UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 1998

OR

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

Commission file number 1-13300

CAPITAL ONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	54-1719854
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2980 Fairview Park Drive, Suite 1300, Falls Church, Virginia	22042-4525
(Address of principal executive offices)	(Zip Code)

(703) 205-1000

(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 X No

As of July 31, 1998, there were 66,074,304 shares of the registrant's Common Stock, par value $.01 per share, outstanding.

CAPITAL ONE FINANCIAL CORPORATION
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June 30, 1998

Item 1.

CAPITAL ONE FINANCIAL CORPORATION
Condensed Consolidated Balance Sheets
(dollars in thousands, except per share data) (unaudited)

	June 30 1998	December 31 1997
Assets:		
Cash and due from banks	$ 8,463	$ 5,039
Federal funds sold and resale agreements		173,500
Interest-bearing deposits at other banks	30,926	59,184
Cash and cash equivalents	39,389	237,723
Securities available for sale	1,431,091	1,242,670
Consumer loans	5,140,340	4,861,687
Less: Allowance for loan losses	(213,000)	(183,000)
Net loans	4,927,340	4,678,687
Premises and equipment, net	188,727	162,726
Interest receivable	45,866	51,883
Accounts receivable from securitizations	836,274	588,781
Other	182,751	115,809
Total	$ 7,651,438	$ 7,078,279
Liabilities:		
Interest-bearing deposits	$ 1,287,402	$ 1,313,654
Other borrowings	959,480	796,112
Senior notes	3,709,404	3,332,778
Deposit notes	99,996	299,996
Interest payable	83,167	68,448
Other	345,037	276,368
Total liabilities	6,484,486	6,087,356
Guaranteed Preferred Beneficial Interests In Capital One Bank's Floating Rate Junior Subordinated Capital Income Securities:	97,791	97,664
Stockholders' Equity:		
Preferred stock, par value $.01 per share; authorized 50,000,000 shares, none issued or outstanding		
Common stock, par value $.01 per share; authorized 300,000,000 shares, 66,558,730 and 66,557,230 issued as of June 30, 1998 and December 31, 1997, respectively	666	666
Paid-in capital, net	561,518	513,561
Retained earnings	547,485	425,140
Cumulative other comprehensive income	3,421	2,539
Less: Treasury stock, at cost; 1,020,608 and 1,188,134 shares as of June 30, 1998 and December 31, 1997, respectively	(43,929)	(48,647)
Total stockholders' equity	1,069,161	893,259
Total liabilities and stockholders' equity	$ 7,651,438	$ 7,078,279

See notes to the condensed consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	1998	1997	1998	1997
Interest Income:				
Consumer loans, including fees	$ 245,129	$ 143,485	$ 474,767	$ 289,997
Federal funds sold and resale agreements	2,140	2,613	7,218	8,277
Other	24,169	20,772	47,495	37,190
Total interest income	271,438	166,870	529,480	335,464
Interest Expense:				
Deposits	13,635	8,635	27,773	19,072
Other borrowings	20,375	10,453	36,428	16,977
Senior and deposit notes	67,704	64,523	130,733	127,959
Total interest expense	101,714	83,611	194,934	164,008
Net interest income	169,724	83,259	334,546	171,456
Provision for loan losses	59,013	46,776	144,879	95,963
Net interest income after provision for loan losses	110,711	36,483	189,667	75,493
Non-Interest Income:				
Servicing and securitizations	155,412	148,562	324,067	318,595
Service charges	128,191	57,278	241,515	110,926
Interchange	20,371	11,405	35,170	20,720
Other	24,979	11,797	44,100	21,858
Total non-interest income	328,953	229,042	644,852	472,099
Non-Interest Expense:				
Salaries and associate benefits	113,428	69,287	221,381	139,923
Marketing	85,811	44,995	160,811	99,046
Communications and data processing	34,840	24,320	64,203	46,110
Supplies and equipment	32,368	18,406	54,983	36,479
Occupancy	11,090	7,388	21,734	15,189
Other	54,299	37,659	97,607	78,855
Total non-interest expense	331,836	202,055	620,719	415,602
Income before income taxes	107,828	63,470	213,800	131,990
Income taxes	40,975	24,118	81,244	50,156
Net income	$ 66,853	$ 39,352	$ 132,556	$ 81,834
Basic earnings per share	$ 1.02	$ 0.59	$ 2.02	$ 1.23
Diluted earnings per share	$ 0.96	$ 0.58	$ 1.92	$ 1.21
Dividends paid per share	$ 0.08	$ 0.08	$ 0.16	$ 0.16

See notes to the condensed consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Paid-In Capital, Net	Retained Earnings	Cumulative Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1996	66,325,261	$ 663	$ 481,383	$ 256,396	$ 1,949		$ 740,391
Comprehensive income:							
Net income				81,834			81,834
Other comprehensive income, net of income tax							
Unrealized gains on securities net of income taxes of $857					(1,651)		(1,651)
Foreign currency translation adjustments					153		153
Other comprehensive income					(1,498)		(1,498)
Comprehensive income							80,336
Cash dividends - $.16 per share				(10,334)			(10,334)
Issuances of common stock	85,299	1	2,421				2,422
Exercise of stock options	74,171	1	1,412				1,413
Tax benefit from stock awards			221				221
Restricted stock, net	(121)		54				54
Common stock issuable under incentive plan			6,462				6,462
Balance, June 30, 1997	66,484,610	$ 665	$ 491,953	$ 327,896	$ 451		$ 820,965
Balance, December 31, 1997	66,557,230	$ 666	$ 513,561	$ 425,140	$ 2,539	$ (48,647)	$ 893,259
Comprehensive income:							
Net income				132,556			132,556
Other comprehensive income, net of income tax							
Unrealized gains on securities net of income taxes of $839, net of reclassification adjustment of $27, net of income taxes of $17					1,370		1,370
Foreign currency translation adjustments					(488)		(488)
Other comprehensive income					882		882
Comprehensive income							133,438
Cash dividends - $.16 per share				(10,211)			(10,211)
Purchases of treasury stock						(12,354)	(12,354)
Issuances of common stock			670			2,764	3,434
Exercise of stock options	1,500		(9,506)			14,308	4,802
Tax benefit from stock awards			280				280
Restricted stock, net			18				18
Common stock issuable under incentive plan			56,495				56,495
Balance, June 30, 1998	66,558,730	$ 666	$ 561,518	$ 547,485	$ 3,421	$ (43,929)	$ 1,069,161

See notes to the condensed consolidated financial statements.

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

	Six Months Ended June 30	
	1998	1997
Operating Activities:		
Net income	$ 132,556	$ 81,834
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	144,879	95,963
Depreciation and amortization, net	35,552	23,929
Stock compensation plans	56,513	6,516
Decrease in interest receivable	6,017	30,455
Increase in accounts receivable from securitizations	(247,493)	(226,718)
Increase in other assets	(72,871)	(28,136)
Increase (decrease) in interest payable	14,719	(8,101)
Increase in other liabilities	68,669	57,889
Net cash provided by operating activities	138,541	33,631
Investing Activities:		
Purchases of securities available for sale	(706,466)	(653,916)
Proceeds from maturities of securities available for sale	423,726	396,580
Proceeds from sales of securities available for sale	102,269	
Proceeds from securitization of consumer loans	1,628,598	1,031,456
Net increase in consumer loans	(2,051,538)	(417,989)
Recoveries of loans previously charged off	29,408	10,520
Additions of premises and equipment, net	(61,515)	(31,221)
Net cash (used for) provided by investing activities	(635,518)	335,430
Financing Activities:		
Net decrease in interest-bearing deposits	(26,252)	(73,221)
Net increase (decrease) in other borrowings	163,368	(237,249)
Issuances of senior notes	1,009,522	480,000
Maturities of senior and deposit notes	(833,666)	(705,436)
Issuances of preferred beneficial interests		97,428
Proceeds from exercise of stock options	4,802	1,413
Net proceeds from issuances of common stock	3,434	2,422
Purchases of treasury stock	(12,354)	
Dividends paid	(10,211)	(10,334)
Net cash provided by (used for) financing activities	298,643	(444,977)
Decrease in cash and cash equivalents	(198,334)	(75,916)
Cash and cash equivalents at beginning of period	237,723	528,976
Cash and cash equivalents at end of period	$ 39,389	$ 453,060

See notes to the condensed consolidated financial statements.

CAPITAL ONE FINANCIAL CORPORATION
Notes to the Condensed Consolidated Financial Statements June 30, 1998
(in thousands, except per share data) (unaudited)

Note A: Basis of Presentation

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

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("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 three and six months ended June 30, 1998 are not necessarily indicative of the results for the year ending December 31, 1998. The notes to the consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 1997 should be read in conjunction with these condensed consolidated financial statements. All significant intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the 1998 presentation.

Note B: Significant Accounting Policies

Cash and Cash Equivalents

Cash paid for interest for the six months ended June 30, 1998 and 1997 was $180,215 and $172,109, respectively. Cash paid for income taxes for the six months ended June 30, 1998 and 1997 was $136,275 and $64,095, respectively.

Consumer Loans

In the fourth quarter of 1997, the Company recognized the estimated uncollectible portion of finance charge and fee income receivables. In addition, in the fourth quarter of 1997, the Company modified its methodology for charging off credit card loans (net of any collateral) to 180 days past-due, from the prior practice of charging off loans during the next billing cycle after becoming 180 days past-due.

Earnings Per Share

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share" ("SFAS 128") which became effective for periods ending after December 15, 1997, including interim periods. SFAS 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share is based only on the weighted average number of common shares outstanding, excluding any dilutive effects of options and restricted stock. Diluted earnings per share is similar to the previously reported fully diluted earnings per share and is based on the weighted average number of common and common equivalent shares, including dilutive stock options and restricted stock outstanding during the year. Earnings per share amounts for all prior periods have been restated to conform to SFAS 128 requirements.

Comprehensive Income

As of January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income" ("SFAS 130"), which establishes new rules for the reporting and display of comprehensive income and its components. SFAS 130 requires unrealized gains or losses on available-for-sale securities and foreign currency translation adjustments, which prior to adoption were reported separately in stockholders' equity, to be included in other comprehensive income. The adoption of SFAS 130 had no impact on the Company's net income or stockholders' equity. Prior year amounts have been reclassified to conform to SFAS 130 requirements.

Note C: Borrowings

In July 1998, the Corporation filed a Shelf Registration Statement on Form S-3 with the Securities and Exchange Commission for the issuance of up to $425,000 aggregate principal amount of senior and subordinated debt, preferred stock and common stock, which was declared effective on July 14, 1998. In July 1998, the Corporation issued $200,000 of 10-year unsecured senior notes under this shelf registration. Existing unsecured senior debt outstanding of the Corporation under a prior shelf registration of $200,000 totals $125,000 maturing in 2003.

Note D: Comprehensive Income

Comprehensive income for the three months ended June 30, 1998 and 1997 was as follows:

	Three Months Ended June 30	
	1998	1997
Comprehensive Income:		
Net income	$ 66,853	$ 39,352
Other comprehensive income	1,096	3,194
Total comprehensive income	$ 67,949	$ 42,546

Note E: Associate Stock Plans

In April 1998, stockholders approved an increase of 3,250,000 shares available for issuance under the 1994 Stock Incentive Plan. With this approval, a December 18, 1997 grant ("EntrepreneurGrant II") to senior management became effective at the then market price of $48.75 per share. Included in this grant were 1,143,221 performance-based options granted to certain key managers (including 685,755 options to the Company's Chief Executive Officer ("CEO") and Chief Operating Officer ("COO")), which vested in April 1998 when the market price of the Company's stock remained at or above $84.00 for at least ten trading days in a 30 consecutive calendar day period. The remaining 223,900 of the options included in this grant vest in full, regardless of the stock price, on December 18, 2000 or earlier upon a change of control of the Company.

In June 1998, the Company's Board of Directors approved a grant to senior management ("EntrepreneurGrant III"). Included in this grant were 870,632 performance-based options granted to certain key managers (including 666,680 options to the Company's CEO and COO) at the then market price of $101.3125 per share. The Company's CEO and COO gave up 100,000 and 66,670 vested options, respectively, (valued at $8,760 in total) in exchange for their EntrepreneurGrant III options. Other members of senior management gave up future cash compensation for each of the next three years in exchange for the options. All options made under this grant will vest if the Company's stock reaches $175 per share for at least ten trading days in a 30 consecutive calendar day period by June 11, 2001 or earlier upon a change of control of the Company.

In April 1998, the Company granted 445,084 options to all associates not granted options in the above mentioned entrepreneurial grants. Certain associates were granted options in exchange for giving up future compensation. Other associates were granted a set number of options. These options were granted at the then market price of $95.125 per share and vest, in full, on April 30, 2001 or earlier upon a change of control of the Company.

The Company recognized $56,495 and $6,462 of compensation cost relating to its associate stock plans for the six months ended June 30, 1998 and 1997, respectively.

In July 1998, the Company's Board of Directors voted to repurchase up to an additional 1.5 million shares of the Company's common stock over the next two years, pursuant to the July 1997 repurchase program, in order to mitigate the dilutive impact of shares issuable under its benefits plans, including its Associate Stock Purchase Plan, dividend reinvestment and stock incentive plans and other incentive plans.

Note F: Earnings Per Share

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

(shares in thousands)	Three Months Ended June 30 1998	Three Months Ended June 30 1997	Six Months Ended June 30 1998	Six Months Ended June 30 1997
Numerator:				
Net income	$ 66,853	$ 39,352	$ 132,556	$ 81,834
Denominator:				
Denominator for basic earnings per share - Weighted-average shares	65,537	66,428	65,483	66,382
Effect of dilutive securities:				
Stock options	3,990	1,177	3,564	1,279
Restricted stock		3	2	4
Dilutive potential common shares	3,990	1,180	3,566	1,283
Denominator for diluted earnings per share - Adjusted weighted-average shares	69,527	67,608	69,049	67,665
Basic earnings per share	$ 1.02	$ 0.59	$ 2.02	$ 1.23
Diluted earnings per share	$ 0.96	$ 0.58	$ 1.92	$ 1.21

Note G: Purchase of Summit Acceptance Corporation

In July 1998, the Company signed an agreement to acquire Summit Acceptance Corporation, based in Dallas, Texas. Summit is a subprime automobile finance lender with approximately 180 employees and serviced loans of approximately $260 million as of June 30, 1998. The acquisition price for Summit was approximately $55 million which was paid through the issuance of the Company's stock on July 31, 1998. The acquisition will be accounted for as a purchase business combination and goodwill of approximately $70 million will be amortized over 15 years.

Note H: Commitments and Contingencies

In connection with the transfer of substantially all of Signet Bank's credit card business to the Bank in November 1994, the Company and the Bank agreed to indemnify Signet Bank (which has since been acquired by First Union Bank on November 30, 1997) for certain liabilities incurred in litigation arising from that business, which may include liabilities, if any, incurred in the purported class action case described below.

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

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

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

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

Note I: Recent Accounting Pronouncements

In June 1998, the FASB issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which is required to be adopted in years beginning after June 15, 1999. SFAS 133 permits early adoption as of the beginning of any fiscal quarter after its issuance. SFAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what the effect of SFAS 133 will be on the earnings and financial position of the Company.

Item 2.

CAPITAL ONE FINANCIAL CORPORATION
Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Capital One Financial Corporation (the "Corporation") is a holding company whose subsidiaries provide a variety of products and services to consumers. The principal subsidiaries are Capital One Bank (the "Bank"), which offers credit card products, and Capital One, F.S.B. (the "Savings Bank"), which provides certain consumer lending and deposit services. The Corporation and its subsidiaries are collectively referred to as the "Company." As of June 30, 1998, the Company had 13.6 million customers and $15.0 billion in managed consumer loans outstanding and was one of the largest providers of MasterCard and Visa credit cards in the world. The Corporation's common stock trades on the New York Stock Exchange under the symbol "COF" and is included in the S&P 500 Index. The Company's profitability is affected by the net interest margin and non-interest income earned on earning assets, consumer usage patterns, credit quality, the level of marketing expense and operating efficiency.

Earnings Summary

Net income for the three months ended June 30, 1998 of $66.9 million, or $.96 per share, compares to net income of $39.4 million, or $.58 per share, for the same period in 1997. All earnings per share amounts are reported on a diluted basis.

The increase in net income is primarily a result of an increase in asset and account volumes and rates. Net interest income increased $86.5 million, or 104%, as the net interest margin increased to 9.64% from 5.99% and average earning assets increased by 27%. The provision for loan losses increased $12.2 million, or 26%, as average reported loans increased by 30%. Non-interest income increased $99.9 million, or 44%, primarily as a result of the increase in average managed loans of 13%, a continued shift to more fee-based accounts and increases in the amounts of certain fees charged. Marketing expense increased $40.8 million, or 91%, to $85.8 million as the Company continues to invest in new product opportunities. Salaries and associate benefits expense increased $44.1 million, or 64%, of which $20.9 million, or 30%, was an increase in compensation expense related to the associate stock plans. Supplies and equipment expense increased $14.0 million, or 76%, of which $8.0 million, or 44%, was due to the termination of an existing lease arrangement. The remaining $23.2 million, or 34%, increase in salaries and associate benefits, the remaining $6.0 million, or 32%, increase in supplies and equipment and the $30.9 million, or 44%, increase in other non-interest expense (excluding marketing) primarily reflected the cost of operations to manage the growth in accounts. Each component is discussed in further detail in subsequent sections of this analysis.

Net income for the six months ended June 30, 1998 was $132.6 million, or $1.92 per share, compared to net income of $81.8 million, or $1.21 per share, for the same period in 1997. This 62% increase primarily reflected the increases in asset and account volumes accompanied by an increase in net interest margin as discussed above. Each component is discussed in further detail in subsequent sections of this analysis.

Managed Consumer Loan Portfolio

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

The Company's managed consumer loan portfolio is comprised of on-balance sheet loans and loans held for securitization (collectively, "reported loans"), and securitized loans. Securitized loans are not assets of the Company and, therefore, are not shown on the balance sheet.

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

TABLE 1 - MANAGED CONSUMER LOAN PORTFOLIO

	Three Months Ended June 30	
(in thousands)	1998	1997
Period-End Balances:		
On-balance sheet consumer loans	$ 5,140,340	$ 3,623,952
Securitized consumer loans	9,828,984	9,113,410
Total managed consumer loan portfolio	$ 14,969,324	$ 12,737,362
Average Balances:		
Consumer loans held for securitization		$ 286,813
On-balance sheet consumer loans	$ 5,213,605	3,709,747
Securitized consumer loans	9,203,117	8,718,310
Total average managed consumer loan portfolio	$ 14,416,722	$ 12,714,870

	Six Months Ended June 30	
(in thousands)	1998	1997
Average Balances:		
Consumer loans held for securitization		$ 199,345
On-balance sheet consumer loans	$ 4,996,983	3,828,113
Securitized consumer loans	9,256,755	8,609,846
Total average managed consumer loan portfolio	$ 14,253,738	$ 12,637,304

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

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

TABLE 2 - OPERATING DATA AND RATIOS

	Three Months Ended June 30		Six Months Ended June 30	
(dollars in thousands)	1998	1997	1998	1997
Reported:				
Average earning assets	$ 7,039,261	$ 5,559,574	$ 6,868,832	$ 5,568,871
Net interest margin(1)	9.64%	5.99%	9.74%	6.16%
Loan yield	18.81	14.36	19.00	14.40
Managed:				
Average earning assets	$ 16,242,378	$ 14,277,884	$ 16,125,587	$ 14,178,717
Net interest margin(1)	9.84%	8.30%	10.12%	8.56%
Loan yield	16.85	15.17	17.15	15.31

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

Risk Adjusted Revenue and Margin

In originating its consumer loan portfolio, the Company has pursued a low introductory interest rate strategy with accounts repricing to higher rates after six to 16 months from the date of origination. The amount of repricing is actively managed in an effort to maximize return at the consumer level, reflecting the risk and expected performance of the account. Separately, accounts also may be repriced upwards or downwards based on individual consumer performance. Recently, the Company has marketed low non-introductory rate cards to a subset of the same population. These products typically have a balance transfer feature under which consumers can transfer balances to the Company from their other obligations. The Company's historic managed loan growth has been principally the result of this balance transfer feature. Industry competitors have continuously solicited the Company's customers with similar interest rate strategies. Management believes that the competition has put, and will continue to put, additional pressure on interest rate strategies.

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

The Company's products are designed with the objective of maximizing revenue for the level of risk undertaken. Management believes that comparable measures for external analysis are the risk adjusted revenue and risk adjusted margin of the portfolio. Risk adjusted revenue is defined as net interest income and non-interest income less net charge-offs. Risk adjusted margin measures risk adjusted revenue as a percentage of average earning assets. It considers not only the loan yield and net interest margin, but also the fee income associated with these products. By deducting net charge-offs, consideration is given to the risk inherent in these differing products.

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

TABLE 3 - MANAGED RISK ADJUSTED REVENUE

	Three Months Ended June 30		Six Months Ended June 30	
(dollars in thousands)	1998	1997	1998	1997
Managed Income Statement:				
Net interest income	$ 399,505	$ 296,331	$ 816,216	$ 607,021
Non-interest income	253,244	169,314	473,927	326,634
Net charge-offs	(212,988)	(202,778)	(425,723)	(386,033)
Risk adjusted revenue	$ 439,761	$ 262,867	$ 864,420	$ 547,622
Ratios(1):				
Net interest margin	9.84%	8.30%	10.12%	8.56%
Non-interest income	6.24	4.74	5.88	4.61
Net charge-offs	(5.25)	(5.68)	(5.28)	(5.45)
Risk adjusted margin	10.83%	7.36%	10.72%	7.72%

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

Net Interest Income

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

Reported net interest income for the three months ended June 30, 1998 was $169.7 million, compared to $83.3 million for the same period in the prior year, representing an increase of $86.4 million, or 104%. For the six months ended June 30, 1998, net interest income was $334.5 million compared to $171.5 million for the same period in 1997, representing an increase of $163.0 million, or 95%. Average earning assets increased 27% and 23% for the three and six months ended June 30, 1998, respectively, versus the same periods in 1997. The yield on earning assets increased 341 and 337 basis points for the three and six months ended June 30, 1998, respectively, to 15.42% from 12.01% and to 15.42% from 12.05% as compared to the same periods in the prior year. The increase was primarily attributable to a 445 and 460 basis point increase in the yield on consumer loans for the three and six months ended June 30, 1998, respectively, to 18.81% from 14.36% and to 19.00% from 14.40%, respectively, as compared to the same periods in the prior year. The yield on consumer loans increased due to an increase in the amount and frequency of past-due fees charged as compared to the same period in the prior year and the Company's continued shift to higher yielding products, especially in the reported loan portfolio during the comparable periods.

Table 4 provides average balance sheet data, an analysis of net interest income, net interest spread (the difference between the yield on earning assets and the cost of interest-bearing liabilities) and net interest margin for the three and six months ended June 30, 1998 and 1997.

TABLE 4 - STATEMENTS OF AVERAGE BALANCES, INCOME AND EXPENSE, YIELDS AND RATES

	Three Months Ended June 30					
	1998			1997		
(dollars in thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets:						
Earning assets						
Consumer loans(1)	$5,213,605	$245,129	18.81%	$3,996,560	$143,485	14.36%
Federal funds sold and resale agreements	151,275	2,140	5.66	187,650	2,613	5.57
Other	1,674,381	24,169	5.77	1,375,364	20,772	6.04
Total earning assets	7,039,261	$271,438	15.42%	5,559,574	$166,870	12.01%
Cash and due from banks	22,659			111,670		
Allowance for loan losses	(213,000)			(118,833)		
Premises and equipment, net	177,487			182,227		
Other assets	1,079,789			823,415		
Total assets	$8,106,196			$6,558,053		
Liabilities and Equity:						
Interest-bearing liabilities						
Deposits	$1,193,508	$ 13,635	4.57%	$ 817,936	$ 8,635	4.22%
Other borrowings	1,318,889	20,375	6.18	694,814	10,453	6.02
Senior and deposit notes	3,905,684	67,704	6.93	3,768,797	64,523	6.85
Total interest-bearing liabilities	6,418,081	$101,714	6.34%	5,281,547	$ 83,611	6.33%
Other liabilities	553,033			380,807		
Total liabilities	6,971,114			5,662,354		
Preferred beneficial interests	97,760			97,503		
Equity	1,037,322			798,196		
Total liabilities and equity	$8,106,196			$6,558,053		
Net interest spread			9.08%			5.68%
Interest income to average earning assets			15.42%			12.01%
Interest expense to average earning assets			5.78			6.02
Net interest margin			9.64%			5.99%

(1) Interest income includes past-due fees on loans of approximately $72,700 and $24,965 for the three months ended June 30, 1998 and 1997, respectively.

	Six Months Ended June 30					
	1998			1997		
(dollars in thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets:						
Earning assets						
Consumer loans(1)	$4,996,983	$474,767	19.00%	$4,027,458	$289,997	14.40%
Federal funds sold and resale agreements	256,393	7,218	5.63	306,527	8,277	5.40
Other	1,615,456	47,495	5.88	1,234,886	37,190	6.02
Total earning assets	6,868,832	$529,480	15.42%	5,568,871	$335,464	12.05%
Cash and due from banks	21,500			95,309		
Allowance for loan losses	(205,167)			(119,331)		
Premises and equipment, net	171,543			181,246		
Other assets	960,875			745,833		
Total assets	$7,817,583			$6,471,928		
Liabilities and Equity:						
Interest-bearing liabilities						
Deposits	$1,229,586	$ 27,773	4.52%	$ 904,861	$ 19,072	4.22%
Other borrowings	1,198,654	36,428	6.08	553,654	16,977	6.13
Senior and deposit notes	3,795,013	130,733	6.89	3,788,751	127,959	6.75
Total interest-bearing liabilities	6,223,253	$ 194,934	6.26%	5,247,266	$164,008	6.25%
Other liabilities	502,631			362,131		
Total liabilities	6,725,884			5,609,397		
Preferred beneficial interests	97,728			81,325		
Equity	993,971			781,206		
Total liabilities and equity	$7,817,583			$6,471,928		
Net interest spread			9.16%			5.80%
Interest income to average earning assets			15.42%			12.05%
Interest expense to average earning assets			5.68			5.89
Net interest margin			9.74%			6.16%

(1) Interest income includes past-due fees on loans of approximately $148,651 and $50,213 for the six months ended June 30, 1998 and 1997, respectively.

Managed net interest income increased $103.2 million, or 35%, and $209.2 million, or 34%, for the three and six months ended June 30, 1998, respectively, compared to the same periods in prior year. The increases in managed net interest income were the result of a 14% increase in managed average earning assets and the managed net interest margin increasing 154 basis points and 156 basis points to 9.84% and 10.12% for the three and six months ended June 30, 1998, respectively. The increase in managed net interest margin principally reflects increases in the amount and frequency of past-due fees and growth in higher yielding loans.

Interest Variance Analysis

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

TABLE 5 - INTEREST VARIANCE ANALYSIS

	Three Months Ended June 30, 1998 vs 1997			Six Months Ended June 30, 1998 vs 1997		
	Increase	Change due to(1)		Increase	Change due to(1)	
(in thousands)	(Decrease)	Volume	Yield/Rate	(Decrease)	Volume	Yield/Rate
Interest Income:						
Consumer loans	$ 101,644	$ 50,402	$ 51,242	$ 184,770	$ 79,395	$ 105,375
Federal funds sold and resale agreements	(473)	(745)	272	(1,059)	(1,959)	900
Other	3,397	8,932	(5,535)	10,305	12,850	(2,545)
Total interest income	104,568	50,522	54,046	194,016	88,272	105,744
Interest Expense:						
Deposits	5,000	4,241	759	8,701	7,253	1,448
Other borrowings	9,922	9,634	288	19,451	19,903	(452)
Senior and deposit notes	3,181	2,365	816	2,774	212	2,562
Total interest expense	18,103	18,012	91	30,926	30,571	355
Net interest income(1)	$ 86,465	$ 26,266	$ 60,199	$ 163,090	$ 46,692	$ 116,398

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.

Servicing and Securitizations Income

Servicing and securitizations income increased $6.9 million and $5.5 million, or 5% and 2%, for the three and six months ended June 30, 1998, respectively, from the same periods in the prior year due to average securitized loans increasing 6% and 8% over the same periods, offset by a reduction of the percentage of higher yielding products included in the off-balance sheet portfolio, which resulted in tightened estimated future spreads, and an increase in estimated credit losses on securitized assets. Also impacting servicing and securitizations income in the first half of 1998 was the current recognition of estimated uncollectible finance charge and fee income receivables implemented in the fourth quarter of 1997.

Other Non-Interest Income

Other reported non-interest income including service charges and interchange, increased to $173.5 million and $320.8 million, or 116% and 109%, for the three and six months ended June 30, 1998, respectively, compared to $80.5 million and $153.5 million for the same periods in the prior year. The increase in other non-interest income was due to an increase in the average number of accounts of 38% and 39% for the three and six months ended June 30, 1998, respectively, compared to the same periods in the prior year and the Company's continued shift to more fee-based accounts, especially in the reported loan portfolio during the comparable periods.

Managed non-interest income increased to $253.2 million and $473.9 million, or 50% and 45%, for the three and six months ended June 30, 1998, respectively, due to the increase in the average number of accounts and increases in the amount and frequencies of fees (including annual membership, interchange and overlimit) assessed on accounts.

Non-Interest Expense

Non-interest expense for the three and six months ended June 30, 1998 was $331.8 million and $620.7 million, respectively, an increase of 64% and 49% over $202.1 million and $415.6 million, respectively, for the same periods in the prior year. Contributing to the increase in non-interest expense for the three and six months ended June 30, 1998 was salaries and associate benefits expense which increased $44.1 million, or 64%, and $81.5 million, or 58%, respectively. These increases reflected an additional $20.9 million and $50.0 million in compensation expense for the three and six months ended June 30, 1998, respectively, associated with the Company's associate stock plans. Marketing expense increased $40.8 million and $61.8 million, or 91% and 62%, to $85.8 million and $160.8 million for the three and six months ended June 30, 1998, respectively, as the Company continues to invest in new product opportunities. All other non-interest expenses increased $44.8 million and $61.9 million, or 51% and 35%, to $132.6 million and $238.5 million for the three and six months ended June 30, 1998, respectively, from $87.8 million and $176.6 million for the same periods in the prior year. The increase in other non-interest expense, as well as, the increase in salaries associate benefits expense not attributed to options, was primarily a result of a 38% and 39% increase in the average number of accounts for the three months and six months ended June 30, 1998, respectively, which resulted in a corresponding increase in infrastructure and other operational costs, offset by efficiencies gained from improved processes and investments in information technology. Additionally, in the second quarter of 1998 the Company accrued an $8.0 million non-recurring charge relating to the termination of an existing lease arrangement.

Income Taxes

The Company's income tax rate was 38% for the three and six months ended June 30, 1998 and 1997 and includes both state and federal income tax components.

Asset Quality

The asset quality of a portfolio is generally a function of the initial underwriting criteria used, seasoning of the accounts, levels of competition, account management activities and demographic concentration, as well as general economic conditions. The seasoning of the accounts is also an important indicator of the delinquency and loss levels of the portfolio. Generally, accounts tend to exhibit a rising trend of delinquency and credit losses as they season.

Delinquencies

Table 6 shows the Company's consumer loan delinquency trends for the periods presented as reported for financial statement purposes and on a managed basis. The entire balance of an account is contractually delinquent if the minimum payment is not received by the payment due date. However, the Company generally continues to accrue interest until the loan is charged off.

TABLE 6 - DELINQUENCIES

	June 30			
	1998		1997	
(dollars in thousands)	Loans	% of Total Loans	Loans	% of Total Loans
Reported:				
Loans outstanding	$ 5,140,340	100.00%	$ 3,623,952	100.00%
Loans delinquent:				
30-59 days	104,819	2.04	72,074	1.99
60-89 days	61,756	1.20	40,330	1.11
90 or more days	91,747	1.79	88,141	2.43
Total	$ 258,322	5.03%	$ 200,545	5.53%
Managed:				
Loans outstanding	$ 14,969,324	100.00%	$ 12,737,362	100.00%
Loans delinquent:				
30-59 days	287,182	1.92	268,951	2.11
60-89 days	177,313	1.18	159,234	1.25
90 or more days	305,282	2.04	378,612	2.97
Total	$ 769,777	5.14%	$ 806,797	6.33%

In the fourth quarter of 1997, the Company modified its methodology for charging off credit card loans (net of any collateral) to 180 days past-due from the prior practice of charging off loans during the next billing cycle after becoming 180 days past-due. In addition, in the fourth quarter of 1997, the Company recognized the estimated uncollectible portion of finance charge and fee income receivables. The delinquency rate for reported loans was 5.03% as of June 30, 1998, down from 5.53% as of June 30, 1997 and down from 5.33% as of March 31, 1998. The delinquency rate for the managed consumer loan portfolio was 5.14% as of June 30, 1998, down from 6.33% as of June 30, 1997 and down from 5.75% as of March 31, 1998. Both the managed and reported portfolio's delinquency rate decrease as of June 30, 1998 reflected seasonality and improvements in consumer credit performance as well as the impact from modifications in charge-off policy and finance charge and fee income recognition.

Net Charge-Offs

Net charge-offs include the principal amount of losses (excluding accrued and unpaid finance charges, fees and fraud losses) less current period recoveries. Table 7 shows the Company's net charge-offs for the periods presented on a reported and managed basis.

TABLE 7 - NET CHARGE-OFFS (1)

	Three Months Ended June 30		Six Months Ended June 30	
(dollars in thousands)	1998	1997	1998	1997
Reported:				
Average loans outstanding	$ 5,213,605	$ 3,996,560	$ 4,996,983	$ 4,027,458
Net charge-offs	58,916	49,434	114,978	95,934
Net charge-offs as a percentage of average loans outstanding	4.52%	4.95%	4.60%	4.76%
Managed:				
Average loans outstanding	$ 14,416,722	$ 12,714,870	$ 14,253,738	$ 12,637,304
Net charge-offs	212,988	202,778	425,723	386,033
Net charge-offs as a percentage of average loans outstanding	5.91%	6.38%	5.97%	6.11%

(1) Includes consumer loans held for securitization.

Net charge-offs of managed loans increased $10.2 million and $39.7 million, or 5% and 10%, while average managed consumer loans grew 13% for the three and six months ended June 30, 1998, respectively, from the same periods in the prior year. For the three and six months ended June 30, 1998, the Company's net charge-offs as a percentage of managed loans were 5.91% and 5.97%, respectively, compared to 6.38% and 6.11% for the same periods in the prior year. The decreases in managed and reported net charge-offs was the result of improved general economic trends in consumer credit performance compared to the same periods in the prior year.

Provision and Allowance for Loan Losses

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

Management believes that the allowance for loan losses is adequate to cover anticipated losses in the on-balance sheet consumer loan portfolio under current conditions. There can be no assurance as to future credit losses that may be incurred in connection with the Company's consumer loan portfolio, nor can there be any assurance that the loan loss allowance that has been established by the Company will be sufficient to absorb such future credit losses. The allowance is a general allowance applicable to the on-balance sheet consumer loan portfolio.

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

TABLE 8 - SUMMARY OF ALLOWANCE FOR LOAN LOSSES

	Three Months Ended June 30		Six Months Ended June 30	
(dollars in thousands)	1998	1997	1998	1997
Balance at beginning of period	$ 213,000	118,500	$ 183,000	$ 118,500
Provision for loan losses	59,013	46,776	144,879	95,963
Transfer to loans held for securitization				(2,625)
Other	(97)	33	99	(29)
Charge-offs	(77,348)	(52,628)	(144,386)	(103,829)
Recoveries	18,432	5,819	29,408	10,520
Net charge-offs(1)	(58,916)	(46,809)	(114,978)	(93,309)
Balance at end of period	$ 213,000	$ 118,500	$ 213,000	$ 118,500
Allowance for loan losses to loans at period-end	4.14%	3.27%	4.14%	3.27%

(1) Excludes consumer loans held for securitization.

For the three and six months ended June 30, 1998, the provision for loan losses increased to $59.0 million and $144.9 million, or 26% and 51%, respectively, from $46.8 million and $96.0 million for the comparable periods in the prior year, as average reported loans increased by 30% and 24%, respectively. The allowance for loan losses as a percentage of on-balance sheet consumer loans increased to 4.14% as of June 30, 1998, from 3.27% as of June 30, 1997 due to the change in mix of its reported loan portfolio. The allowance for loan losses increase also reflects the increase in on-balance sheet loans to $5.1 billion as of June 30, 1998, an increase of 42% from June 30, 1997.

Liquidity and Funding

Liquidity refers to the Company's ability to meet its cash needs. The Company meets its cash requirements by securitizing assets and by debt funding. As discussed in "Managed Consumer Loan Portfolio," a significant source of liquidity for the Company has been the securitization of consumer loans. Maturity terms of the existing securitizations vary from 1998 to 2008 and typically have accumulation periods during which principal payments are aggregated to make payments to investors. As payments on the loans are accumulated for the participants in the securitization and are no longer reinvested in new loans, the Company's funding requirements for such new loans increase accordingly. The occurrence of certain events may cause the securitization transactions to amortize earlier than scheduled which would accelerate the need for funding.

The Company believes that it can securitize consumer loans, purchase federal funds and establish other funding sources to fund the amortization or other payment of the securitizations in the future, although no assurance can be given to that effect.

Additionally, the Company maintains a portfolio of high-quality securities such as U.S. Treasuries, U.S. Government Agency and mortgage-backed securities, commercial paper, interest-bearing deposits with other banks, federal funds and other cash equivalents in order to provide adequate liquidity and to meet its ongoing cash needs. As of June 30, 1998, the Company held $1.5 billion in such securities.

Table 9 shows the maturation of certificates of deposit in denominations of $100,000 or greater ("large denomination CDs") as of June 30, 1998.

TABLE 9 - MATURITIES OF LARGE DENOMINATION CERTIFICATES-$100,000 OR MORE

	June 30, 1998	
(dollars in thousands)	Balance	Percent
3 months or less	$ 46,781	23.56%
Over 3 through 6 months	63,497	31.99
Over 6 through 12 months	30,270	15.25
Over 1 through 5 years	57,970	29.20
Total	$ 198,518	100.00%

The Company's other borrowings portfolio consists of $925 million in borrowings maturing within one year and $34 million in borrowings maturing after one year.

Table 10 shows the Company's unsecured funding availability and outstandings as of June 30, 1998.

TABLE 10 - FUNDING AVAILABILITY

	June 30, 1998			
(dollars or dollar equivalents in millions)	Effective/ Issue Date	Availability(1)	Outstanding	Final Maturity
Domestic revolving credit facility	11/96	$ 1,700		11/00
UK/Canada revolving credit facility	8/97	350	$ 121	8/00
Senior bank note program(2)	4/97	8,000	3,579	-
Non-U.S. bank note program	10/97	1,000	5	-
Deposit note program	4/97	2,000	100	-
Floating rate junior subordinated capital income securities(3)	1/97	100	98	2/27
Corporation Shelf Registration	12/96	200	125	12/03

(1) All funding sources are revolving except for the Corporation Shelf Registration and the floating rate junior subordinated capital income securities. 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) Includes availability to issue up to $200 million of subordinated bank notes.
(3) Qualifies as Tier 1 capital at the Corporation and Tier 2 capital at the Bank.

The domestic revolving credit facility is comprised of two tranches: a $1.375 billion Tranche A facility available to the Bank and the Savings Bank, including an option for up to $225 million in multi-currency availability, and a $325 million Tranche B facility available to the Corporation, the Bank and the Savings Bank, including an option for up to $100 million in multi-currency availability. The borrowings of the Savings Bank are limited to $750 million. The final maturity of each tranche may be extended for two additional one-year periods.

The UK/Canada revolving credit facility is used to finance the Company's expansion in the United Kingdom and Canada. The facility is comprised of two tranches: a Tranche A facility in the amount of (pound)156.5 million ($249.8 million equivalent based on the exchange rate at closing) and a Tranche B facility in the amount of C$139.6 million ($100.2 million equivalent based on the exchange rate at closing). An amount of (pound)34.6 million or C$76.9 million ($55.2 million equivalent based on the exchange rates at closing) may be transferred between the Tranche A facility and the Tranche B facility, respectively, upon the request of the Company. The Corporation serves as the guarantor of all borrowings by its subsidiaries under the UK/Canada revolving facility.

Under the Corporation's shelf registration statements, filed with the Securities and Exchange Commission, the Corporation from time to time may offer and sell (i) senior or subordinated debt securities consisting of debentures, notes and/or other unsecured evidences, (ii) preferred stock, which may be issued in the form of depository shares evidenced by depository receipts and (iii) common stock. In July 1998, the Corporation filed a Shelf Registration Statement on Form S-3 with the Securities and Exchange Commission for the issuance of up to $425 million aggregate principal amount of senior and subordinated debt, preferred stock and common stock, which was declared effective on July 14, 1998. In July 1998, the Corporation issued $200 million of 10-year unsecured senior notes under this shelf registration. Existing unsecured senior debt outstanding of the Corporation under a prior shelf registration of $200 million totals $125 million maturing in 2003.

Capital Adequacy

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

The most recent notifications from the regulators categorized the Bank and the Savings Bank as "well-capitalized." To be categorized as "well-capitalized," the Bank and the Savings Bank must maintain minimum capital ratios as set forth in the following table. As of June 30, 1998, there are no conditions or events since the notifications discussed above that management believes have changed either the Bank or the Savings Bank's capital category. As of June 30, 1998, the Bank and the Savings Bank's ratios of capital to managed assets were 5.44% and 9.63%, respectively.

TABLE 11 - REGULATORY CAPITAL RATIOS	Ratios	Minimum for Capital Adequacy Purposes	To Be "Well-Capitalized" Under Prompt Corrective Action Provisions
June 30, 1998			
Capital One Bank			
Tier 1 Capital	13.02%	4.00%	6.00%
Total Capital	15.76	8.00	10.00
Tier 1 Leverage	10.42	4.00	5.00
Capital One, F.S.B.(1)			
Tangible Capital	13.89%	1.50%	6.00%
Total Capital	17.81	12.00	10.00
Core Capital	13.89	8.00	5.00
June 30, 1997			
Capital One Bank			
Tier 1 Capital	11.02%	4.00%	6.00%
Total Capital	13.93	8.00	10.00
Tier 1 Leverage	11.16	4.00	5.00
Capital One, F.S.B.(1)			
Tangible Capital	13.33%	1.50%	6.00%
Total Capital	20.49	12.00	10.00
Core Capital	13.33	8.00	5.00

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

During 1996, the Bank received regulatory approval and established a branch office in the United Kingdom. In connection with such approval, the Company committed to the Federal Reserve that, for so long as the Bank maintains such branch in the United Kingdom, the Company will maintain a minimum Tier 1 leverage ratio of 3.0%. As of June 30, 1998, the Company's Tier 1 leverage ratio was 14.25%.

Additionally, certain regulatory restrictions exist which limit the ability of the Bank and the Savings Bank to transfer funds to the Corporation. As of June 30, 1998, retained earnings of the Bank and the Savings Bank of $106.5 million and $41.8 million, respectively, were available for payment of dividends to the Corporation, without prior approval by the regulators. The Savings Bank, however, is required to give the OTS at least 30 days' advance notice of any proposed dividend and the OTS, in its discretion, may object to such dividend.

Off-Balance Sheet Risk

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

The Company measures exposure to its interest rate risk through the use of a simulation model. The model generates a distribution of possible twelve-month managed net interest income outcomes based on (i) a set of plausible interest rate scenarios, as determined by management based upon historical trends and market expectations, (ii) all existing financial instruments, including swaps, and (iii) an estimate of ongoing business activity over the coming twelve months. The Company's asset/liability management policy requires that based on this distribution there be at least a 95% probability that managed net interest income achieved over the coming twelve months will be no more than 4% below the mean managed net interest income of the distribution. As of June 30, 1998, the Company was in compliance with the policy; more than 95% of the outcomes generated by the model produced a managed net interest income of no more than 1.1% below the mean outcome.

Business Outlook

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

The Company has set an earnings target, dependent on the factors set forth below, for diluted earnings per share to be $3.90 for the year ending December 31, 1998. As discussed elsewhere in this report and below, the Company's actual earnings are a function of its revenues (net interest income and non-interest income on its earning assets), consumer usage and payment patterns, credit quality of its earning assets (which affects fees and charge-offs), marketing expenses and operating expenses.

Product and Market Opportunities

The Company's strategy for future growth has been, and is expected to continue to be, to apply its proprietary IBS to its credit card business as well as to other businesses, both financial and non-financial, to identify new product opportunities and to make informed investment decisions regarding its existing products. Credit card opportunities include, and are expected to continue to include, various low introductory and intermediate-rate balance transfer products, low non-introductory rate products, as well as other customized credit card products; such as secured cards, affinity and co-branded cards, student cards and other cards tailored for specific customer segments. The Company intends to continue to offer these customized products, certain of which are distinguished by several characteristics, including better response rates, less adverse selection, higher yields (including fees), lower credit lines, less attrition and a greater ability to reprice than the Company's traditional low introductory-rate balance transfer products. Some of these products involve higher operational costs and, in some cases, higher delinquencies and credit losses than the Company's traditional low introductory-rate balance transfer products. More importantly, these customized products continue to have overall higher and less volatile returns than the traditional low introductory-rate balance transfer products in recent market conditions.

The Company also has been applying, and expects to continue to apply, its IBS to other financial and non-financial products. These products and services include selected non-card consumer lending products and telecommunication services. On July 31, 1998, the Company completed the acquisition of Summit Acceptance Corporation ("Summit"), a Texas corporation. Summit is a subprime automobile finance lender located in Dallas, Texas, with 180 employees and serviced loans of approximately $260 million as of June 30, 1998. Summit provides the Company with a platform to test and apply its IBS to the automobile loan market. The Company has also expanded its existing operations outside of the United States, with an initial focus on the United Kingdom and Canada. The Company's credit card and other financial and non-financial products are subject to competitive pressures, which management anticipates will increase as these markets mature.

The Company continues to apply its IBS in an effort to balance the mix of balance transfer and other credit card products together with other financial and non-financial products and services, to optimize profitability within the context of acceptable risk. The Company's growth through expansion and product diversification will be affected by the ability of the Company to internally build or to acquire the operational and organizational infrastructure necessary to engage in new businesses and to recruit experienced personnel to assist in the management and operations of these businesses and the availability of capital necessary to fund these new businesses. Although management believes that, it has the personnel, financial resources and business strategy necessary for continued success, there can be no assurance that the Company's historical financial performance will necessarily reflect its results of operations and financial condition in the future.

Marketing Investment

The Company anticipates that its 1998 marketing expenses will substantially exceed such expenses in 1997, as the Company continues to invest in existing and new balance transfer products, low non-introductory rate products and other credit card products and services, and other financial and non-financial products and services. The Company cautions, however, that an increase in marketing expenses does not necessarily equate to a comparable increase in accounts based on historical results. As the Company's portfolio continues to increase, additional growth to offset attrition requires increasing amounts of marketing. Intense competition in the credit card market has resulted in a decrease in credit card response rates and reduced productivity of marketing dollars invested. In addition, the cost to acquire new accounts varies among product lines. The Company intends to continue a flexible approach in its allocation of marketing expenses. The actual amount of marketing investment is subject to a variety of external and internal factors, such as competition in the credit card industry, general economic conditions affecting consumer credit performance, the asset quality of the Company's portfolio and the identification of market opportunities that exceed company targeted rates for return on investment. With competition affecting the profitability of existing balance transfer products, the Company has been allocating and expects to continue to allocate a greater portion of its marketing expense to other customized credit card products and other financial and non-financial products.

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

Impact of Delinquencies, Charge-off Rates and Attrition

The Company's earnings are particularly sensitive to delinquencies and charge-offs on the Company's portfolio and on the level of attrition due to competition in the credit card industry. As delinquency levels fluctuate, the resulting amount of past-due and overlimit fees, which are significant sources of revenue for the Company, will also fluctuate. Further, the timing of revenues from increasing or decreasing delinquencies precedes the related impact of higher or lower charge-offs that ultimately result from varying levels of delinquencies. Delinquency and net charge-off rates are not only impacted by general economic trends in consumer credit performance but also by the continued seasoning of the Company's portfolio and the product mix. Charge-off rates are also impacted by bankruptcies.

The Company's expectations for 1998 earnings are based on management's belief that consumer credit quality is stabilizing. Management expects that during the third quarter of 1998 charge-offs will remain stable, while delinquency rates will increase due to seasonality and the seasoning of the customized card products. Management, however, cautions that delinquency and charge-off levels are not always predictable and may vary from projections. In addition, competition in the credit card industry, as measured by the volume of mail solicitations, remains very high. Increased competition can affect the Company's earnings by increasing attrition of the Company's outstanding loans (thereby reducing interest and fee income) and by making it more difficult to retain and attract more profitable customers.

Cautionary Factors

The Company's strategies and objectives outlined above and the other forward looking statements contained in this section involve a number of risks and uncertainties. The Company cautions readers that any forward looking information is not a guarantee of future performance and that actual results could differ materially. In addition to the factors discussed above, among the other factors that could cause actual results to differ materially are the following: continued intense competition from numerous providers of products and services which compete with the Company's businesses; with respect to financial products, changes in the Company's aggregate accounts or consumer loan balances and the growth rate thereof, including changes resulting from factors such as shifting product mix, amount of actual marketing expenses made by the Company and attrition of accounts and loan balances; an increase in credit losses (including increases due to a worsening of general economic conditions); difficulties or delays in the development, production, testing and marketing of new products or services; losses associated with new products or services; financial, legal, regulatory or other difficulties that may affect investment in, or the overall performance of, a product or business, including changes in existing laws to regulate further the credit card and consumer loan industry and the financial services industry, in general; the amount of, and rate of growth in, the Company's expenses (including salaries and associate benefits and marketing expenses) as the Company's business develops or changes or as it expands into new market areas; the availability of capital necessary to fund the Company's new businesses; the ability of the Company to build the operational and organizational infrastructure necessary to engage in new businesses or to expand internationally; the ability of the Company to recruit experienced personnel to assist in the management and operations of new products and services; the ability of the Company and its suppliers to successfully address Year 2000 compliance issues; and other factors listed from time to time in the Company's SEC reports, including, but not limited to, the Annual Report on Form 10-K for the year ended December 31, 1997 (Part I, Item 1, Cautionary Statements).

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

None

(b) Reports on Form 8-K:

The Company filed a Current Report on Form 8-K, dated April 16, 1998, Commission File No. 1-13300, enclosing its press release dated April 16, 1998.

The Company filed a Current Report on Form 8-K, dated June 12, 1998, Commission File No. 1-13300, enclosing its press release dated June 12, 1998.

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 14, 1998

/s/James M. Zinn

James M. Zinn
Senior Vice President,
Chief Financial Officer
(Chief Accounting Officer
and duly authorized officer
of the Registrant)

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Apr-01-1998
Jun-30-1998
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Non classified balance sheet
PP&E Shown Net