Bridge Loan Agreement

MATERIAL NON-PUBLIC INFORMATION CONCERNING THE BORROWER AND ITS SUBSIDIARIES, AND CONFIRMS THAT IT HAS DEVELOPED COMPLIANCE PROCEDURES REGARDING THE USE OF MATERIAL NON-PUBLIC INFORMATION AND THAT IT WILL HANDLE SUCH MATERIAL NON-PUBLIC INFORMATION IN ACCORDANCE WITH THOSE PROCEDURES AND APPLICABLE LAW, INCLUDING FEDERAL AND STATE SECURITIES LAWS.

(d) ALL INFORMATION, INCLUDING REQUESTS FOR WAIVERS AND AMENDMENTS, FURNISHED BY THE BORROWER OR THE ADMINISTRATIVE AGENT PURSUANT TO, OR IN THE COURSE OF ADMINISTERING, THIS AGREEMENT WILL BE SYNDICATE-LEVEL INFORMATION, WHICH MAY CONTAIN MATERIAL NON-PUBLIC INFORMATION ABOUT THE BORROWER AND ITS SUBSIDIARIES. ACCORDINGLY, EACH LENDER REPRESENTS TO THE BORROWER AND THE ADMINISTRATIVE AGENT THAT IT HAS IDENTIFIED IN ITS ADMINISTRATIVE QUESTIONNAIRE A CREDIT CONTACT WHO MAY RECEIVE INFORMATION THAT MAY CONTAIN MATERIAL NON-PUBLIC INFORMATION IN ACCORDANCE WITH ITS COMPLIANCE PROCEDURES AND APPLICABLE LAW, INCLUDING FEDERAL AND STATE SECURITIES LAWS.

11.13 USA PATRIOT Act . Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with the Act.

Bridge Loan Agreement

ADMINISTRATIVE AGENT

JPMORGAN CHASE BANK, N.A.

By /s/ Christie Herrick

Name: Christie Herrick

Title: Vice President

LENDERS

JPMORGAN CHASE BANK, N.A.

By /s/ Christie Herrick

Name: Christie Herrick

Title: Vice President

CITIBANK, N.A.

By /s/ Robert B. Goldstein

Name: Robert B. Goldstein

Title: Managing Director Citigroup/Global Financial
Institutes

Bridge Loan Agreement

BANK OF AMERICA, N.A.

By /s/ Jeffrey M. Shaver

Name: Jeffrey M. Shaver

Title: Vice President

Bridge Loan Agreement

By /s/ Alison A. McGuigan

Name: Alison A. McGuigan

Title: Associate Director

Bridge Loan Agreement

By /s/ Jay Chall

Name: Jay Chall

Title: Director

By /s/ James Neira

Name: James Neira

Title: Associate

Bridge Loan Agreement

By /s/ Ruth Leung

Name: Ruth Leung

Title: Director

By /s/ Richard Herder

Name: Richard Herder

Title: Managing Director

Bridge Loan Agreement

By /s/ Janine M. Shugan

Name: Janine M. Shugan

Title: Authorized Signatory

Bridge Loan Agreement

MORGAN STANLEY BANK

By /s/ Daniel Twenge

Name: Daniel Twenge

Title: Vice President

MORGAN STANLEY SENIOR FUNDING

By /s/ Eugene R. Martin

Name: Eugene R. Martin

Title: Vice President

Bridge Loan Agreement

By /s/ Grainne M. Pergolini

Name: Grainne M. Pergolini

Title: Vice President

Bridge Loan Agreement

COMMITMENTS

<u>NAME OF LENDER</u>	<u>COMMITMENT</u>
JPMorgan Chase Bank, N.A.	\$ 924,000,000
Citibank, N.A.	\$ 924,000,000
Bank of America, N.A.	\$ 336,000,000
Barclays Bank plc	\$ 336,000,000
Credit Suisse, Cayman Islands Branch	\$ 336,000,000
Deutsche Bank AG New York Branch	\$ 336,000,000
Lehman Brothers Bank, FSB	\$ 336,000,000
Morgan Stanley Bank	\$ 300,000,000
Morgan Stanley Senior Funding	\$ 36,000,000
Wachovia Bank, National Association	\$ 336,000,000
TOTAL	\$ 4,200,000,000

Schedule 2.01

1. American Express Travel Related Services Company, Inc., filed a lawsuit against MasterCard and Visa as well as several of their member banks under United States antitrust law. Capital One Bank, Capital One, F.S.B., and Capital One are named defendants.

2. A number of entities, each purporting to represent a class of retail merchants filed antitrust lawsuits against MasterCard and Visa as well as several of their member banks. Capital One, F.S.B., and Capital One are named defendants.

Please refer to the section entitled “Industry Litigation” in Note 8 under the heading “Notes to Condensed Consolidated Financial Statements” in the Form 10-Q filed by the Borrower with the Securities and Exchange Commission on May 4, 2006 for further information with respect to the pending litigation referenced above.

Schedule 7.03

[Form of Note]

PROMISSORY NOTE

\$ _____

_____, 200_
New York, New York

FOR VALUE RECEIVED, CAPITAL ONE FINANCIAL CORPORATION, a corporation organized under the laws of the State of Delaware (the "Borrower"), hereby promises to pay to the order of _____ (the "Lender"), for account of its Applicable Lending Office provided for by the Bridge Loan Agreement referred to below, at the Administrative Agent's Account, the principal sum of _____ Dollars (or such lesser amount as shall equal the aggregate unpaid principal amount of the Loans made by the Lender to the Borrower under the Bridge Loan Agreement), in Dollars and in immediately available funds, on the date and in the principal amounts provided in the Bridge Loan Agreement, and to pay interest on the unpaid principal amount of each such Loan, to such Account, in like money and funds, for the period commencing on the date of such Loan until such Loan shall be paid in full, at the rates per annum and on the dates provided in the Bridge Loan Agreement.

This Note is one of the Notes referred to in the Bridge Loan Agreement dated as of May 9, 2006 (as modified and supplemented and in effect from time to time, the "Bridge Loan Agreement") among Capital One Financial Corporation, the lenders party thereto (including the Lender) and JPMorgan Chase Bank, N.A., as Administrative Agent, and evidences the Loan made by the Lender thereunder. Terms used but not defined in this Note have the respective meanings assigned to them in the Bridge Loan Agreement.

The Bridge Loan Agreement provides for the acceleration of the maturity of this Note upon the occurrence of certain events and for prepayments of Loans upon the terms and conditions specified therein.

Except as permitted by Section 11.06 of the Bridge Loan Agreement, this Note may not be assigned by the Lender to any other Person.

This Note shall be governed by, and construed in accordance with, the law of the State of New York.

CAPITAL ONE FINANCIAL CORPORATION

By _____
Title:

Note

[Form of Opinion of Special New York Counsel to the Borrower]

_____, 2006

Each of the Lenders Party
to the Bridge Loan Agreement
Referred to Below

JPMorgan Chase Bank, N.A.,
as Administrative Agent
270 Park Avenue
New York, NY 10017

Ladies and Gentlemen:

We have acted as special New York counsel to Capital One Financial Corporation (the "Borrower") in connection with the Bridge Loan Agreement (the "Bridge Loan Agreement") dated as of May 9, 2006 among the Borrower, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Bridge Loan Agreement.

As to facts relevant to the opinions expressed herein, we have examined and relied upon the representations and warranties made in (or pursuant to) the Bridge Loan Agreement and the certificates and other instruments delivered pursuant thereto. We have assumed that all such representations and warranties are accurate. We have not reviewed the dockets or other records of any governmental or regulatory body.

In connection with the opinions herein, we have assumed the legal capacity of all natural persons, the genuineness of all signatures, the authenticity of all items submitted to us as originals and the conformity with originals of all items submitted to us as copies.

We have assumed for purposes of our opinions hereinafter set forth that the Bridge Loan Agreement has been duly authorized, executed and delivered by each of the parties thereto (other than the Borrower) and is a binding obligation of each such party (other than the Borrower) and that each such party (other than the Borrower) is duly organized and validly existing under the jurisdiction in which it is organized and has full power, authority and legal right to execute, deliver and perform the Bridge Loan Agreement.

Based on and subject to the foregoing and the other paragraphs hereof, and such examination of law as we have deemed necessary, we are of the opinion that:

Opinion of Special New York Counsel to the Borrower

1. The Borrower has all requisite power and authority to execute and deliver the Bridge Loan Agreement and the Notes and perform its obligations thereunder and has taken all necessary action to authorize the execution, delivery and performance thereof.
2. The Bridge Loan Agreement has been, and the Notes when executed and delivered in accordance with the Bridge Loan Agreement will be, duly executed and delivered by the Borrower. The Bridge Loan Agreement constitutes, and the Notes when executed and delivered in accordance with the Bridge Loan Agreement will constitute, legal, valid and binding obligations of the Borrower, enforceable in accordance with their respective terms.
3. Neither the execution, delivery and performance by the Borrower of the Bridge Loan Agreement and the Notes, nor the compliance by the Borrower with the terms and provisions thereof: (a) violates the General Corporation Law of the State of Delaware, any law, statute or regulation of the State of New York or any federal law of the United States (including Regulations T, U and X of the Board of Governors of the Federal Reserve System) that, in each case, is applicable to the Borrower and which, in our experience, would normally apply to transactions of the type contemplated by the Bridge Loan Agreement and the Notes, or (b) any provision of the organizational documents of the Borrower.
4. No consent, approval or authorization of, or filing with, any governmental authority of the State of New York or the United States of America that, in each case, is applicable to the Borrower is required for (a) the due execution, delivery and performance by the Borrower of the Bridge Loan Agreement and the Notes or (b) the validity, binding effect or enforceability of the Bridge Loan Agreement and the Notes, except (i) in each case as have previously been made or obtained, and (ii) consents, approvals, authorizations or filings as may be required to be obtained or made by any Lender as a result of its involvement in the transactions contemplated by the Bridge Loan Agreement.

The opinions set forth above are subject to the following limitations and qualifications:

- (a) Our opinions are limited to the federal law of the United States of America, the laws of the State of New York and General Corporation Law of the State of Delaware, and we do not express any opinion concerning any other law.
- (b) Our opinions are subject to (i) the effect of bankruptcy, insolvency, reorganization, conservatorship, receivership, liquidation, fraudulent conveyance, fraudulent transfer, equitable subordination, readjustment of debt, moratorium or other similar laws now or hereafter in effect relating to or affecting the rights or remedies of creditors generally, and (ii) the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law) and by limitations on the availability of specific performance, injunctive relief or other equitable remedies.
- (c) We express no opinion as to any provision of the Bridge Loan Agreement and the Notes that (i) provides for a manner of service of process different than that prescribed or permitted by law; (ii) relates to severability or separability; (iii) relates to indemnification or reimbursement obligations to the extent any such provision violates public policy; (iv) purports to require that all amendments, waivers and terminations be in writing or to require disregard of any course of dealing between parties; (v) purports to waive the right to object to venue or to assert forum non conveniens; or (vi) purports to grant rights of set-off to participants.

Opinion of Special New York Counsel to the Borrower

This opinion is delivered only to you in connection with the Bridge Loan Agreement and is solely for your benefit and may not be relied upon or used by, circulated, quoted or referred to, nor may copies be delivered to, any other person, other than your assignees, transferees and prospective assignees and transferees, without our prior written consent. We disclaim any obligation to update this opinion letter for events occurring or coming to our attention after the date hereof.

Very truly yours,

Opinion of Special New York Counsel to the Borrower

[Form of Opinion of Counsel to the Borrower]

_____, 2006

Each of the Lenders party
to the Bridge Loan Agreement
referred to below

JPMorgan Chase Bank, N.A.,
as Administrative Agent
270 Park Avenue
New York, New York 10017

Ladies and Gentlemen:

I am the _____ of Capital One Financial Corporation (the "Borrower"), and, together with other attorneys under my supervision, have acted as counsel to the Borrower in connection with (i) the Bridge Loan Agreement (the "Bridge Loan Agreement") dated as of May 9, 2006 among the Borrower, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, providing for loans to be made by the Lenders to the Borrower in an aggregate initial principal amount not exceeding \$4,200,000,000 and (ii) the various other agreements, instruments and other documents referred to in the next following paragraph. Capitalized terms used but not defined herein have the respective meanings given to such terms in the Bridge Loan Agreement. This opinion letter is being delivered pursuant to Section 6.01(d) of the Bridge Loan Agreement.

In rendering the opinions expressed below, we have examined executed or conformed counterparts, or copies otherwise identified to our satisfaction of the following agreements, instruments and other documents, copies of which have been delivered to you:

- (a) the Bridge Loan Agreement;
- (b) the Notes; and
- (c) such records of the Borrower and such other documents as we have deemed necessary or appropriate as a basis for the opinions set forth below.

Opinion of Counsel to the Borrower

We have obtained or have been furnished with, and as to factual matters have relied upon, such certificates, advice and assurances from representatives of the Borrower, public officials and others and the representations and warranties and covenants and agreements of the parties contained in the Bridge Loan Agreement as we have deemed necessary or appropriate for the purposes of this opinion. In connection with the opinions herein, we have assumed the legal capacity of all natural persons, the authenticity of all items submitted to us as originals and the conformity with originals of all items submitted to us as copies. We have also assumed the genuineness of all signatures and the due execution and delivery pursuant to due authorization of the Bridge Loan Agreement and the Notes by, and the valid and binding nature of the Bridge Loan Agreement and the Notes on, the parties thereto other than the Borrower.

Based on and subject to the foregoing and the other paragraphs hereof, it is my opinion that:

1. The Borrower is a corporation validly existing and in good standing under the laws of the State of Delaware.
2. The Borrower has the corporate power to execute and deliver the Bridge Loan Agreement and the Notes and to consummate the transactions set forth therein. The Borrower has the corporate power to borrow under the Bridge Loan Agreement.
3. The Bridge Loan Agreement and the Notes have been duly authorized by all necessary corporate action on the part of the Borrower.
4. The Bridge Loan Agreement has been, and the Notes when executed and delivered in accordance with the Bridge Loan Agreement will be, duly executed and delivered by the Borrower.
5. Neither the execution and delivery by the Borrower of the Bridge Loan Agreement and the Notes nor the performance by the Borrower of its obligations under the Bridge Loan Agreement and the Notes result in a breach of the terms of, or constitute a default under the applicable organizational documents of the Borrower, each as amended, and do not result in a material breach of the terms of, or constitute a material default under (i) any rule, order (known to me), statute or regulation, to the extent the foregoing relate to Delaware corporate, or other Delaware laws or United States federal law, of any Delaware or United States court, regulatory body, or administrative or governmental agency having jurisdiction over the Borrower, as applicable or (ii) the terms of any material indenture or other material agreement or instrument to which the Borrower is a party (and, for purposes of clauses (i) and (ii) of this paragraph 5, a breach or default is "material" solely if it would materially adversely affect the validity or enforceability of, or the rights and remedies of the Lenders or the Administrative Agent under, the Bridge Loan Agreement).
6. Except as set forth in Schedule 7.03 to the Bridge Loan Agreement, to my knowledge there are no actions, proceedings or investigations pending or threatened in writing before any court, governmental or regulatory authority or agency against or affecting the Borrower or any of its Subsidiaries or any of their respective Properties, except proceedings that, if adversely determined, would not have a Material Adverse Effect.

Opinion of Counsel to the Borrower

Insofar as the foregoing opinions relate to the good standing of the Borrower, they are based solely on a certificate of good standing dated [_____], 2006 received from the Secretary of State of the State of Delaware and attached hereto as Exhibit A.

The foregoing opinions are subject to (i) applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar law affecting the rights and remedies of creditors generally as may be in effect from time to time and (ii) general principles of equity, regardless of whether such is considered in a proceeding at law or in equity. We note that the rights to indemnity and contribution under the Bridge Loan Agreement may be limited by United States federal laws or the public policy underlying such laws.

The opinions expressed herein are limited to, and I express no opinion as to any jurisdiction other than, the Delaware General Corporation Law and the federal law of the United States of America.

This opinion letter is delivered to you in connection with the above described transaction and is solely for your benefit and may not be relied upon or used by, circulated, quoted or referred to, nor may copies be delivered to, any other person without my prior written consent. We disclaim any obligation to update this opinion letter for events occurring or coming to our attention after the date hereof.

Very truly yours,

[_____]

Opinion of Counsel to the Borrower

Each of the Lenders party
to the Bridge Loan Agreement
referred to below

JPMorgan Chase Bank, N.A.,
as Administrative Agent
270 Park Avenue
New York, New York 10017

Ladies and Gentlemen:

We have acted as special New York counsel to JPMorgan Chase Bank, N.A. ("JPMorgan") in connection with (i) the Bridge Loan Agreement dated as of May 9, 2006 (the "Bridge Loan Agreement") among Capital One Financial Corporation (the "Borrower"), the Lenders party thereto and JPMorgan, as Administrative Agent, providing for loans to be made by the Lenders to the Borrower in an aggregate principal amount not exceeding \$4,200,000,000 and (ii) the various other agreements, instruments and other documents referred to in the next following paragraph. Capitalized terms used but not defined herein have the respective meanings given to such terms in the Bridge Loan Agreement. This opinion letter is being delivered pursuant to Section 6.01(e) of the Bridge Loan Agreement.

In rendering the opinions expressed below, we have examined the following agreements, instruments and other documents:

- (a) the Bridge Loan Agreement; and
- (b) such other documents as we have deemed necessary as a basis for the opinions expressed below.

In our examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with authentic original documents of all documents submitted to us as copies, and we have assumed that all authorizations, approvals or consents of, and all filings and registrations with, any governmental or regulatory authority or agency required for the making and performance by the Borrower of the Bridge Loan Agreement have been obtained or made and are in effect. When relevant facts were not independently established, we have relied upon representations made in or pursuant to the Bridge Loan Agreement.

Opinion of Special New York Counsel to JPMorgan

In rendering the opinions expressed below, we have assumed, with respect to all of the documents referred to in this opinion letter, that:

(i) such documents have been duly authorized by, have been duly executed and delivered by, and (except to the extent set forth in the opinions below as to the Borrower) constitute legal, valid, binding and enforceable obligations of, all of the parties to such documents;

(ii) all signatories to such documents have been duly authorized; and

(iii) all of the parties to such documents are duly organized and validly existing and have the power and authority (corporate or other) to execute, deliver and perform such documents.

Based upon and subject to the foregoing and subject also to the comments and qualifications set forth below, and having considered such questions of law as we have deemed necessary as a basis for the opinions expressed below, we are of the opinion that the Bridge Loan Agreement constitutes, and each of the Notes, when duly executed and delivered in accordance with the Bridge Loan Agreement will constitute, the legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except as may be limited by bankruptcy, fraudulent conveyance or transfer, insolvency, receivership, conservatorship, reorganization, moratorium or other similar laws relating to or affecting the rights of creditors generally and is subject to the application of general principles of equity (regardless of whether considered in a proceeding in equity or at law), including, without limitation, (a) the possible unavailability of specific performance, injunctive relief or any other equitable remedy and (b) concepts of materiality, reasonableness, good faith and fair dealing.

The foregoing opinions are subject to the following comments and qualifications:

(A) The enforceability of Section 11.03 of the Bridge Loan Agreement may be limited by (i) laws rendering unenforceable indemnification contrary to Federal or state securities laws and the public policy underlying such laws and (ii) laws limiting the enforceability of provisions exculpating or exempting a party from, or requiring indemnification of a party for, liability for its own action or inaction, to the extent the action or inaction involves gross negligence, recklessness, willful misconduct or unlawful conduct.

(B) The enforceability of provisions in the Bridge Loan Agreement to the effect that terms may not be waived or modified except in writing may be limited under certain circumstances.

(C) We express no opinion as to (i) the effect of the laws of any jurisdiction in which any Lender is located (other than the State of New York) that limit the interest, fees or other charges such Lender may impose, (ii) Section 4.07(c) of the Bridge Loan Agreement, (iii) the second sentence of Section 11.10 of the Bridge Loan Agreement, insofar as such sentence relates to the subject matter jurisdiction of the United States District Court for the Southern

Opinion of Special New York Counsel to JPMorgan

District of New York to adjudicate any controversy related to the Bridge Loan Agreement and the Notes or (iv) the waiver of inconvenient forum set forth in the third sentence of Section 11.10 of the Bridge Loan Agreement with respect to proceedings in the United States District Court for the Southern District of New York.

The foregoing opinions are limited to matters involving the Federal laws of the United States and the law of the State of New York, and we do not express any opinion as to the laws of any other jurisdiction.

At the request of our client, this opinion letter is, pursuant to Section 6.01(e) of the Bridge Loan Agreement, provided to you by us in our capacity as special New York counsel to JPMorgan and may not be relied upon by any Person for any purpose other than in connection with the transactions contemplated by the Bridge Loan Agreement without, in each instance, our prior written consent.

Very truly yours,

WFC/[RJW]

Opinion of Special New York Counsel to JPMorgan

[Form of Notice of Borrowing]

[Date]

To: JPMorgan Chase Bank, N.A.,
as Administrative Agent
From: Capital One Financial Corporation
Re: Notice of Borrowing

Pursuant to Section 2.02 of the Bridge Loan Agreement dated as of May 9, 2006 (as modified and supplemented and in effect from time to time, the "Bridge Loan Agreement") among Capital One Financial Corporation, as the Borrower, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, the undersigned Borrower hereby gives notice of the borrowing of Loans described below:

Aggregate Principal Amount of Loans to be borrowed: _____
Business Day of Borrowing: _____
Type of Loans to be borrowed: _____
Interest Period to be applicable: _____

This Notice of Borrowing constitutes a certification by the Borrower to the effect set forth in Section 6.02(b) of the Bridge Loan Agreement, both as of the date of this Notice of Borrowing and, unless the undersigned notifies the Administrative Agent prior to the Borrowing Date, as of the Borrowing Date.

Terms used herein have the meanings assigned to them in the Bridge Loan Agreement.

CAPITAL ONE FINANCIAL CORPORATION

By _____
Title:

Notice of Borrowing

[Form of Confidentiality Agreement]

CONFIDENTIALITY AGREEMENT

[Date]

[Insert Name and
Address of Prospective
Participant or Assignee]

Re: Bridge Loan Agreement dated as of May 9, 2006 (as modified and supplemented and in effect from time to time, the "Bridge Loan Agreement") among Capital One Financial Corporation, as the Borrower, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent.

Ladies and Gentlemen:

As a Lender party to the Bridge Loan Agreement, we have agreed with the Borrower pursuant to Section 11.12 of the Bridge Loan Agreement to keep confidential, except as otherwise provided therein, all non-public information delivered to us pursuant to the Bridge Loan Agreement.

As provided in said Section 11.12, we are permitted to provide you, as a prospective [holder of a participation in the Loans (as defined in the Bridge Loan Agreement)] [assignee Lender], with certain of such non-public information subject to the execution and delivery by you, prior to receiving such non-public information, of a Confidentiality Agreement in this form. Such information will not be made available to you until your execution and return to us of this Confidentiality Agreement.

Accordingly, in consideration of the foregoing, you agree (on behalf of yourself and each of your affiliates, directors, officers, employees and representatives and for the benefit of us and the Borrower) that (A) such information will not be used by you except in connection with the proposed [participation][assignment] mentioned above and (B) you shall keep such information confidential, provided that (x) nothing herein shall limit the disclosure of any such information (i) after such information shall have become public (other than through a violation of Section 11.12 of the Bridge Loan Agreement), (ii) to the extent required by statute, rule, regulation or judicial process, (iii) to your counsel or to counsel for any of the Lenders or the Administrative Agent, (iv) to bank examiners (or any other regulatory authority or self-regulatory body having jurisdiction over any Lender or the Administrative Agent), or to auditors
Confidentiality Agreement

or accountants, (v) to the Administrative Agent or any other Lender, (vi) in connection with the enforcement of rights or remedies under the Bridge Loan Agreement, (vii) to a subsidiary or affiliate of yours as provided in Section 11.12(a) of the Bridge Loan Agreement or (viii) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) first executes and delivers to you a Confidentiality Agreement substantially in the form hereof and (y) in no event shall you be obligated to return any materials furnished to you pursuant to this Confidentiality Agreement.

If you are a prospective assignee, your obligations under this Confidentiality Agreement shall be superseded by Section 11.12 of the Bridge Loan Agreement on the date upon which you become a Lender under the Bridge Loan Agreement pursuant to Section 5.07 or 11.06(b) thereof. This Confidentiality Agreement shall be governed by, and construed in accordance with, the law of the State of New York without reference to choice of law doctrine.

Please indicate your agreement to the foregoing by signing as provided below the enclosed copy of this Confidentiality Agreement and returning the same to us.

Very truly yours,

[INSERT NAME OF LENDER]

By _____
Title:

The foregoing is agreed to
as of the date of this letter:

[INSERT NAME OF PROSPECTIVE
PARTICIPANT OR ASSIGNEE]

By _____
Title:

Assignment and Assumption

[Form of Assignment and Assumption]

ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption (the "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [Insert name of Assignor] (the "Assignor") and [Insert name of Assignee] (the "Assignee"). Capitalized terms used but not defined herein shall have the meanings given to them in the Bridge Loan Agreement identified below (as amended, the "Bridge Loan Agreement"), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Bridge Loan Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (i) all of the Assignor's rights and obligations in its capacity as a Lender under the Bridge Loan Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the respective facilities identified below (including any letters of credit included in such facilities) and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Bridge Loan Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as the "Assigned Interest"). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor.

- 1. Assignor: _____
- 2. Assignee: _____

[and is an Affiliate/Approved Fund of [identify Lender]¹]

Assignment and Assumption

3. Borrower: Capital One Financial Corporation
4. Administrative Agent: JPMorgan Chase Bank, N.A., as the administrative agent under the Bridge Loan Agreement
5. Bridge Loan Agreement: The \$4,200,000,000 Bridge Loan Agreement dated as of May 9, 2006 among Capital One Financial Corporation, as the Borrower, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent
6. Assigned Interest:

<u>Facility Assigned</u>	<u>Aggregate Amount of Commitment/Loans for all Lenders</u>	<u>Amount of Commitment/Loans Assigned</u>	<u>Percentage Assigned of Commitment/Loans²</u>
	\$	\$	%

Effective Date (herein, the "Effective Date"): _____, 20__ [TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The Assignee agrees to deliver to the Administrative Agent a completed Administrative Questionnaire in which the Assignee designates one or more credit contacts to whom all syndicate-level information (which may contain material non-public information about the Borrower) will be made available and who may receive such information in accordance with the Assignee's compliance procedures and applicable laws, including Federal and state securities laws.

The terms set forth in this Assignment and Assumption are hereby agreed to:

¹ Select as applicable.

² Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

Assignment and Assumption

ASSIGNOR

[NAME OF ASSIGNOR]

By: _____

Title:

ASSIGNEE

[NAME OF ASSIGNEE]

By: _____

Title:

Assignment and Assumption

[Consented to and]³ Accepted:

JPMORGAN CHASE BANK, N.A., as
Administrative Agent

By _____
Title:

[Consented to:]⁴

CAPITAL ONE FINANCIAL CORPORATION

By _____
Title:

³ To be added only if the consent of the Administrative Agent is required by the terms of the Bridge Loan Agreement.

⁴ To be added only if the consent of the Borrower is required by the terms of the Bridge Loan Agreement.

Assignment and Assumption

\$4,200,000,000 BRIDGE LOAN AGREEMENT DATED AS OF MAY __, 2006

AMONG CAPITAL ONE FINANCIAL CORPORATION, AS THE BORROWER, CERTAIN
LENDERS PARTY THERETO AND JPMORGAN CHASE BANK, N.A., AS
ADMINISTRATIVE AGENT

STANDARD TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1 Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Bridge Loan Agreement or the Notes, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Bridge Loan Agreement or the Notes or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of the Bridge Loan Agreement or the Notes or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of its respective obligations under the Bridge Loan Agreement or the Notes.

1.2. Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Bridge Loan Agreement, (ii) it satisfies the requirements, if any, specified in the Bridge Loan Agreement that are required to be satisfied by it in order to acquire the Assigned Interest and become a Lender, (iii) from and after the Effective Date, it shall be bound by the provisions of the Bridge Loan Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received and/or had the opportunity to review a copy of the Bridge Loan Agreement to the extent it has in its sole discretion deemed necessary, together with copies of the most recent financial statements delivered pursuant to Section 8.01 thereof, as applicable, and such other documents and information as it has in its sole discretion deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on

Assignment and Assumption

the Administrative Agent or any other Lender, and (v) if it is not a U.S. Person, attached to this Assignment and Assumption is any documentation required to be delivered by it pursuant to the terms of the Bridge Loan Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Bridge Loan Agreement and the Notes, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Bridge Loan Agreement are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the State of New York.

Assignment and Assumption

[Form of Continuation Notice]

[Date]

To: JPMorgan Chase Bank, N.A.,
as Administrative Agent

From: Capital One Financial Corporation

Re: Notice of Continuation

Pursuant to Section 2.08 of the Bridge Loan Agreement dated as of May 9, 2006 (as modified and supplemented and in effect from time to time, the "Bridge Loan Agreement") among Capital One Financial Corporation, as the Borrower, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, the undersigned Borrower (terms used but not defined herein to have the respective meanings assigned to them in the Bridge Loan Agreement) hereby gives notice irrevocably, that the Borrower hereby requests a [Continuation] [Conversion] of Loans under the Bridge Loan Agreement and, in connection therewith, sets forth below the information relating to such [Continuation] [Conversion] (the "Proposed [Continuation] [Conversion]").

(a) The Borrower hereby requests that Loans be [Continued] [Converted] as follows:

(i) The first day of the new Interest Period in respect of the Proposed [Continuation] [Conversion] shall be _____, _____ (which is a Business Day).

(ii) *[If such Eurodollar Loans are to be Continued with no change in any Type of Loan:]* \$_____ of the currently outstanding principal amount of Loans currently being maintained as Loans with an Interest Period of [one] [two] [three] [six] month(s), the last day of which is the first day of the Proposed Continuation referred to in clause (i) above, should be continued as \$_____ of Loans with an Interest Period of [one] [two] [three] [six] month(s).

(iii) *[If such Loans are to be Converted:]* \$_____ of the currently outstanding principal amount of Loans which are [Base Rate Loans] [Eurodollar Loans with an Interest Period of [one] [two] [three] [six] month(s)], the last day of which is the first day of the Proposed Conversion referred to in clause (i) above] should be converted to [Base Rate Loans] [Eurodollar Loans with an Interest Period of [one] [two] [three] [six] month(s)].

(b) The Borrower hereby certifies that, as of the date hereof, no Event of Default has occurred and is continuing.

Notice of Continuation

Terms used herein have the meanings assigned to them in the Bridge Loan Agreement.

CAPITAL ONE FINANCIAL CORPORATION

By _____
Title:

Notice of Continuation

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

I, Richard D. Fairbank, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital One Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 07, 2006

By: /s/ RICHARD D. FAIRBANK

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

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

I, Gary L. Perlin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital One Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 07, 2006

By: /s/ GARY L. PERLIN

Gary L. Perlin
Executive Vice President and Chief Financial Officer

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

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

The Quarterly Report on Form 10-Q for the period ended June 30, 2006 (the "Form 10-Q") of Capital One fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Capital One.

Dated: August 07, 2006

By: /s/ RICHARD D. FAIRBANK

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

A signed original of this written statement required by Section 906 has been provided to Capital One and will be retained by Capital One and furnished to the Securities and Exchange Commission or its staff upon request.

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

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

The Quarterly Report on Form 10-Q for the period ended June 30, 2006 (the "Form 10-Q") of Capital One fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Capital One.

Dated: August 07, 2006

By: /s/ GARY L. PERLIN

Gary L. Perlin
Executive Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Capital One and will be retained by Capital One and furnished to the Securities and Exchange Commission or its staff upon request.