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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

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 No. 1-13300

CAPITAL ONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

1680 Capital One Drive,
McLean, Virginia
(Address of Principal Executive Offices)

54-1719854
(I.R.S. Employer
Identification No.)

22102
(Zip Code)

Registrant's telephone number, including area code:
(703) 720-1000

(Former name, former address and former fiscal year, if changed since last report)
(Not applicable)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a Shell Company (as defined in Rule 12b-2 of the Exchange Act) Yes No

As of July 31, 2012, there were 580,850,895 shares of the registrant's Common Stock, par value \$.01 per share, outstanding.

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I—FINANCIAL INFORMATION</u>	1
Item 1. Financial Statements	64
Condensed Consolidated Balance Sheets	64
Condensed Consolidated Statements of Income	65
Condensed Consolidated Statements of Comprehensive Income	66
Condensed Consolidated Statement of Changes in Stockholders' Equity	67
Condensed Consolidated Statements of Cash Flows	68
Notes to Condensed Consolidated Financial Statements	69
Note 1—Summary of Significant Accounting Policies	69
Note 2—Acquisitions	71
Note 3—Discontinued Operations	76
Note 4—Investment Securities	77
Note 5—Loans	87
Note 6—Allowance for Loan and Lease Losses	108
Note 7—Variable Interest Entities and Securitizations	111
Note 8—Goodwill and Other Intangible Assets	120
Note 9—Deposits and Borrowings	123
Note 10—Derivative Instruments and Hedging Activities	126
Note 11—Stockholders' Equity	132
Note 12—Earnings Per Common Share	132
Note 13—Fair Value of Financial Instruments	133
Note 14—Business Segments	148
Note 15—Commitments, Contingencies and Guarantees	151
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")	1
Summary of Selected Financial Data	1
Introduction	5
Executive Summary and Business Outlook	6
Critical Accounting Policies and Estimates	10
Consolidated Results of Operations	11
Business Segment Financial Performance	18
Consolidated Balance Sheet Analysis and Credit Performance	31
Off-Balance Sheet Arrangements and Variable Interest Entities	35
Capital Management	35
Risk Management	38
Credit Risk Profile	39
Liquidity Risk Profile	52
Market Risk Profile	55
Supervision and Regulation	58
Accounting Changes and Developments	59
Forward-Looking Statements	59
Supplemental Tables	62
Item 3. Quantitative and Qualitative Disclosures about Market Risk	163
Item 4. Controls and Procedures	163
<u>PART II—OTHER INFORMATION</u>	164
Item 1. Legal Proceedings	164
Item 1A. Risk factors	164
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	164
Item 3. Defaults upon Senior Securities	164
Item 5. Other Information	164
Item 6. Exhibits	164
<u>SIGNATURES</u>	165
<u>EXHIBIT INDEX</u>	166

INDEX OF MD&A TABLES AND SUPPLEMENTAL TABLES

<u>Table</u>	<u>Description</u>	<u>Page</u>
—	MD&A Tables:	
1	Consolidated Financial Highlights (Unaudited)	2
2	Business Segment Results	6
3	Average Balances, Net Interest Income and Net Interest Yield	12
4	Rate/Volume Analysis of Net Interest Income	14
5	Non-Interest Income	15
6	Non-Interest Expense	17
7	Credit Card Business Results	20
7.1	Domestic Card Business Results	22
7.2	International Card Business Results	24
8	Consumer Banking Business Results	25
9	Commercial Banking Business Results	28
10	Investment Securities	31
11	Non-Agency Investment Securities Credit Ratings	33
12	Net Loans Held for Investment	33
13	Changes in Representation and Warranty Reserve	35
14	Capital Ratios Under Basel I	36
15	Risk-Based Capital Components Under Basel I	37
16	Loan Portfolio Composition	40
17	30+ Day Delinquencies	42
18	Aging and Geography of 30+ Day Delinquent Loans	43
19	90+ Days Delinquent Loans Accruing Interest	43
20	Nonperforming Loans and Other Nonperforming Assets	44
21	Net Charge-Offs	46
22	Loan Modifications and Restructurings	47
23	Summary of Allowance for Loan and Lease Losses	50
24	Allocation of the Allowance for Loan and Lease Losses	51
25	Liquidity Reserves	52
26	Deposits	53
27	Expected Maturity Profile of Short-term Borrowings and Long-term Debt	54
28	Senior Unsecured Debt Credit Ratings	55
29	Interest Rate Sensitivity Analysis	57
—	Supplemental Tables:	
A	Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures	62

PART I—FINANCIAL INFORMATION

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)

This MD&A should be read in conjunction with our unaudited condensed consolidated financial statements and related notes in this Report and the more detailed information contained in our 2011 Annual Report on Form 10-K (“2011 Form 10-K”). This discussion contains forward-looking statements that are based upon management’s current expectations and are subject to significant uncertainties and changes in circumstances. Please review “Forward-Looking Statements” for more information on the forward-looking statements in this Report. Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in this Report in “Part II—Item 1A. Risk Factors,” in our 2011 Form 10-K in “Part I—Item 1A. Risk Factors.”

SUMMARY OF SELECTED FINANCIAL DATA

Below we provide selected consolidated financial data from our results of operations for the three and six months ended June 30, 2012 and 2011, and selected comparative consolidated balance sheet data as of June 30, 2012, and December 31, 2011. We also provide selected key metrics we use in evaluating our performance.

On February 17, 2012, we completed the acquisition of substantially all of the ING Direct business in the United States (“ING Direct”) from ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp “ (the “ING Direct acquisition”). The ING Direct acquisition resulted in the addition of loans of \$40.4 billion, other assets of \$53.9 billion and deposits of \$84.4 billion as of the acquisition date. On May 1, 2012, pursuant to the agreement with HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc. (collectively, “HSBC”), we closed the acquisition of substantially all of the assets and assumed liabilities of HSBC’s credit card and private-label credit card business in the United States (other than the HSBC Bank USA, National Association consumer credit card program and certain other retained assets and liabilities) (the “HSBC U.S. card acquisition”). The HSBC U.S. card acquisition included (i) the acquisition of HSBC’s U.S. credit card portfolio, (ii) its on-going private label and co-branded partnerships, and (iii) other assets, including infrastructure and capabilities. At closing, we acquired approximately 27 million new active accounts, approximately \$27.8 billion in outstanding credit card receivables designated as held for investment and approximately \$327 million in other net assets. The ING Direct and HSBC U.S. card acquisitions had a significant impact on our results and selected metrics for the three and six months ended June 30, 2012 and our financial condition as of June 30, 2012.

We use the term “acquired loans” to refer to a limited portion of the credit card loans acquired in the HSBC U.S. card acquisition and the substantial majority of consumer and commercial loans acquired in the ING Direct and Chevy Chase Bank (“CCB”) acquisitions, which were recorded at fair value at acquisition and subsequently accounted for based on expected cash flows to be collected (under the accounting standard formerly known as “Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*,” commonly referred to as “SOP 03-3”). HSBC U.S. card loans accounted for based on expected cash flows consisted of loans with a fair value at acquisition of \$651 million that were deemed to be credit impaired because they were delinquent and revolving cardholder privileges had been revoked. Because the fair value recorded at acquisition and subsequent accounting for these loans takes into consideration future credit losses expected to be incurred, there are no charge-offs or an allowance associated with these loans unless the estimated cash flows expected to be collected decrease subsequent to acquisition. In addition, these loans are not classified as delinquent or nonperforming even though the customer may be contractually past due because we expect that we will fully collect the carrying value of these loans. The accounting and classification of these loans may significantly alter some of our reported credit quality metrics. We therefore supplement certain reported credit quality metrics with metrics adjusted to exclude the impact of these acquired loans.

[Table of Contents](#)

Of the \$27.8 billion in outstanding HSBC U.S. card loans that we acquired that were designated as held for investment, \$26.2 billion had existing revolving privileges at acquisition and were therefore excluded from the accounting guidance applied to the loans described above. These loans were recorded at fair value of \$26.9 billion at acquisition, resulting in a net premium of \$705 million at acquisition. Under applicable accounting guidance, we are required to amortize the net premium of \$705 million over the contractual principal amount as an adjustment to interest income over the remaining life of the loans. In the second quarter of 2012, we recorded provision expense of \$1.2 billion to establish an allowance primarily related to these loans. The provision expense of \$1.2 billion is included in the provision for credit losses of \$1.7 billion recorded in the second quarter of 2012. For additional information, see “Credit Risk Profile” and “Note 5—Loans—Acquired Loans.”

Table 1: Consolidated Financial Highlights (Unaudited)

(Dollars in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change	2012	2011	Change
Income statement						
Net interest income	\$ 4,001	\$ 3,136	28%	\$ 7,415	\$ 6,276	18%
Non-interest income ⁽¹⁾	1,054	857	23	2,575	1,799	43
Total net revenue ⁽²⁾	5,055	3,993	27	9,990	8,075	24
Provision for credit losses	1,677	343	389	2,250	877	157
Non-interest expense	3,142	2,255	39	5,646	4,417	28
Income from continuing operations before income taxes	236	1,395	(83)	2,094	2,781	(25)
Income tax provision	43	450	(90)	396	804	(51)
Income from continuing operations, net of taxes	193	945	(80)	1,698	1,977	(14)
Loss from discontinued operations, net of taxes ⁽³⁾	(100)	(34)	(194)	(202)	(50)	(304)
Net income	93	911	(90)	1,496	1,927	(22)
Dividends and undistributed earnings allocated to participating securities	(1)	—	**	(8)	—	**
Net income available to common shareholders	\$ 92	\$ 911	(90)%	\$ 1,488	\$ 1,927	(23)%
Common share statistics						
Earnings per common share:						
Basic earnings per common share	\$ 0.16	\$ 2.00	(92)%	\$ 2.74	\$ 4.24	(35)%
Diluted earnings per common share	0.16	1.97	(92)	2.72	4.18	(35)
Weighted average common shares outstanding:						
Basic earnings per common share	577.7	455.6	27	543.3	454.9	19
Diluted earnings per common share	582.8	462.2	26	548.0	461.3	19
Dividends per common share	0.05	0.05	—	0.10	0.10	—
Average balances						
Loans held for investment ⁽⁴⁾	\$ 192,632	\$ 127,916	51%	\$ 172,767	\$ 126,504	37%
Interest-earning assets	265,019	174,113	52	237,667	173,779	37
Total assets	295,306	199,229	48	270,786	198,612	36
Interest-bearing deposits	195,597	109,251	79	173,611	108,944	59
Total deposits	214,914	125,834	71	192,586	125,001	54
Borrowings	35,418	39,451	(10)	35,706	39,991	(11)
Stockholders' equity	37,533	28,255	33	35,258	27,636	28

Table of Contents

(Dollars in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change	2012	2011	Change
Selected performance metrics						
Purchase volume ⁽⁵⁾	\$45,228	\$34,226	32%	\$79,726	\$62,023	29%
Total net revenue margin ⁽⁶⁾	7.63%	9.17%	(154)bps	8.41%	9.29%	(88)bps
Net interest margin ⁽⁷⁾	6.04	7.20	(116)	6.24	7.22	(98)
Net charge-offs	\$ 738	\$ 931	(21)%	\$ 1,518	\$ 2,076	(27)%
Net charge-off rate ⁽⁸⁾	1.53%	2.91%	(138)bps	1.76%	3.28%	(152)bps
Net charge-off rate (excluding acquired loans) ⁽⁹⁾	1.96	3.03	(107)	2.17	3.42	(125)
Return on average assets ⁽¹⁰⁾	0.26	1.90	(164)	1.25	1.99	(74)
Return on average stockholders' equity ⁽¹¹⁾	2.06	13.38	(1132)	9.63	14.31	(468)
Non-interest expense as a % of average loans held for investment ⁽¹²⁾	6.52	7.05	(53)	6.54	6.98	(44)
Efficiency ratio ⁽¹³⁾	62.16	56.47	569	56.52	54.70	182
Effective income tax rate	18.2	32.3	(1410)	18.9	28.9	(1000)

(Dollars in millions)	June 30,	December 31,	Change
	2012	2011	
Balance sheet (period end)			
Loans held for investment	\$202,749	\$ 135,892	49%
Interest-earning assets	264,331	179,878	47
Total assets	296,572	206,019	44
Interest-bearing deposits	193,859	109,945	76
Total deposits	213,931	128,226	67
Borrowings	35,874	39,561	(9)
Total liabilities	259,380	176,353	47
Stockholders' equity	37,192	29,666	25
Credit quality metrics (period end)			
Allowance for loan and lease losses	\$ 4,998	\$ 4,250	18%
Allowance as a % of loans held of investment	2.47%	3.13%	(66)bps
Allowance as a % of loans held of investment (excluding acquired loans) ⁽⁹⁾	3.08	3.22	(14)
30+ day performing delinquency rate	2.06	3.35	(129)
30+ day performing delinquency rate (excluding acquired loans) ⁽⁹⁾	2.59	3.47	(88)
30+ day delinquency rate	2.43	3.95	(152)
30+ day delinquency rate (excluding acquired loans) ⁽⁹⁾	3.06	4.09	(103)
Capital ratios⁽¹⁴⁾			
Tier 1 common ratio ⁽¹⁵⁾	9.9%	9.7%	20bps
Tier 1 risk-based capital ratio ⁽¹⁶⁾	11.6	12.0	(40)
Total risk-based capital ratio ⁽¹⁷⁾	14.0	14.9	(90)
Tangible common equity ratio ("TCE ratio") ⁽¹⁸⁾	7.4	8.2	(80)
Associates			
Full-time equivalent employees (in thousands)	37.4	30.5	23%

Table of Contents

** Change is less than one percent or not meaningful.

- (1) Includes a bargain purchase gain of \$594 million attributable to the ING Direct acquisition recognized in non-interest income in the first quarter and first six months of 2012. The bargain purchase gain represents the excess of the fair value of the net assets acquired from ING Direct as of the acquisition date over the consideration transferred. See “Note 2—Acquisitions” for additional information.
- (2) Total net revenue was reduced by \$311 million and \$112 million for the three months ended June 30, 2012 and 2011, respectively and \$434 million and \$217 million for the six months ended June 30, 2012 and 2011, respectively, for the estimated uncollectible amount of billed finance charges and fees.
- (3) Discontinued operations reflect ongoing costs related to the mortgage origination operations of GreenPoint’s wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. (“GreenPoint”), which we closed in 2007.
- (4) Loans held for investment includes loans acquired in the HSBC U.S. card, ING Direct and Chevy Chase Bank acquisitions. The carrying value of acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was \$41.7 billion and \$4.7 billion as of June 30, 2012 and December 31, 2011, respectively. The average balance of loans held for investment, excluding the carrying value of acquired loans, was \$150.5 billion and \$122.8 billion for the three months ended June 30, 2012 and 2011, respectively, and \$140.1 billion and \$121.3 billion for the six months ended June 30, 2012 and 2011, respectively. See “Note 5—Loans” for additional information.
- (5) Consists of credit card purchase transactions for the period, net of returns. Excludes cash advance transactions.
- (6) Calculated based on annualized total net revenue for the period divided by average interest-earning assets for the period.
- (7) Calculated based on annualized net interest income for the period divided by average interest-earning assets for the period.
- (8) Calculated based on annualized net charge-offs for the period divided by average loans held for investment for the period.
- (9) Calculation of ratio adjusted to exclude from the denominator acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected. See “Business Segment Financial Performance,” “Credit Risk Profile” and “Note 5—Loans—Credit Quality” for additional information on the impact of acquired loans on our credit quality metrics.
- (10) Calculated based on annualized income from continuing operations, net of tax, for the period divided by average total assets for the period.
- (11) Calculated based on annualized income from continuing operations, net of tax, for the period divided by average stockholders’ equity for the period.
- (12) Calculated based on annualized non-interest expense, excluding goodwill impairment charges, for the period divided by average loans held for investment for the period.
- (13) Calculated based on non-interest expense, excluding goodwill impairment charges, for the period divided by total revenue for the period.
- (14) Regulatory capital ratios as of June 30, 2012 are preliminary and therefore subject to change.
- (15) Tier 1 common ratio is a regulatory capital measure calculated based on Tier 1 common capital divided by risk-weighted assets. See “Capital Management” and “Supplemental Tables—Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information, including the calculation of this ratio.
- (16) Tier 1 risk-based capital ratio is a regulatory measure calculated based on Tier 1 capital divided by risk-weighted assets. See “Capital Management” and “Supplemental Tables—Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information, including the calculation of this ratio.
- (17) Total risk-based capital ratio is a regulatory measure calculated based on total risk-based capital divided by risk-weighted assets. See “Capital Management” and “Supplemental Tables—Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information, including the calculation of this ratio.
- (18) TCE ratio is a non-GAAP measure calculated based on tangible common equity divided by tangible assets. See “Supplemental Tables—Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for the calculation of this measure and reconciliation to the comparative GAAP measure.

INTRODUCTION

We are a diversified financial services holding company with banking and non-banking subsidiaries that offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. Our principal subsidiaries include Capital One Bank (USA), National Association (“COBNA”), Capital One, National Association (“CONA”) and ING Bank, fsb. The Company and its subsidiaries are hereafter collectively referred to as “we,” “us” or “our.” CONA and COBNA are hereafter collectively referred to as the “Banks.” We continue to deliver on our strategy of combining the power of national scale lending and local scale banking.

The closing of the ING Direct acquisition in the first quarter of 2012 resulted in the addition of loans of \$40.4 billion and other assets of \$53.9 billion at acquisition. The ING Direct acquisition, which added over seven million customers and approximately \$84.4 billion in deposits to our Consumer Banking business segment as of the acquisition date, strengthens our customer franchise. With the ING Direct acquisition, we have grown to become the sixth largest depository institution and the largest direct banking institution in the United States. The closing of the HSBC U.S. card acquisition in the second quarter of 2012 added approximately 27 million new active accounts and approximately \$27.8 billion in outstanding credit card receivables as of the acquisition date that we designated as held for investment. Period-end loans held for investment increased to \$202.7 billion and deposits increased to \$213.9 billion as of June 30, 2012, up from period-end loans of \$135.9 billion and deposits of \$128.2 billion as of December 31, 2011.

Our revenues are primarily driven by lending to consumers and commercial customers and by deposit-taking activities, which generate net interest income, and by activities that generate non-interest income, such as fee-based services provided to customers, merchant interchange fees with respect to certain credit card transactions, gains and losses and fees associated with the sale and servicing of loans. Our expenses primarily consist of the cost of funding our assets, our provision for credit losses, operating expenses (including associate salaries and benefits, infrastructure maintenance and enhancements and branch operations and expansion costs), marketing expenses and income taxes.

Our principal operations are currently organized, for management reporting purposes, into three primary business segments, which are defined primarily based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments. The acquired HSBC U.S. card business is reflected in our Credit Card business, while the acquired ING Direct business is primarily reflected in our Consumer Banking business. Certain activities that are not part of a segment are included in our “Other” category.

- *Credit Card*: Consists of our domestic consumer and small business card lending, national small business lending, national closed end installment lending and the international card lending businesses in Canada and the United Kingdom.
- *Consumer Banking*: Consists of our branch-based lending and deposit gathering activities for consumers and small businesses, national deposit gathering, national auto lending and consumer home loan lending and servicing activities.
- *Commercial Banking*: Consists of our lending, deposit gathering and treasury management services to commercial real estate and commercial and industrial customers. Our commercial and industrial customers typically include companies with annual revenues between \$10 million to \$1.0 billion.

In the first quarter of 2012, we re-aligned the reporting of our Commercial Banking business to reflect the operations on a product basis rather than by customer type. Table 2 summarizes our business segment results, which we report based on income from continuing operations, net of tax, for the three and six months ended June 30, 2012 and 2011. We provide additional information on the realignment of our Commercial Banking business segment below under “Business Segment Results” and in “Note 14—Business Segments” of this

[Table of Contents](#)

Report. We also provide a reconciliation of our total business segment results to our consolidated U.S. GAAP results in “Note 14—Business Segments.”

Table 2: Business Segment Results

	Three Months Ended June 30,							
	2012				2011			
	Total Net Revenue ⁽¹⁾		Net Income (Loss) ⁽²⁾		Total Net Revenue ⁽¹⁾		Net Income (Loss) ⁽²⁾	
(Dollars in millions)	Amount	% of Total						
Credit Card	\$ 3,121	62%	\$ (297)	(154)%	\$ 2,509	63%	\$ 618	66%
Consumer Banking	1,681	33	438	227	1,245	31	287	30
Commercial Banking	509	10	228	118	450	11	159	17
Other ⁽³⁾	(256)	(5)	(176)	(91)	(211)	(5)	(119)	(13)
Total from continuing operations	\$ 5,055	100%	\$ 193	100%	\$ 3,993	100%	\$ 945	100%

	Six Months Ended June 30,							
	2012				2011			
	Total Net Revenue ⁽¹⁾		Net Income (Loss) ⁽²⁾		Total Net Revenue ⁽¹⁾		Net Income (Loss) ⁽²⁾	
(Dollars in millions)	Amount	% of Total						
Credit Card	\$ 5,711	57%	\$ 269	16%	\$ 5,124	63%	\$ 1,261	64%
Consumer Banking	3,145	32	662	39	2,414	30	502	25
Commercial Banking	1,025	10	438	26	897	11	321	16
Other ⁽³⁾	109	1	329	19	(360)	(4)	(107)	(5)
Total from continuing operations	\$ 9,990	100%	\$ 1,698	100%	\$ 8,075	100%	\$ 1,977	100%

(1) Total net revenue consists of net interest income and non-interest income.

(2) Net income for our business segments is reported based on income from continuing operations, net of tax.

(3) Includes the residual impact of the allocation of our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management, to our business segments as well as other items as described in “Note 14—Business Segments.”

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

With the close of the HSBC U.S. card acquisition on May 1, 2012, we have now completed both of the acquisitions announced in 2011, and we are devoting significant effort to the integration of ING Direct and HSBC’s U.S. card business. While we expect that the combined Capital One, ING Direct and HSBC businesses will deliver attractive financial results and strong capital generation, the HSBC U.S. card acquisition had a significant impact on our second quarter 2012 results, primarily due to the post-acquisition impact of a number of purchase accounting adjustments and the establishment of an allowance for loan and lease losses and finance charge and fee reserve for HSBC loans as of the end of the quarter.

Financial Highlights

The post-acquisition impact of purchase accounting adjustments and other charges related to the HSBC U.S. card acquisition, coupled with charges associated with other items, reduced our net income to \$92 million (\$0.16 per diluted share) for the second quarter of 2012 on total net revenue of \$5.1 billion. In comparison, we reported net income of \$1.4 billion (\$2.72 per diluted share) for the first quarter of 2012 on total net revenue of \$4.9 billion,

[Table of Contents](#)

and net income of \$911 million (\$1.97 per diluted share) for the second quarter of 2011 on total net revenue of \$4.0 billion. Net income totaled \$1.5 billion (\$2.72 per diluted share) for the first six months of 2012, compared with net income of \$1.9 billion (\$4.18 per diluted share) for the first six months of 2011.

The primary post-acquisition charges relative to the HSBC U.S. card acquisition that affected our results for the second quarter of 2012 included a provision for credit losses of \$1.2 billion, which was primarily related to the \$26.2 billion in outstanding HSBC U.S. credit card receivables recorded at a fair value of \$26.9 billion and designated as held for investment that had existing revolving privileges at acquisition and were therefore accounted for based on contractual cash flows, a charge of \$174 million to establish a reserve for estimated uncollectible billed finance charges and fees for these loans and merger-related expenses, including transaction costs, of \$106 million.

Our second quarter results also reflect the unfavorable impact of charges related to certain other items, including \$60 million for civil penalties and \$41 million for expected customer refunds related to regulatory settlements pertaining to cross-sell activities in our Domestic Card business, a \$180 million provision for repurchase losses related to mortgage representations and warranties, of which \$154 million was recorded in discontinued operations, and \$98 million for legal costs related to interchange and other settlements during the quarter. For more information on these regulatory settlements and related matters, please see “Supervision and Regulation— Required Enhancements to Compliance and Risk Management Programs.”

The HSBC U.S. card acquisition and related purchase accounting adjustments resulted in a significant increase in risk-weighted assets and a reduction in our regulatory capital ratios at the end of the second quarter. Our Tier 1 common ratio was 9.9% as of June 30, 2012, compared with 11.9% as of March 31, 2012 and 9.7% as of December 31, 2011. Our Tier 1 risk-based capital ratio was 11.6% as of June 30, 2012, compared with 13.9% as of March 31, 2012 and 12.0% as of December 31, 2011. The increases in our regulatory capital ratios during the first quarter of 2012 were largely due to equity issuances during the quarter.

Below are additional highlights of our performance for the second quarter and first six months of 2012. These highlights generally are based on a comparison to the same prior year periods, except as otherwise noted. The changes in our financial condition and credit performance are generally based on our financial condition and credit performance as of June 30, 2012, compared with our financial condition and credit performance as of December 31, 2011. We provide a more detailed discussion of our financial performance in the sections following this “Executive Summary and Business Outlook.”

Total Company

- **Earnings:** Our net income of \$92 million for the second quarter of 2012 decreased by \$819 million, or 90%, from the second quarter of 2011, while our net income of \$1.5 billion for the first six months of 2012 decreased by \$439 million, or 23%, from the first six months of 2011. The decrease in net income in the second quarter of 2012 was driven primarily by the post-acquisition charges related to the HSBC U.S. card acquisition and the other charges discussed above. The decrease in net income in the first six months of 2012 was also driven by the post-acquisition charges related to the HSBC U.S. card acquisition and other charges recorded in the second quarter of 2012 discussed above as well higher operating expenses related to our recent acquisitions and higher infrastructure costs from our continued investments in our home loan business and growth in auto originations. The impact from these items was partially offset by the favorable impact from the bargain purchase gain of \$594 million attributable to ING Direct acquisition recorded in the first quarter of 2012 and higher revenue from our legacy businesses.
- **Total Loans:** Period-end loans held for investment increased by \$66.8 billion, or 49%, during the first six months of 2012, to \$202.7 billion as of June 30, 2012, from \$135.9 billion as of December 31, 2011. The increase was primarily attributable to the additions of the acquired ING Direct loan portfolio of \$40.4 billion and the \$27.8 billion in outstanding HSBC U.S. card loans that we acquired and classified as held for

[Table of Contents](#)

investment. Excluding the impact of the addition of the acquired ING Direct and HSBC U.S. card loan portfolios designated as held for investment, period-end loans held for investment decreased by \$1.2 billion, or 1%. The decrease was largely due to normal seasonal credit card pay downs and the continued run-off of installment loans in our Credit Card business, which was partially offset by auto loan growth that outpaced the expected home loan run-off in our Consumer Banking business.

- *Charge-off and Delinquency Statistics:* The net charge-off rate decreased to 1.53% in the second quarter of 2012, from 2.04% in the first quarter of 2012, and 2.91% in the second quarter of 2011. The 30+ day delinquency rate decreased to 2.43% as of June 30, 2012, from 2.69% as of March 31, 2012 and 3.95% as of December 31, 2011. Our credit trends remain relatively stable at historically strong levels, with normal seasonal patterns and some continued improvement across our legacy card portfolio. The addition of the acquired ING Direct and HSBC loan portfolios and related accounting has contributed to some of the improvement in our net charge-off and delinquency metrics. We provide information on our credit quality metrics, excluding the impact of acquired loans accounted for based on estimated cash flows expected to be collected, below under “Business Segments” and “Credit Risk Profile.”
- *Allowance for Loan and Lease Losses:* We increased our allowance by \$938 million in the second quarter of 2012 and by \$748 million in the first six months of 2012 to \$5.0 billion as of June 30, 2012. The increase was primarily driven by the establishment of an allowance for HSBC U.S. card loans of \$1.2 billion for estimated incurred losses inherent in the portfolio as of the end of the quarter. Although the allowance increased, the coverage ratio of the allowance to total loans held for investment fell by 66 basis points to 2.47% as of June 30, 2012, from 3.13% as of December 31, 2011. The decrease in the allowance coverage ratio was largely due to the addition of the acquired HSBC U.S. card and ING Direct loans accounted for based on estimated cash flows expected to be collected. As discussed above, because the accounting for these loans takes into consideration future credit losses expected to be incurred, there are no charge-offs or an allowance associated with these loans unless the estimated cash flows expected to be collected decrease subsequent to acquisition. We did not have an allowance associated with these loans as of June 30, 2012.
- *Representation and Warranty Provision:* We recorded a provision for mortgage repurchase losses of \$180 million and \$349 million in the second quarter and first six months of 2012, respectively, compared with a provision of \$37 million and \$81 million in the second quarter and first six months of 2011, respectively. The increase in the provision for repurchase losses was primarily driven by updated estimates of anticipated outcomes from various litigation and threatened litigation in the insured securitization segment based on relevant factual and legal developments and a first quarter settlement between a subsidiary and a GSE to resolve present and future claims. We provide additional information on the representation and warranty reserve in “Note 15—Commitments, Contingencies and Guarantees.”

Business Segments

- *Credit Card:* Our Credit Card business recorded a net loss from continuing operations of \$297 million and net income from continuing operations of \$269 million in the second quarter and first six months of 2012, respectively, compared with net income from continuing operations of \$618 million and \$1.3 billion in the second quarter and first six months of 2011, respectively. The results for our Credit Card business for the second quarter and first six months of 2012 were significantly impacted by the post-acquisition impact of purchase accounting adjustments and other charges related to the HSBC U.S. card acquisition, which more than offset an increase in total net revenue, due in part to the an increase in average loan balances and fees resulting from the addition of the HSBC U.S. card portfolio.
- *Consumer Banking:* Our Consumer Banking business generated net income from continuing operations of \$438 million and \$662 million in the second quarter and first six months of 2012, respectively, compared with net income from continuing operations of \$287 million and \$502 million in the second quarter and first six months of 2011, respectively. The increase in earnings was attributable to growth in total net revenue, which was partially offset by higher non-interest expense and an increase in the provision for credit losses. Growth in revenue stemmed from higher average loan balances resulting from increased auto loan

[Table of Contents](#)

originations over the past year and added home loans from the ING Direct acquisition. The increase in non-interest expense was largely due to operating expenses associated with ING Direct, higher infrastructure expenditures resulting from continued investments in our home loan business and growth in auto originations and modestly higher marketing expenditures in our retail banking operations. The increase in the provision for credit losses was largely due to increased loan balances due to growth in auto loan originations, as net charge-offs declined as a result of continued credit performance improvements.

- *Commercial Banking:* Our Commercial Banking business generated net income from continuing operations of \$228 million and \$438 million in the second quarter and first six months of 2012, respectively, compared with net income from continuing operations of \$159 million and \$321 million in the second quarter and first six months of 2011, respectively. The improvement in results for Commercial Banking was attributable to an increase in revenues driven by increased average loan balances as well as loan spreads and a decrease in the provision for credit losses due to improving credit trends. These factors were partially offset by higher non-interest expense resulting from operating costs associated with the increased volume of loan originations in our commercial real estate and commercial and industrial business, increased infrastructure expenditures and the expansion into new markets.

Business Outlook

We discuss below our current expectations regarding our total company performance and the performance of each of our business segments over the near-term based on market conditions, the regulatory environment and our business strategies as of the time we filed this Quarterly Report on Form 10-Q. The statements contained in this section are based on our current expectations regarding our outlook for our financial results and business strategies. Our expectations take into account, and should be read in conjunction with, our expectations regarding economic trends and analysis of our business as discussed in “Part I—Item 1. Business” and “Part I—Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2011 Form 10-K. Certain statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those in our forward-looking statements. Forward-looking statements do not reflect: (i) any change in current dividend or repurchase strategies, (ii) the effect of any acquisitions, divestitures or similar transactions, except for the forward-looking statements specifically discussing the acquisition of ING Direct or of HSBC’s U.S. credit card business, or (iii) any changes in laws, regulations or regulatory interpretations, in each case after the date as of which such statements are made. See “Forward-Looking Statements” in this Quarterly Report on Form 10-Q for more information on the forward-looking statements in this report and “Item 1A. Risk Factors” in our 2011 Form 10-K for factors that could materially influence our results.

Total Company Expectations

Our strategies and actions are designed to deliver and sustain strong returns and capital generation through the acquisition and retention of franchise-enhancing customer relationships across our businesses. We believe that franchise-enhancing customer relationships produce strong long-term economics through low credit costs, low customer attrition and a gradual build in loan balances and revenues over time. Examples of franchise-enhancing customer relationships include rewards customers and new partnerships in our Credit Card business, retail deposit customers in our Consumer Banking business and primary banking relationships with commercial customers in our Commercial Banking business. We intend to grow these customer relationships by continuing to invest in our bank infrastructure to allow us to provide more convenient and flexible customer banking options, including a broader range of fee-based and credit products and services, by leveraging our direct bank customer franchise with national reach and by continued marketing investments to attract and retain credit card and auto finance customers and further strengthen our brand. The acquisitions of ING Direct and HSBC’s U.S. credit card business will strengthen and expand our customer base, and, over time, we expect to expand and deepen our customer relationships with new products and services.

[Table of Contents](#)

We believe our actions have created a well-positioned balance sheet and capital and liquidity levels which have provided us with investment flexibility to take advantage of attractive organic growth opportunities and adjust, where we believe appropriate, to changing market conditions. We believe that combining the businesses of Capital One, ING Direct and the HSBC's U.S. credit card business will deliver attractive financial results, strong capital generation and sustained shareholder value.

Business Segment Expectations

Credit Card Business

In Domestic Card, the closing of the HSBC U.S. card acquisition has impacted and will continue to affect quarterly trends in loan growth, revenue margin and credit metrics. We anticipate that the run-off of parts of the portfolios acquired in the HSBC Transaction will continue to offset the underlying growth trajectory in other parts of our Domestic Card business resulting in relatively flat loan balances. We anticipate that the credit mark on the non-revolving credit card loans acquired in the HSBC U.S. card acquisition will continue to absorb most of the HSBC credit losses in the third quarter of 2012, which will have the effect of temporarily lowering the overall charge-off rate of the Domestic Card segment. We expect that the Domestic Card charge-off rate will increase in the fourth quarter of 2012. Over time, we expect the charge-off rate on the combined card business to reach a level that is between 40 and 60 basis points higher than the stand-alone charge-off rate for Capital One's stand-alone Domestic Card business. Once the acquisition-related impacts on the charge-off rate play out, we expect charge-off levels to remain relatively stable with normal seasonal patterns. When we announced the HSBC U.S. card acquisition, we planned to take certain actions to bring HSBC customer practices into alignment with our customer practices. All else being equal, we expect that they will put downward pressure on Domestic Card revenue margin over the next several quarters. We expect that Domestic Card revenue margin will be impacted by the competitive environment, the timing and pace of growth and runoff in Domestic Card loan balances, credit trends, and other factors, most of which are difficult to predict. We expect our Domestic Card business to deliver strong and resilient profitability and a strong customer franchise.

Consumer Banking Business

In our Consumer Banking business, we expect the ING Direct acquisition to continue to have a significant impact on Consumer Banking loan volumes as the acquired Home Loans portfolio runs off. We anticipate that the Consumer Banking business will continue to gain traction, with national scale auto lending, local scale in attractive local markets and growing national reach through ING Direct.

Commercial Banking Business

Our Commercial Banking business continues to grow loans, deposits, and revenues as we attract new customers and deepen relationships with existing customers. Although we anticipate some quarterly fluctuations in nonperforming loan and charge-off rates, we expect our Commercial Banking business to continue strong and relatively steady performance trends throughout 2012.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies in "Note 1—Summary of Significant Accounting Policies" of our 2011 Form 10-K.

[Table of Contents](#)

In the “MD&A—Critical Accounting Policies and Estimates” section of our 2011 Form 10-K, we identified the following accounting policies as critical because they require significant judgments and assumptions about highly complex and inherently uncertain matters and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition.

- Loan loss reserves
- Representation and warranty reserve
- Asset impairment
- Fair value
- Derivative and hedge accounting
- Income taxes

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them as necessary based on changing conditions. Management has reviewed and approved these critical accounting policies and has discussed our judgments and assumptions with the Audit and Risk Committee of the Board of Directors. There has been no material changes in the methods used to formulate these critical accounting estimates from those discussed in the “MD&A—Critical Accounting Policies and Estimates” section of our 2011 Form 10-K.

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance for the three and six months ended June 30, 2012 and 2011. Following this section, we provide a discussion of our business segment results. You should read this section together with our “Executive Summary and Business Outlook” where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

Net interest income represents the difference between the interest income and applicable fees earned on our interest-earning assets, which include loans held for investment and investment securities, and the interest expense on our interest-bearing liabilities, which include interest-bearing deposits, senior and subordinated notes, securitized debt and other borrowings. We include in interest income any past due fees on loans that we deem are collectible. Our net interest margin represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities, including the impact of non-interest bearing funding. We expect net interest income and our net interest margin to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities.

Table 3 below presents, for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balances, interest income earned or interest expense incurred, and average yield or cost for the three and six months ended June 30, 2012 and 2011.

Table 3: Average Balances, Net Interest Income and Net Interest Yield

(Dollars in millions)	Three Months Ended June 30,					
	2012			2011		
	Average Balance	Interest Income/Expense ⁽¹⁾	Yield/Rate	Average Balance	Interest Income/Expense ⁽¹⁾	Yield/Rate
Assets:						
Interest-earning assets:						
Consumer loans: ⁽²⁾						
Domestic	\$ 149,211	\$ 3,589	9.62%	\$ 88,515	\$ 2,656	12.00%
International	8,194	290	14.18	8,823	348	15.77
Total consumer loans	157,405	3,879	9.86	97,338	3,004	12.34
Commercial loans	35,227	376	4.27	30,578	363	4.75
Total loans held for investment	192,632	4,255	8.84	127,916	3,367	10.53
Investment securities	56,972	335	2.35	40,381	313	3.10
Other interest-earning assets	15,415	26	0.67	5,816	19	1.31
Total interest-earning assets	\$265,019	\$ 4,616	6.97%	\$174,113	\$ 3,699	8.50%
Cash and due from banks	2,245			1,870		
Allowance for loan and lease losses	(4,065)			(5,069)		
Premises and equipment, net	3,316			2,715		
Other assets	28,791			25,600		
Total assets	\$295,306			\$199,229		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Deposits	\$195,597	\$ 373	0.76%	\$109,251	\$ 307	1.12%
Securitized debt obligations	14,948	69	1.85	22,191	113	2.04
Senior and subordinated notes	11,213	87	3.10	8,093	63	3.11
Other borrowings	9,257	86	3.72	9,167	80	3.49
Total interest-bearing liabilities	\$231,015	\$ 615	1.06%	\$148,702	\$ 563	1.51%
Non-interest bearing deposits	19,316			16,583		
Other liabilities	7,442			5,689		
Total liabilities	257,773			170,974		
Stockholders' equity	37,533			28,255		
Total liabilities and stockholders' equity	\$295,306			\$199,229		
Net interest income/spread		\$ 4,001	5.90%		\$ 3,136	6.99%
Impact of non-interest bearing funding			0.14			0.21
Net interest margin			6.04%			7.20%

Table of Contents

(Dollars in millions)	Six Months Ended June 30,					
	2012			2011		
	Average Balance	Interest Income/Expense ⁽¹⁾	Yield/Rate	Average Balance	Interest Income/Expense ⁽¹⁾	Yield/Rate
Assets:						
Interest-earning assets:						
Consumer loans: ⁽²⁾						
Domestic	\$ 129,889	\$ 6,523	10.04%	\$ 87,440	\$ 5,358	12.26%
International	8,248	631	15.29	8,760	702	16.02
Total consumer loans	138,137	7,154	10.36	96,200	6,060	12.60
Commercial loans	34,630	756	4.37	30,304	724	4.78
Total loans held for investment	172,767	7,910	9.16	126,504	6,784	10.73
Investment securities	53,757	633	2.36	40,953	629	3.07
Other interest-earning assets	11,143	52	0.93	6,322	38	1.20
Total interest-earning assets	\$ 237,667	\$ 8,595	7.23%	\$ 173,779	\$ 7,451	8.57%
Cash and due from banks	7,141			1,912		
Allowance for loan and lease losses	(4,200)			(5,348)		
Premises and equipment, net	3,107			2,717		
Other assets	27,071			25,552		
Total assets	\$ 270,786			\$ 198,612		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Deposits	\$ 173,611	\$ 684	0.79%	\$ 108,944	\$ 629	1.15%
Securitized debt obligations	15,567	149	1.91	23,852	253	2.12
Senior and subordinated notes	10,740	175	3.26	8,091	127	3.14
Other borrowings	9,399	172	3.66	8,048	166	4.13
Total interest-bearing liabilities	\$ 209,317	\$ 1,180	1.13%	\$ 148,935	\$ 1,175	1.58%
Non-interest bearing deposits	18,975			16,057		
Other liabilities	7,236			5,984		
Total liabilities	235,528			170,976		
Stockholders' equity	35,258			27,636		
Total liabilities and stockholders' equity	\$ 270,786			\$ 198,612		
Net interest income/spread		\$ 7,415	6.11%		\$ 6,276	6.99%
Impact of non-interest bearing funding			0.13			0.23
Net interest margin			6.24%			7.22%

⁽¹⁾ Past due fees included in interest income totaled approximately \$369 million and \$245 million for the three months ended June 30, 2012 and 2011, respectively, and approximately \$652 million and \$490 million for the six months ended June 30, 2012 and 2011, respectively.

⁽²⁾ Interest income on credit card, auto, home and retail banking loans is reflected in consumer loans. Interest income generated from small business credit card loans also is included in consumer loans.

[Table of Contents](#)

Table 4 presents the variances between our net interest income for the three and six months ended June 30, 2012 and 2011, and the extent to which the variance was attributable to: (i) changes in the volume of our interest-earning assets and interest-bearing liabilities or (ii) changes in the interest rates of these assets and liabilities.

Table 4: Rate/Volume Analysis of Net Interest Income⁽¹⁾

(Dollars in millions)	Three Months Ended June 30, 2012 vs. 2011			Six Months Ended June 30, 2012 vs. 2011		
	Total	Variance Due to		Total	Variance Due to	
		Variance	Volume		Rate	Variance
Interest income:						
Loans held for investment:						
Consumer loans	\$ 875	\$ 1,572	\$(697)	\$ 1,094	\$ 2,308	\$(1,214)
Commercial loans	13	52	(39)	32	98	(66)
Total loans held for investment, including past-due fees	888	1,624	(736)	1,126	2,406	(1,280)
Investment securities	22	109	(87)	4	170	(166)
Other	7	20	(13)	14	24	(10)
Total interest income	917	1,753	(836)	1,144	2,600	(1,456)
Interest expense:						
Deposits	66	187	(121)	55	296	(241)
Securitized debt obligations	(44)	(34)	(10)	(104)	(81)	(23)
Senior and subordinated notes	24	24	—	48	43	5
Other borrowings	6	1	5	6	26	(20)
Total interest expense	52	178	(126)	5	284	(279)
Net interest income	\$ 865	\$ 1,575	\$(710)	\$ 1,139	\$ 2,316	\$(1,177)

⁽¹⁾ We calculate the change in interest income and interest expense separately for each item. The change in net interest income attributable to both volume and rates is allocated based on the relative dollar amount of each item.

Net interest income of \$4.0 billion for the second quarter of 2012 increased by \$865 million, or 28%, from the second quarter of 2011, driven by a 52% increase in average interest-earning assets, which was partially offset by a 16% decline in our net interest margin to 6.04%.

Net interest income of \$7.4 billion for the first six months of 2012 increased by \$1.1 billion, or 18%, from the first six months 2011, driven by a 37% increase in average interest-earning assets, which was partially offset by a 14% decline in our net interest margin to 6.24%.

- *Average Interest-Earning Assets:* The increase in average interest-earning assets reflects the addition of the ING Direct loan portfolio of \$40.4 billion in the first quarter of 2012, the addition of the \$27.8 billion in outstanding HSBC U.S. card loans that we acquired and designated as held for investment in the second quarter of 2012 and a significant increase in auto loan originations over the past twelve months.
- *Net Interest Margin:* The decrease in our net interest margin was attributable to a decline in the average yield on our interest-earning assets, due in part to lower yields in Domestic Card resulting from the establishment of a finance charge and fee reserve of \$174 million for the acquired HSBC U.S. card loan portfolio and premium amortization expense related to the acquired loans of \$63 million, which was partially mitigated by an improvement in our cost of funds. The decline in average yield also reflected the shift in the mix of our interest-earning assets as a result of the addition of ING Direct assets and temporarily higher cash balances from the recent equity and debt offerings, which had the effect of diluting the net interest margin. The ING Direct interest-earning assets generally have lower yields than our legacy loan and

[Table of Contents](#)

the investment security portfolios. The decrease in the average yield on interest-earnings assets was partially offset by a reduction in our cost of funds. We have continued to benefit from the shift in the mix of our funding to lower cost consumer and commercial banking deposits from higher cost wholesale sources and a decline in deposit interest rates as a result of the continued overall low interest rate environment.

Non-Interest Income

Non-interest income primarily consists of service charges and other customer-related fees, interchange income (net of rewards expense) and other non-interest income. The servicing fees, finance charges, other fees, net of charge-offs and interest paid to third party investors related to our consolidated securitization trusts are reported as a component of non-interest income. We also record the provision for mortgage repurchase losses related to continuing operations in non-interest income. The “other” component of non-interest income includes gains and losses on derivatives not accounted for in hedge accounting relationships and gains and losses from the sale of investment securities, which we generally do not allocate to our business segments because they relate to centralized asset/liability and market risk management activities undertaken by our Corporate Treasury group.

Table 5 displays the components of non-interest income for the three and six months ended June 30, 2012 and 2011.

Table 5: Non-Interest Income

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Service charges and other customer-related fees	\$ 539	\$ 460	\$ 954	\$ 985
Interchange fees, net	408	331	736	651
Bargain purchase gain ⁽¹⁾	—	—	594	—
Net other-than-temporary impairment (“OTTI”)	(13)	(6)	(27)	(9)
Other non-interest income:				
Provision for mortgage repurchase losses ⁽²⁾	(25)	(4)	(42)	(9)
Other	145	76	360	181
Total other non-interest income	120	72	318	172
Total non-interest income	\$ 1,054	\$ 857	\$ 2,575	\$ 1,799

⁽¹⁾ Represents the excess of the fair value of the net assets acquired in the ING Direct acquisition as of the acquisition date of February 17, 2012 over the consideration transferred.

⁽²⁾ We recorded a total provision for mortgage repurchase losses of \$180 million and \$37 million for the three months ended June 30, 2012 and 2011, respectively, and \$349 million and \$81 million for the six months ended June 30, 2012 and 2011, respectively. The remaining portion of the provision for repurchase losses is included, net of tax, in discontinued operations.

Non-interest income of \$1.1 billion for the second quarter of 2012 increased by \$197 million, or 23%, from non-interest income of \$857 million for the second quarter of 2011. The increase was largely attributable to increased fees resulting from continued growth and market share from new account originations and our recent acquisitions. The partial quarter impact of the acquired HSBC U.S. card operations represented approximately \$163 million of the increase in non-interest income. The increase in fees was partially offset by additional expense of \$41 million recorded in the second quarter of 2012 for expected customer refunds related to regulatory settlements pertaining to cross-sell activities in our Domestic Card business and an increase in the provision for mortgage repurchase losses.

Non-interest income of \$2.6 billion for the first six months of 2012 increased by \$776 million, or 43%, from non-interest income of \$1.8 billion for the first six months of 2011. This increase reflected the combined impact of the bargain purchase gain of \$594 million recognized in the first quarter of 2012 at acquisition of ING Direct,

[Table of Contents](#)

income of \$162 million recorded in the first quarter of 2012 from the sale of Visa stock shares, and the increased fees resulting from continued growth and market share from new account originations, due in part to our recent acquisitions. The favorable impact of these items was partially offset by cross-sell activities related to expected customer refunds of approximately \$116 million recorded in the first six months of 2012, a mark-to-market derivative loss of \$78 million recognized in the first quarter of 2012 related to the settlement of interest-rate swaps we entered into in 2011 to partially hedge the interest rate risk of the net assets associated with the ING Direct acquisition and an increase in the provision for mortgage repurchase losses.

We also recorded higher other-than-temporary impairment losses of \$13 million and \$27 million in the second quarter and first six months of 2012, respectively, compared with \$6 million and \$9 million in the second quarter and first six months of 2011, respectively. The impairment losses stemmed from deterioration in the credit quality of certain non-agency mortgage-backed securities due to the persistent weakness in the housing market. We provide additional information on other-than-temporary impairment recognized on our available-for-sale securities in “Note 4—Investment Securities.”

Provision for Credit Losses

We build our allowance for loan and lease losses and unfunded lending commitment reserves through the provision for credit losses. Our provision for credit losses in each period is driven by charge-offs and the level of allowance for loan and lease losses that we determine is necessary to provide for probable credit losses inherent in our loan portfolio as of each balance sheet date.

We recorded a provision for credit losses of \$1.7 billion and \$2.3 billion in the second quarter and first six months of 2012, respectively, compared with \$343 million and \$877 million in the second quarter and first six months of 2011, respectively. The significant increase in our provision for credit losses was primarily related to the addition of the \$26.2 billion in outstanding HSBC U.S. card loans designated as held for investment that had existing revolving privileges at acquisition. These loans were recorded at a fair value of \$26.9 billion, resulting in a net premium of \$705 million at acquisition. Fair value was determined by discounting all expected cash flows (contractual principal, interest, finance charges and fees of \$33.3 billion less those amounts not expected to be collected of \$3.0 billion) at a market discount rate.

Under applicable accounting guidance, we are required to amortize the net premium of \$705 million over the contractual principal amount as an adjustment to interest income over the remaining life of the loans. Given the guidance applicable to revolving loans, it is necessary to record an allowance through provision expense to properly recognize an estimate of incurred losses on the existing principal balances, which represents a portion of the total amounts not expected to be collected described above. In the second quarter of 2012, we recorded provision expense of \$1.2 billion to establish an allowance primarily related to these loans. The allowance was calculated using the same methodology utilized for determining the allowance for our existing credit card loan portfolio. The provision expense of \$1.2 billion is included in the total provision for credit losses of \$1.7 billion recorded in the second quarter of 2012. The provision for credit losses, excluding the allowance build related to HSBC U.S. card loans, was \$479 million and \$1.1 billion in the second quarter and first six months of 2012, respectively. The increase in the provision also reflects higher auto loan originations.

We provide additional information on the provision for credit losses and changes in the allowance for loan and lease losses under the “Credit Risk Profile—Summary of Allowance for Loan and Lease Losses” and “Note 6—Allowance for Loan and Lease Losses.” For information on the allowance methodology for our credit card loan portfolio, see “Note 1—Summary of Significant Accounting Policies” in our 2011 Form 10-K.

Non-Interest Expense

Non-interest expense consists of ongoing operating costs, such as salaries and associated employee benefits, communications and other technology expenses, supplies and equipment and occupancy costs, and miscellaneous

[Table of Contents](#)

expenses. Marketing expenses are also included in non-interest expense. Table 6 displays the components of non-interest expense for the three and six months ended June 30, 2012 and 2011.

Table 6: Non-Interest Expense

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Salaries and associated benefits	\$ 971	\$ 715	\$ 1,835	\$ 1,456
Marketing	334	329	655	605
Communications and data processing	203	162	375	326
Supplies and equipment	178	124	325	259
Occupancy	145	118	268	237
Merger-related expense	133	—	219	—
Other non-interest expense:				
Professional services	313	302	607	551
Collections	141	144	277	295
Fraud losses	37	30	78	57
Bankcard association assessments	137	103	247	185
Amortization of intangibles	158	56	218	112
Other	392	172	542	334
Total other non-interest expense	1,178	807	1,969	1,534
Total non-interest expense	\$ 3,142	\$ 2,255	\$ 5,646	\$ 4,417

Non-interest expense of \$3.1 billion for the second quarter of 2012 increased by \$887 million, or 39%, from the second quarter of 2011. The increase was primarily due to higher operating expenses and merger-related costs related to our recent acquisitions, higher infrastructure costs from our continued investments in our home loan business and growth in auto originations, and increased amortization of intangibles. Our second quarter 2012 results also reflect the unfavorable impact of charges related to certain other items, including \$60 million for civil penalties related to regulatory settlements pertaining to cross-sell activities in our Domestic Card business and \$98 million for net legal costs related to interchange and other litigation activity during the quarter.

Non-interest expense of \$5.6 billion for the first six months of 2012 increased by \$1.2 billion, or 28%, from the first six months of 2011. The increase was primarily due to higher operating expenses and merger-related costs related to our recent acquisitions, increased marketing expenditures, higher infrastructure costs from our continued investments in our home loan business and growth in auto originations, and increased amortization on intangibles. Our results for the first six months of 2012 also reflect the unfavorable impact of the \$60 million for civil penalties related to cross-sell activities and \$98 million for net legal costs related to interchange and other litigation developments discussed above.

Income Taxes

Our effective tax rate on income from continuing operations varies between periods due, in part, to fluctuations in our pre-tax earnings, which affect the relative tax benefit of tax-exempt income, tax credits and other tax items.

We recorded an income tax provision of \$43 million (18.2% effective income tax rate) for the second quarter of 2012, compared with an income tax provision of \$450 million (32.3 % effective income tax rate) for the second quarter of 2011. The decrease in our effective tax rate in the second quarter of 2012 was primarily due to one-time deferred tax benefit of \$25 million for changes in our state tax position resulting from the acquisition of the HSBC U.S. card assets and operations, and a net tax benefit of \$7 million related to adjustments for the resolution of certain tax issues and audits, which together reduced our effective tax rate for the second quarter of 2012 by 13.6 percentage points.

[Table of Contents](#)

We recorded an income tax provision of \$396 million (18.9% effective income tax rate) for the first six months of 2012, compared with an income tax provision of \$804 million (28.9% effective income tax rate) for the first six months of 2011. The decrease in our effective tax rate in the first six months of 2012 was primarily due to non-taxable ING Direct bargain purchase gain of \$594 million recorded in the first quarter of 2012 at acquisition of ING Direct. In addition to the one-time deferred tax benefit discussed above, we recorded tax benefits of \$12 million in the first six months of 2012 related to the resolution of certain tax issues and audits. In comparison, we recorded tax benefits of \$45 million related to adjustments for the resolution of certain tax issues and audits in the first six months of 2011. Our effective income tax rate, excluding both the impact of the non-taxable bargain purchase gain and the benefits from these discrete tax issues and audits, was 28.9% and 30.5% in the first six months of 2012 and 2011, respectively.

We provide additional information on items affecting our income taxes and effective tax rate in our 2011 Form 10-K under “Note 18—Income Taxes.”

Loss from Discontinued Operations, Net of Tax

Loss from discontinued operations reflects ongoing costs, which primarily consist of mortgage loan repurchase representation and warranty charges, related to the mortgage origination operations of GreenPoint’s wholesale mortgage banking unit, which we closed in 2007.

We recorded a pre-tax provision for mortgage repurchase losses of \$180 million in the second quarter of 2012, of which \$154 million (\$97 million, net of tax) was included in discontinued operations, and a pre-tax provision of \$349 million in the first six months of 2012, of which \$307 million (\$194 million, net of tax) was included in discontinued operations. In comparison, we recorded a pre-tax provision for mortgage repurchase losses of \$37 million in the second quarter of 2011, of which \$33 million (\$22 million, net of tax) was included in discontinued operations, and a pre-tax provision of \$81 million in the first six months of 2011, of which \$72 million (\$51 million, net of tax) was included in discontinued operations.

The increase in the provision for repurchase losses in the second quarter and first six months of 2012 was primarily driven by updated estimates of anticipated outcomes from various litigation and threatened litigation in the insured securitization segment based on relevant factual and legal developments and an increased reserve associated with a first quarter settlement between a subsidiary and a GSE to resolve present and future claims.

We provide additional information on the provision for mortgage repurchase losses and the related reserve for potential representation and warranty claims in “Consolidated Balance Sheet Analysis—Potential Mortgage Representation and Warranty Liabilities.”

BUSINESS SEGMENT FINANCIAL PERFORMANCE

Our principal operations are currently organized into three major business segments, which are defined based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments. Certain activities that are not part of a segment, such as management of our corporate investment portfolio and asset/liability management by our centralized Corporate Treasury group, are included in the “Other” category.

The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. Our business segment results are intended to reflect each segment as if it were a stand-alone business. We use an internal management and reporting process to derive our business segment results. Our internal management and reporting process employs various allocation methodologies, including funds transfer pricing,

[Table of Contents](#)

to assign certain balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment. Total interest income and net fees are directly attributable to the segment in which they are reported. The net interest income of each segment reflects the results of our funds transfer pricing process, which is primarily based on a matched maturity method that takes into consideration market rates. Our funds transfer pricing process provides a funds credit for sources of funds, such as deposits generated by our Consumer Banking and Commercial Banking businesses, and a funds charge for the use of funds by each segment. The allocation process is unique to each business segment and acquired businesses. See “Note 20—Business Segments” of our 2011 Form 10-K for information on the allocation methodologies used to derive our business segment results.

We may periodically change our business segments or reclassify business segment results based on modifications to our management reporting methodologies and changes in organizational alignment. In the first quarter of 2012, we re-aligned the reporting of our Commercial Banking business to reflect the operations on a product basis rather than by customer type. As a result of this re-alignment, we now report three product categories: commercial and multifamily real estate, commercial and industrial loans and small-ticket commercial real estate, which is a run-off portfolio. We previously reported four categories within our Commercial Banking business: commercial and multifamily real estate, middle market, specialty lending and small-ticket commercial real estate. Middle market and specialty lending related products are included in commercial and industrial loans. All tax-related commercial real estate investments, some of which were previously included in the “Other” segment, are now included in the commercial and multifamily real estate category of our Commercial Banking business. Prior period amounts have been recast to conform to the current period presentation.

We summarize our business segment results for the three and six months ended June 30, 2012 and 2011 in the tables below and provide a comparative discussion of these results. We also discuss changes in our financial condition and credit performance statistics as of June 30, 2012, compared with December 31, 2011. See “Note 14—Business Segments” of this Report for a reconciliation of our business segment results to our consolidated results. Information on the outlook for each of our business segments is presented above under “Executive Summary and Business Outlook.”

Credit Card Business

Our Credit Card business recorded a net loss from continuing operations of \$297 million and net income from continuing operations of \$269 million in the second quarter and first six months of 2012, respectively, compared with net income from continuing operations of \$618 million and \$1.3 billion in the second quarter and first six months of 2011, respectively. The primary sources of revenue for our Credit Card business are interest income and non-interest income from customers and interchange fees. Expenses primarily consist of ongoing operating costs, such as salaries and associate benefits, communications and other technology expenses, supplies and equipment, occupancy costs, as well as marketing expenses.

Table 7 summarizes the financial results of our Credit Card business, which is comprised of Domestic Card, including installment loans, and International Card operations, and displays selected key metrics for the periods indicated. The closing on May 1, 2012 of the HSBC U.S. card acquisition, which added approximately \$27.8 billion in outstanding credit card receivables designated as held for investment to our Credit Card business, had a significant impact on the results of our Credit Card business for the second quarter and first six months of 2012.

Table 7: Credit Card Business Results

(Dollars in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change	2012	2011	Change
Selected income statement data:						
Net interest income	\$ 2,350	\$ 1,890	24%	\$ 4,342	\$ 3,831	13%
Non-interest income	771	619	25	1,369	1,293	6
Total net revenue ⁽¹⁾	3,121	2,509	24	5,711	5,124	11
Provision for credit losses	1,711	309	454	2,169	759	186
Non-interest expense	1,863	1,238	50	3,131	2,416	30
Income from continuing operations before income taxes	(453)	962	(147)	411	1,949	(79)
Income tax provision	(156)	344	(145)	142	688	(79)
Income from continuing operations, net of tax	\$ (297)	\$ 618	(148)%	\$ 269	\$ 1,261	(79)%
Selected performance metrics:						
Average loans held for investment	\$79,662	\$ 62,691	27%	\$71,048	\$61,644	15%
Average yield on loans held for investment ⁽²⁾	13.42%	13.83%	(41)bps	13.86%	14.25%	(39)bps
Total net revenue margin ⁽³⁾	15.67	16.01	(34)	16.08	16.62	(54)
Net charge-off rate ⁽⁴⁾	3.13	5.06	(193)	3.57	5.59	(202)
Net charge-off rate (excluding acquired loans) ⁽⁵⁾	3.14	5.06	(192)	3.58	5.59	(201)
Purchase volume ⁽⁶⁾	\$45,228	\$ 34,226	32%	\$79,726	\$62,023	29%

(Dollars in millions)	June 30,	December 31,	Change
	2012	2011	
Selected period-end data:			
Loans held for investment	\$88,914	\$ 65,075	37%
30+ day delinquency rate ⁽⁷⁾	2.97%	3.86%	(89)bps
30+ day delinquency rate (excluding acquired loans) ⁽⁵⁾	2.99%	3.86%	(87)bps
Allowance for loan and lease losses	\$ 3,750	\$ 2,847	32%

⁽¹⁾ Total net revenue was reduced by \$311 million and \$112 million for the three months ended June 30, 2012 and 2011, respectively and \$434 million and \$217 million for the six months ended June 30, 2012 and 2011, respectively, for the estimated uncollectible amount of billed finance charges and fees.

⁽²⁾ Calculated by dividing annualized interest income for the period by average loans held for investment during the period.

⁽³⁾ Calculated by dividing annualized total revenue for the period by average loans held for investment during the period for the specified loan category.

⁽⁴⁾ Calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.

⁽⁵⁾ Calculation of ratio adjusted to exclude from the denominator acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected. See "Summary of Selected Financial Data," "Credit Risk Profile" and "Note 5—Loans—Credit Quality" for additional information on the impact of acquired loans on our credit quality metrics.

⁽⁶⁾ Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.

⁽⁷⁾ Calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category. The 30+ day performing delinquency rate is the same as the 30+ day delinquency rate for our Credit Card business, as credit card loans remain on accrual status until the loan is charged-off.

[Table of Contents](#)

Key factors affecting the results of our Credit Card business for the second quarter and first six months of 2012, compared with the second quarter and first six months of 2011 included the following:

- *Net Interest Income:* Net interest income increased by \$460 million, or 24%, in the second quarter of 2012 and by \$511 million, or 13%, in the first six months of 2012. The increase in each period was primarily attributable to an increase in average loans held for investment, largely due to the partial quarter impact of the addition of the \$27.8 billion in outstanding HSBC U.S. card loans classified as held for investment in the second quarter of 2012. The increase in average loans was partially offset by a decline in average loan yields, largely due to lower yields in Domestic Card resulting from the establishment of a finance charge and fee reserve for the acquired HSBC U.S. card loan portfolio and premium amortization expense related to the acquired loans.
- *Non-Interest Income:* Non-interest income increased by \$152 million, or 25%, in the second quarter of 2012 and by \$76 million, or 6%, in the first six months of 2012. The increase was primarily driven by higher fees generated from the increased purchase volume and accounts associated with the HSBC U.S. card acquisition in the second quarter of 2012. The increase from fees was partially offset by charges of \$75 million and \$41 million in the first and second quarter of 2012, respectively, for expected refunds to customers affected by cross-sell activities in our Domestic Card business as well as the discontinuance of the recognition of revenue for any amounts billed for cross-sell customers affected.
- *Provision for Credit Losses:* The provision for credit losses related to our Credit Card business increased by \$1.4 billion to \$1.7 billion in the second quarter of 2012 and by \$1.4 billion to \$2.2 billion in the first six months of 2012. The increase was primarily driven by provision expense of \$1.2 billion recorded in the second quarter of 2012 to build an allowance for HSBC U.S. card loans. The provision for credit losses, excluding the allowance build related to HSBC U.S. card loans, was \$513 million and \$971 million in the second quarter and first six months of 2012, respectively, an increase for each period of approximately \$200 million over the same prior year periods, reflecting a relative stabilization in credit performance improvement compared to significant credit performance improvement in the first half of 2011 that resulted in larger allowance releases than the first half of 2012.
- *Non-Interest Expense:* Non-interest expense increased by \$625 million, or 50%, in the second quarter of 2012 and by \$715 million, or 30% in the first six months of 2012. The increase was largely due to the partial quarter impact of HSBC U.S. card operating expenses and expenses related to the HSBC U.S. card acquisition, including \$85 million purchased credit card relationship (“PCCR”) intangible amortization expense and merger-related expenses associated with the acquisition. Other items contributing to the increase included expense of \$60 million for regulatory fines related to cross-sell activities in the Domestic Card business, expense of \$98 million for net litigation reserves to cover interchange and other settlements reached in the second quarter of 2012.
- *Total Loans:* Period-end loans in our Credit Card business increased by \$23.8 billion, or 37%, to \$88.9 billion as of June 30, 2012, from \$65.1 billion as of December 31, 2011, primarily due to the addition of the \$27.8 billion in outstanding HSBC U.S. card loans classified as held of investment, which was partially offset by the continued run-off of our installment loan portfolio.
- *Charge-off and Delinquency Statistics:* The net charge-off rate decreased to 3.13% and 3.57% in the second quarter and first six months of 2012, respectively, from 5.06% and 5.59% in the second quarter and first six months of 2011, respectively. The 30+ day delinquency rate decreased to 2.97% as of June 30, 2012, from 3.86% as of December 31, 2011. The decreases in the net-charge off rates and 30+ day delinquency rate was largely due to the addition of the HSBC U.S. card portfolio to the denominator in calculating our reported charge-off and delinquency rates and the lag in the impact of charge-offs related to this portfolio, which was recorded at fair value at acquisition. In addition, our reported charge-off and delinquency rates reflect the absence of charge-offs for the acquired HSBC U.S. card loans accounted for based on expected cash flows. The credit quality metrics in our Credit Card business also reflected continued credit improvement across our legacy card portfolio.

Domestic Card Business

Domestic Card recorded a net loss from continuing operations of \$264 million and net income from continuing operations of \$251 million in the second quarter and first six months of 2012, respectively, compared with net income from continuing operations of \$642 million and \$1.3 billion in the second quarter and first six months of 2011, respectively.

Because our Domestic Card business currently accounts for the substantial majority of our Credit Card business, the key factors driving the results for this division are similar to the key factors affecting our total Credit Card business. The decrease in Domestic Card net income from continuing operations in the second quarter and first six months of 2012 compared with the second quarter and first six months of 2011 was driven by: (1) an increase in total net revenue largely due to the addition of the HSBC U.S. card portfolio, partially offset by expense for expected customer refunds related to cross-sell activities; (2) significant increase in the provision for credit losses resulting from an allowance build for the HSBC U.S. card loan portfolio; and (3) an increase in non-interest expense due to the partial quarter impact of HSBC U.S. card operating expenses, PCCR amortization expense related to the HSBC U.S. card acquisition and charges related to cross-sell activities and interchange litigation.

Table 7.1 summarizes the financial results for Domestic Card and displays selected key metrics for the periods indicated.

Table 7.1: Domestic Card Business Results

(Dollars in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change	2012	2011	Change
Selected income statement data:						
Net interest income	\$ 2,118	\$ 1,607	32%	\$ 3,831	\$ 3,258	18%
Non-interest income	708	584	21	1,205	1,167	3
Total net revenue	2,826	2,191	29	5,036	4,425	14
Provision for credit losses	1,600	187	756	1,961	417	370
Non-interest expense	1,634	1,008	62	2,686	1,998	34
Income from continuing operations before income taxes	(408)	996	(141)	389	2,010	(81)
Income tax provision	(144)	354	(141)	138	714	(81)
Income from continuing operations, net of tax	\$ (264)	\$ 642	(141)%	\$ 251	\$ 1,296	(81)%
Selected performance metrics:						
Average loans held for investment	\$71,468	\$ 53,868	33%	\$62,800	\$52,884	19%
Average yield on loans held for investment ⁽¹⁾	13.33%	13.52%	(19)bps	13.67%	13.96%	(29)bps
Total net revenue margin ⁽²⁾	15.82	16.27	(45)	16.04	16.73	(69)
Net charge-off rate ⁽³⁾	2.86	4.74	(188)	3.32	5.45	(213)
Purchase volume ⁽⁴⁾	\$41,807	\$ 31,070	35%	\$73,224	\$56,094	31%
Selected period-end data:						
Loans held for investment	\$80,798	\$ 56,609	43%			
30+ day delinquency rate ⁽⁵⁾	2.79%	3.66%	(87)bps			
Allowance for loan and lease losses	\$ 3,295	\$ 2,375	39%			

[Table of Contents](#)

- (1) Calculated by dividing annualized interest income for the period by average loans held for investment during the period.
- (2) Calculated by dividing annualized total revenue for the period by loans held for investment during the period for the specified loan category.
- (3) Calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.
- (4) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.
- (5) Calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category. The 30+ day performing delinquency rate is the same as the 30+ day delinquency rate for our Credit Card business, as credit card loans remain on accrual status until the loan is charged-off.

International Card Business

Our International Card business recorded a net loss from continuing operations of \$33 million and net income of \$18 million in the second quarter and first six months of 2012, respectively, compared with a net loss from continuing operations of \$24 million and \$35 million in second quarter and first six months of 2011, respectively.

The primary driver of the \$9 million increase in net loss from continuing operations in the second quarter of 2012 from the net loss in the second quarter of 2011 was the recognition of expense of \$82 million in the second quarter of 2012 for the costs associated with refunds to U.K. customers related to retrospective regulatory requirements pertaining to Payment Protection Insurance (“PPI”) in the U.K, compared with expense of \$76 million in the second quarter of 2011.

The primary driver of the improvement in results in the first six months of 2012 compared with the first six months of 2011 was a decrease in the provision for credit losses, reflecting an allowance release of \$17 million in the first six months of 2012 due to lower net-charge offs and improvement in the credit environment in Canada and the U.K, compared with an allowance build of \$78 million in first six months of 2011. The allowance build was largely due to the addition of the Hudson’s Bay Company (“HBC”) loan portfolio in 2011.

[Table of Contents](#)

Table 7.2 summarizes the financial results for International Card and displays selected key metrics for the periods indicated.

Table 7.2: International Card Business Results

(Dollars in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change	2012	2011	Change
Selected income statement data:						
Net interest income	\$ 232	\$ 283	(18)%	\$ 511	\$ 573	(11)%
Non-interest income	63	35	80	164	126	30
Total net revenue	295	318	(7)	675	699	(3)
Provision for credit losses	111	122	(9)	208	342	(39)
Non-interest expense	229	230	**	445	418	6
Income from continuing operations before income taxes	(45)	(34)	(32)	22	(61)	136
Income tax provision	(12)	(10)	(20)	4	(26)	115
Income from continuing operations, net of tax	\$ (33)	\$ (24)	(38)%	\$ 18	\$ (35)	151%
Selected performance metrics:						
Average loans held for investment	\$8,194	\$ 8,823	(7)%	\$8,248	\$8,760	(6)%
Average yield on loans held for investment ⁽¹⁾	14.18%	15.77%	(159)bps	15.29%	16.02%	(73)bps
Revenue margin ⁽²⁾	14.40	14.42	(2)	16.37	15.96	41
Net charge-off rate ⁽³⁾	5.49	7.02	(153)	5.51	6.39	(88)
Purchase volume ⁽⁴⁾	\$3,421	\$ 3,156	8%	\$6,502	\$5,929	10%

(Dollars in millions)	June 30, 2012	December 31, 2011	Change
Selected period-end data:			
Loans held for investment	\$8,116	\$ 8,466	(4)%
30+ day delinquency rate ⁽⁵⁾	4.84%	5.18%	(34)bps
Allowance for loan and lease losses	\$ 455	\$ 472	(4)%

** Change is less than one percent.

(1) Calculated by dividing annualized interest income for the period by average loans held for investment during the period.

(2) Calculated by dividing annualized total revenue for the period by loans held for investment during the period for the specified loan category.

(3) Calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.

(4) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.

(5) Calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category. The 30+ day performing delinquency rate is the same as the 30+ day delinquency rate for our Credit Card business, as credit card loans remain on accrual status until the loan is charged-off.

Consumer Banking Business

Our Consumer Banking business generated net income from continuing operations of \$438 million and \$662 million in the second quarter and first six months of 2012, respectively, compared with net income from continuing operations of \$287 million and \$502 million in the second quarter and first six months of 2011, respectively. The primary sources of revenue for our Consumer Banking business are net interest income from loans and deposits and non-interest income from customer fees. Expenses primarily consist of ongoing operating costs, such as salaries and associated benefits, communications and other technology expenses, supplies and equipment and occupancy costs.

[Table of Contents](#)

On February 17, 2012, we acquired ING Direct, and the substantial majority of the lending and retail deposit businesses acquired are reported in the Consumer Banking segment. The acquisition resulted in the addition of loans with carrying value of \$40.4 billion and deposits of \$84.4 billion at acquisition.

Table 8 summarizes the financial results of our Consumer Banking business and displays selected key metrics for the periods indicated.

Table 8: Consumer Banking Business Results

(Dollars in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change	2012	2011	Change
Selected income statement data:						
Net interest income	\$ 1,496	\$ 1,051	42%	\$ 2,784	\$ 2,034	37%
Non-interest income	185	194	(5)	361	380	(5)
Total net revenue	1,681	1,245	35	3,145	2,414	30
Provision for credit losses	44	41	7	218	136	60
Non-interest expense	959	758	27	1,902	1,498	27
Income from continuing operations before income taxes	678	446	52	1,025	780	31
Income tax provision	240	159	51	363	278	31
Income from continuing operations, net of tax	\$ 438	\$ 287	53%	\$ 662	\$ 502	32%
Selected performance metrics:						
Average loans held for investment ⁽¹⁾						
Auto	\$ 24,487	\$18,753	31%	\$ 23,535	\$18,391	28%
Home loan	48,966	11,534	325	39,234	11,746	234
Retail banking	4,153	4,154	**	4,166	4,202	(1)
Total consumer banking	\$ 77,606	\$34,441	125%	\$ 66,935	\$34,339	95%
Average yield on loans held for investment	6.17%	9.51%	(334)bps	6.61%	9.55%	(294)bps
Average deposits	\$174,416	\$86,926	101%	\$152,166	\$85,413	78%
Average deposit interest rate	0.70%	1.00%	(30)bps	0.72%	1.03%	(31)bps
Core deposit intangible amortization	\$ 42	\$ 34	24%	\$ 79	\$ 68	16%
Net charge-off rate ⁽²⁾	0.48%	1.01%	(53)bps	0.60%	1.29%	(69)bps
Net charge-off rate (excluding acquired loans) ⁽²⁾	1.02%	1.17	(15)	1.15	1.50	(35)
Automobile loan originations	\$ 4,306	\$ 2,910	48%	\$ 8,576	\$ 5,481	56%

Table of Contents

(Dollars in millions)	June 30, 2012	December 31, 2011	Change
Selected period-end data:			
Loans held for investment: ⁽¹⁾			
Auto	\$ 25,251	\$ 21,779	16%
Home loans	48,224	10,433	362
Retail banking	4,140	4,103	1
Total consumer banking	<u>\$ 77,615</u>	<u>\$ 36,315</u>	<u>114%</u>
30+ day performing delinquency rate ⁽⁴⁾	1.82%	4.47%	(265)bps
30+ day performing delinquency rate (excluding acquired loans) ⁽³⁾	3.82	5.06	(124)
30+ day delinquency rate ⁽⁵⁾	2.47	5.99	(352)
30+ day delinquency rate (excluding acquired loans) ⁽³⁾	5.19	6.78	(159)
Nonperforming loan rate ⁽⁶⁾	0.79	1.79	(100)
Nonperforming loan rate (excluding acquired loans) ⁽³⁾	1.66	2.03	(37)
Nonperforming asset rate ⁽⁷⁾	0.83	1.94	(111)
Nonperforming asset rate (excluding acquired loans) ⁽³⁾	1.75	2.20	(45)
Allowance for loan and lease losses	\$ 669	\$ 652	3%
Deposits	173,966	88,540	96
Loans serviced for others	16,108	17,998	(11)

⁽¹⁾ Loans held for investment includes loans acquired in the ING Direct and Chevy Chase Bank acquisitions. The carrying value of consumer banking acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was \$40.7 billion and \$4.2 billion as of June 30, 2012, and December 31, 2011, respectively. The average balance of consumer banking loans held for investment, excluding the carrying value of acquired loans, was \$36.2 billion and \$29.8 billion for the three months ended June 30, 2012 and 2011, respectively and \$35.0 billion and \$29.6 billion for the six months ended June 30, 2012 and 2011, respectively.

⁽²⁾ Calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.

⁽³⁾ Calculation of ratio adjusted to exclude from the denominator acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected. See "Summary of Selected Financial Data," "Credit Risk Profile" and "Note 5—Loans—Credit Quality" for additional information on the impact of acquired loans on our credit quality metrics.

⁽⁴⁾ Calculated by loan category by dividing 30+ day performing delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category.

⁽⁵⁾ Calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category.

⁽⁶⁾ Calculated by loan category by dividing nonperforming loans as of the end of the period by period-end loans held for investment for the specified loan category. Nonperforming loans generally include loans that have been placed on nonaccrual status and certain restructured loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty.

⁽⁷⁾ The nonperforming asset rate is calculated by loan category by dividing nonperforming assets as of the end of the period by period-end nonperforming assets. Nonperforming assets consist of nonperforming loans, real estate owned ("REO") and other foreclosed assets.

Key factors contributing to the improvement in the results of our Consumer Banking business for the second quarter and first six months of 2012, compared with the second quarter and first six months of 2011 included the following:

- *Net Interest Income:* Net interest income increased by \$445 million, or 42%, in the second quarter of 2012 and by \$750 million, or 37%, in the first six months of 2012. The increase was primarily attributable to an increase in average loans held for investment due to higher originations in auto loans over the past twelve months as well as the acquisition of ING Direct home loans in the first quarter of 2012. The favorable impact of the increase in average loans more than offset a decline in loan yields, attributable to the lower yielding ING Direct home loan portfolio.

[Table of Contents](#)

- *Non-Interest Income:* Non-interest income decreased by \$9 million, or 5%, in the second quarter of 2012 and by \$19 million, or 5%, in the first six months of 2012. The decrease was primarily attributable to reduced revenues resulting from the implementation of the Dodd-Frank amendment related to debit interchange fees in late 2011, which was partially offset by the addition of ING Direct deposits in the first quarter of 2012.
- *Provision for Credit Losses:* The provision for credit losses increased by \$3 million to \$44 million in the second quarter of 2012 and by \$82 million to \$218 million in the first six months of 2012. The increase in the provision was largely due to higher auto loan originations, which more than offset the benefit from lower net charge-offs and continued credit performance improvement.
- *Non-Interest Expense:* Non-interest expense increased by \$201 million, or 27%, in the second quarter of 2012 and by \$404 million, or 27% in the first six months of 2012. The increase was largely attributable to the on-going operating expenses of ING Direct, the associated merger-related expenses for the acquisition, higher infrastructure expenditure resulting from continued investments in the home loan business and growth in auto originations.
- *Total Loans:* Period-end loans held for investment in our Consumer Banking business more than doubled, increasing by \$41.3 billion to \$77.6 billion as of June 30, 2012, from \$36.3 billion as of December 31, 2011, primarily due to the acquisition of \$40.4 billion of ING Direct home loans and increased originations in auto loans, partially offset by the continued run-off of our legacy home loan portfolios.
- *Deposits:* Period-end deposits in the Consumer Banking business increased by \$85.4 billion, or 96%, to \$174.0 billion as of June 30, 2012, from \$88.5 billion as of December 31, 2011, primarily due to the addition of ING Direct deposits of \$84.4 billion and a slight increase in deposits in our retail branch franchise.
- *Charge-off and Delinquency Statistics:* The improvement in the reported net charge-off and delinquency rates for our Consumer Banking business reflect the impact of the addition of the ING Direct home loan portfolio, the substantial majority of which is accounted for based on estimated cash flows expected to be collected over the life of the loans. As discussed above in “Summary of Selected Financial Data”, because the fair value recorded at acquisition and subsequent accounting for these loans takes into consideration future credit losses expected to be incurred, there are no charge-offs or an allowance associated with these loans unless the estimated cash flows expected to be collected decrease subsequent to acquisition. In addition, these loans are not classified as delinquent or nonperforming even though the customer may be contractually past due because we expect that we will fully collect the carrying value of these loans. The improvement in net-charge and delinquency rates, excluding acquired loans, reflects improved credit performance in our legacy loan portfolios.

Commercial Banking Business

Our Commercial Banking business generated net income from continuing operations of \$228 million and \$438 million in the second quarter and first six months of 2012, respectively, compared with net income from continuing operations of \$159 million and \$321 million in the second quarter and first six months of 2011, respectively. The primary sources of revenue for our Commercial Banking business are net interest income from loans and deposits and non-interest income from customer fees. Expenses primarily consist of ongoing operating costs, such as salaries and associated benefits, communications and other technology expenses, supplies and equipment and occupancy costs. Because we have some tax-related commercial investments that generate tax-exempt income or tax credits, we make certain reclassifications to our Commercial Banking business results to present revenues on a taxable-equivalent basis.

[Table of Contents](#)

Table 9 summarizes the financial results of our Commercial Banking business and displays selected key metrics for the periods indicated.

Table 9: Commercial Banking Business Results

(Dollars in millions)	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	2011	Change	2012	2011	Change
Selected income statement data:						
Net interest income	\$ 427	\$ 388	10%	\$ 858	\$ 764	12%
Non-interest income	82	62	32	167	133	26
Total net revenue	509	450	13	1,025	897	14
Provision for credit losses	(94)	(19)	395	(163)	(35)	366
Non-interest expense	251	222	13	512	434	18
Income from continuing operations before income taxes	352	247	43	676	498	36
Income tax provision	124	88	41	238	177	34
Income from continuing operations, net of tax	\$ 228	\$ 159	43%	\$ 438	\$ 321	36%
Selected performance metrics:						
Average loans held for investment: ⁽¹⁾						
Commercial and multifamily real estate	\$15,838	\$13,859	14%	\$15,676	\$13,720	14%
Commercial and industrial	18,001	14,993	20	17,520	14,813	18
Total commercial lending	33,839	28,852	17	33,196	28,532	16
Small-ticket commercial real estate	1,388	1,726	(20)	1,434	1,772	(19)
Total commercial banking	\$35,227	\$30,578	15%	\$34,630	\$30,304	14%
Average yield on loans held for investment	4.27%	4.75%	(48)bps	4.37%	4.78%	(41)bps
Average deposits	\$27,943	\$24,371	15%	\$27,756	\$24,302	14%
Average deposit interest rate	0.33%	0.52%	(19)bps	0.35%	0.53%	(18)bps
Core deposit intangible amortization	\$ 9	\$ 10	(10)%	\$ 18	\$ 21	(14)%
Net charge-off rate ⁽²⁾	0.19%	0.50%	(31)bps	0.19%	0.65%	(46)bps
Net charge-off rate (excluding acquired loans) ⁽³⁾	0.19	0.50	(31)	0.19	0.66	(47)

Table of Contents

(Dollars in millions)	June 30, 2012	December 31, 2011	Change
Selected period-end data:			
Loans held for investment: ⁽¹⁾			
Commercial and multifamily real estate	\$16,254	\$ 15,736	3%
Commercial and industrial	18,467	17,088	8
Total commercial lending	34,721	32,824	6
Small-ticket commercial real estate	1,335	1,503	(11)
Total commercial banking	\$36,056	\$ 34,327	5%
Nonperforming loan rate ⁽⁴⁾	0.99%	1.08%	(9)bps
Nonperforming loan rate (excluding acquired loans) ⁽³⁾	1.00	1.10	(10)
Nonperforming asset rate ⁽⁵⁾	1.04	1.17	(13)
Nonperforming asset rate (excluding acquired loans) ⁽³⁾	1.05	1.18	(13)
Allowance for loan and lease losses	\$ 535	\$ 715	(25)%
Deposits	27,784	26,683	4

⁽¹⁾ Loans held for investment includes loans acquired in the ING Direct and Chevy Chase Bank acquisitions. The carrying value of commercial banking acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was \$430 million and \$479 million as of June 30, 2012, and December 31, 2011, respectively. The average balance of commercial banking loans held for investment, excluding the carrying value of acquired loans, was \$34.8 billion and \$34.2 billion in the second quarter and first six months of 2012, respectively and \$30.1 billion and \$29.8 billion in the second quarter and first six months of 2011, respectively.

⁽²⁾ Calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.

⁽³⁾ Calculation of ratio adjusted to exclude from the denominator acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected. See "Summary of Selected Financial Data," "Credit Risk Profile" and "Note 5—Loans—Credit Quality" for additional information on the impact of acquired loans on our credit quality metrics.

⁽⁴⁾ Calculated by loan category by dividing nonperforming loans as of the end of the period by period-end loans held for investment for the specified loan category. Nonperforming loans generally include loans that have been placed on nonaccrual status and certain restructured loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty.

⁽⁵⁾ The nonperforming asset rate is calculated by loan category by dividing nonperforming assets as of the end of the period by period-end loans held for investment, REO, and other foreclosed assets for the specified loan category.

Key factors affecting the results of our Commercial Banking business for the second quarter and first six months of 2012, compared with the second quarter and first six months of 2011 included the following:

- *Net Interest Income:* Net interest income increased by \$39 million, or 10%, in the second quarter of 2012 and by \$94 million, or 12%, in the first six months of 2012. The increase was primarily driven by higher deposit balances and growth in commercial real estate and commercial and industrial loans.
- *Non-Interest Income:* Non-interest income increased by \$20 million, or 32% in the second quarter of 2012 and by \$34 million, or 26% in the first six months of 2012, largely attributable to growth in fees from ancillary services provided to customers.
- *Provision for Credit Losses:* The provision for credit losses decreased by \$75 million to negative \$94 million in the second quarter of 2012 and decreased by \$128 million to negative \$163 million in the first six months of 2012. The significant reduction in the provision for credit losses was attributable to lower charge-offs due to an improvement in underlying credit performance trends. As a result, we recorded allowance releases of \$101 million and \$180 million in the second quarter and first six months of 2012, respectively, compared with allowance releases of \$53 million and \$98 million in the second quarter and first six months of 2011, respectively.

[Table of Contents](#)

- *Non-Interest Expense:* Non-interest expense increased by \$29 million, or 13% in the second quarter of 2012 and by \$78 million, or 18% in the first six months of 2012. The increase was due to costs associated with higher originations in our commercial real estate and commercial and industrial businesses, expansion into new markets and infrastructure investments.
- *Total Loans:* Period-end loans in the Commercial Banking business increased by \$1.7 billion, or 5%, to \$36.1 billion as of June 30, 2012, from \$34.3 billion as of December 31, 2011. The increase was driven by stronger loan originations in the commercial and industrial and commercial real estate businesses, which was partially offset by the continued run-off of the small-ticket commercial real estate loan portfolio.
- *Deposits:* Period-end deposits in the Commercial Banking business increased by \$1.1 billion, or 4%, to \$27.8 billion as of June 30, 2012, from \$26.7 billion as of December 31, 2011, driven by our strategy to strengthen existing relationships and increase liquidity from commercial customers.
- *Charge-off Statistics:* Credit metrics in our Commercial Banking business significantly improved in the second quarter and first six months of 2012, attributable to improving credit trends and strengthening of underlying collateral values. This improvement has resulted in lower loss severities and created opportunities for recoveries on previously charged-off loans. The net charge-off rate decreased to 0.19% in both the second quarter and first six months of 2012, from 0.50% and 0.65% in the second quarter and first six months of 2011, respectively.

CONSOLIDATED BALANCE SHEET ANALYSIS

Total assets of \$296.6 billion as of June 30, 2012 increased by \$90.6 billion, or 44%, from \$206.0 billion as of December 31, 2011. Total liabilities of \$259.4 billion as of June 30, 2012, increased by \$83.0 billion, or 47%, from \$176.4 billion as of December 31, 2011. Stockholders' equity increased by \$7.5 billion during the first six months of 2012, to \$37.2 billion as of June 30, 2012 from \$29.7 billion as of December 31, 2011. The increase in stockholders' equity was primarily attributable to our net income of \$1.5 billion in the first six months of 2012, and the \$5.8 billion in equity issuances in the first six months of 2012.

Following is a discussion of material changes in the major components of our assets and liabilities during the first six months of 2012.

Investment Securities

Our investment securities portfolio, which had a fair value of \$55.3 billion and \$38.8 billion, as of June 30, 2012 and December 31, 2011, respectively, consists of the following: U.S. Treasury and U.S. agency debt obligations; agency and non-agency mortgage-backed securities; asset-backed securities collateralized primarily by credit card loans, auto loans, student loans, auto dealer floor plan inventory loans, equipment loans, commercial paper, and home equity lines of credit; municipal securities; foreign government/agency bonds; covered bonds; and Community Reinvestment Act ("CRA") equity securities. Our investment securities portfolio continues to be concentrated in securities that generally have lower credit risk and high credit ratings, such as securities issued and guaranteed by the U.S. Treasury and government sponsored enterprises or agencies. Investments in U.S. Treasury, agency securities and other securities guaranteed by the U.S. Government, based on fair value, accounted for 68% of our total investment securities portfolio as of June 30, 2012, compared with 69% as of December 31, 2011.

All of our investment securities were classified as available for sale as of June 30, 2012 and reported in our consolidated balance sheet at fair value. Table 10 presents the amortized cost and fair value for the major categories of our investment securities as of June 30, 2012 and December 31, 2011.

Table 10: Investment Securities

(Dollars in millions)	June 30, 2012		December 31, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury debt obligations	\$ 1,559	\$ 1,562	\$ 115	\$ 124
U.S. agency debt obligations ⁽¹⁾	381	388	131	138
Residential mortgage-backed securities ("RMBS"):				
Agency ⁽²⁾	30,013	30,616	24,980	25,488
Non-agency	3,800	3,671	1,340	1,162
Total RMBS	33,813	34,287	26,320	26,650
Commercial mortgage-backed securities ("CMBS"):				
Agency ⁽²⁾	4,740	4,811	697	711
Non-agency	1,264	1,298	459	476
Total CMBSs	6,004	6,109	1,156	1,187
Other asset-backed securities ⁽³⁾	11,646	11,689	10,119	10,150
Other securities ⁽⁴⁾	1,219	1,254	462	510
Total securities available for sale	\$ 54,622	\$ 55,289	\$ 38,303	\$ 38,759

⁽¹⁾ Includes debt securities issued by Fannie Mae and Freddie Mac with an amortized cost of \$130 million as of both June 30, 2012 and December 31, 2011, and fair value of \$135 million and \$137 million, as of June 30, 2012 and December 31, 2011, respectively. The remaining balance consists of debt that is guaranteed by the U.S. Government.

[Table of Contents](#)

- (2) Includes MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae with an amortized cost of \$15.1 billion, \$10.3 billion, and \$9.4 billion and \$12.3 billion, \$8.9 billion and \$4.5 billion, respectively, as of June 30, 2012 and December 31, 2011, respectively, and fair value of \$15.4 billion, \$10.5 billion, and \$9.5 billion and \$12.6 billion, \$9.1 billion and \$4.5 billion, respectively, as of June 30, 2012 and December 31, 2011, respectively. The book value of Fannie Mae, Freddie Mac and Ginnie Mae investments individually exceeded 10% of our stockholders' equity as of June 30, 2012 and December 31, 2011.
- (3) Includes securities collateralized by credit card loans, auto dealer floor plan inventory loans and leases, auto loans, student loans, equipment loans, and other. The distribution among these asset types was approximately 73% credit card loans, 13% auto dealer floor plan inventory loans and leases, 6% auto loans, 1% student loans, 2% equipment loans, 2% commercial paper, and 3% other as of June 30, 2012. In comparison, the distribution was approximately 75% credit card loans, 11% auto dealer floor plan inventory loans and leases, 6% auto loans, 4% student loans, 2% equipment loans, and 2% other as of December 31, 2011. Approximately 85% of the securities in our asset-backed security portfolio were rated AAA or its equivalent as of June 30, 2012, compared with 86% as of December 31, 2011.
- (4) Includes foreign government/agency bonds, covered bonds, municipal securities and equity investments, primarily related to CRA activities.

Our investment securities increased by \$16.5 billion, or 43%, in the first six months of 2012. The increase was primarily attributable to the acquisition of ING Direct investment securities of \$30.2 billion, which was partially offset by the sale of investment securities of approximately \$14.3 billion. We recorded a total net gain of \$41 million on the sale of these securities.

Unrealized gains and losses on our available-for-sale securities are recorded net of tax as a component of accumulated other comprehensive income ("AOCI"). We had gross unrealized gains of \$880 million and gross unrealized losses of \$213 million on available-for sale securities as of June 30, 2012, compared with gross unrealized gains of \$683 million and gross unrealized losses of \$227 million on available-for sale securities as of December 31, 2011. The substantial majority of the gross unrealized losses as of June 30, 2012 and December 31, 2011 related to non-agency residential MBS. Of the \$213 million gross unrealized losses as of June 30, 2012, \$119 million related to securities that had been in a loss position for more than 12 months.

We recognized net OTTI on investment debt securities of \$13 million and \$27 million in the second quarter and first six months of 2012. In comparison, we recognized net OTTI on investment debt securities of \$6 million and \$9 million in the second quarter and first six months of 2011, which was due in part to the deterioration in the credit performance and outlook of certain non-agency securities as a result of continued weakness in the housing market.

We provide additional information on our available-for-sale investment securities in "Note 4—Investment Securities."

Credit Ratings

Our investment securities portfolio continues to be concentrated in securities that generally have lower credit risk and high credit ratings, such as securities issued and guaranteed by the U.S. Treasury and government sponsored enterprises or agencies. Approximately 89% and 91% of our total investment securities portfolio was rated AA+ or its equivalent, or higher, as of June 30, 2012 and December 31, 2011, respectively, while approximately 7% and 4% were below investment grade as of June 30, 2012 and December 31, 2011, respectively. We categorize the credit ratings of our investment securities based on the lowest credit rating as issued by the rating agencies S&P, Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch").

Table 11 provides information on the credit ratings of our non-agency residential MBS, non-agency commercial MBS and asset-backed securities, which accounted for the substantial majority of the unrealized losses related to our investment securities portfolio as of June 30, 2012 and December 31, 2011.

[Table of Contents](#)

Table 11: Non-Agency Investment Securities Credit Ratings

(Dollars in millions)	June 30, 2012				December 31, 2011			
	Amortized Cost	AAA	Other Investment Grade	Below Investment Grade or Not Rated	Amortized Cost	AAA	Other Investment Grade	Below Investment Grade or Not Rated
Non-agency residential MBS	\$ 3,800	1%	6%	93%	\$ 1,340	—%	3%	97%
Non-agency commercial MBS	1,264	94	6	0	459	92	8	—
Asset-backed securities	11,646	85	12	3	10,119	86	14	—

Loans Held-for-Investment

Table 12 summarizes loans held for investment, net of the allowance for loan and lease losses, as of June 30, 2012 and December 31, 2011.

Table 12: Net Loans Held for Investment

(Dollars in millions)	June 30, 2012			December 31, 2011		
	Total Loans Held For Investment	Allowance	Net Loans Held For Investment	Total Loans Held For Investment	Allowance	Net Loans Held For Investment
Credit Card	\$ 88,914	\$ 3,750	\$ 85,164	\$ 65,075	\$ 2,847	\$ 62,228
Consumer Banking	77,615	669	76,946	36,315	652	35,663
Commercial Banking	36,056	535	35,521	34,327	715	33,612
Other	164	44	120	175	36	139
Total	<u>\$ 202,749</u>	<u>\$ 4,998</u>	<u>\$ 197,751</u>	<u>\$ 135,892</u>	<u>\$ 4,250</u>	<u>\$ 131,642</u>

Total loans held for investment increased by \$66.9 billion, or 49%, in the first six months of 2012 to \$202.7 billion as of June 30, 2012. The increase was attributable to the addition of \$40.4 billion of loans from the ING Direct acquisition and \$27.8 billion in outstanding credit card receivables classified as held for investment from the HSBC U.S. card acquisition, which was partially offset by the continued expected run-off of loans in businesses we exited or repositioned, other loan pay downs and charge-offs. The run-off portfolios include installment loans in our Credit Card business, home loans in our Consumer Banking business and small-ticket commercial real estate loans in our Commercial Banking business. We provide additional information on the composition of our loan portfolio and credit quality below in “Credit Risk Profile.”

Deposits

Our deposits have become our largest source of funding for our operations and asset growth. Total deposits increased by \$85.7 billion, or 67%, in the first six months of 2012, to \$213.9 billion as of June 30, 2012, from \$128.2 billion as of December 31, 2011. The increase in deposits reflects the addition of \$84.4 billion in deposits from the ING Direct acquisition and increased retail marketing efforts to attract new business and continued strategy to leverage our bank outlets to attract lower cost deposit funding. We provide additional information on the composition of our deposits, average outstanding balances, interest expense and yield below in “Liquidity Risk Profile.”

Senior and Subordinated Notes and Other Borrowings

Senior and subordinated notes and other borrowings decreased to \$22.3 billion as of June 30, 2012, from \$23.0 billion as of December 31, 2011. The \$768 million decrease in our debt, excluding securitized debt obligations,

[Table of Contents](#)

was primarily attributable to a \$1.8 billion decrease in short-term borrowings, a decrease of \$282 million due to the maturity of outstanding senior notes, offset by the proceeds of approximately \$1.25 billion from the issuance of new senior notes. We provide additional information on our borrowings in “Note 9—Deposits and Borrowings.”

Securitized Debt Obligations

Borrowings owed to securitization investors decreased by \$2.9 billion to \$13.6 billion as of June 30, 2012, from \$16.5 billion as of December 31, 2011. This decrease was attributable to scheduled maturities of the debt within our credit card securitization trusts.

Potential Mortgage Representation & Warranty Liabilities

We acquired three subsidiaries that originated residential mortgage loans and sold them to various purchasers, including purchasers who created securitization trusts. These subsidiaries are Capital One Home Loans, which was acquired in February 2005; GreenPoint Mortgage Funding, Inc. (“GreenPoint”), which was acquired in December 2006 as part of the North Fork acquisition; and Chevy Chase Bank, which was acquired in February 2009 and subsequently merged into CONA.

We have established representation and warranty reserves for losses associated with the mortgage loans sold by each subsidiary that we consider to be both probable and reasonably estimable, including both litigation and non-litigation liabilities. These reserves are reported in our consolidated balance sheets as a component of other liabilities. The reserve setting process relies heavily on estimates, which are inherently uncertain, and requires the application of judgment. We evaluate these estimates on a quarterly basis. We build our representation and warranty reserves through the provision for repurchase losses, which we report in our consolidated statements of income as a component of non-interest income for loans originated and sold by Chevy Chase Bank and Capital One Home Loans and as a component of discontinued operations for loans originated and sold by GreenPoint. In establishing the representation and warranty reserves, we consider a variety of factors depending on the category of purchaser.

The aggregate reserves for all three subsidiaries were \$1.0 billion as of June 30, 2012, as compared with \$1.1 billion as of March 31, 2012, and \$943 million as of December 31, 2011. We recorded a total provision for repurchase losses for our representation and warranty repurchase exposure of \$180 million and \$349 million for the three and six months ended June 30, 2012, respectively, driven by updated estimates of anticipated outcomes from various litigation and threatened litigation in the insured securitization segment based on relevant factual and legal developments and an increased reserve associated with a first quarter settlement between a subsidiary and a GSE to resolve present and future repurchase claims.

During the three and six months ended June 30, 2012, we had settlements of repurchase requests totaling \$279 million and \$290 million, respectively, that were charged against the reserve. The table below summarizes changes in our representation and warranty reserves for the three and six months ended June 30, 2012 and 2011, and for full year 2011.

Table 13: Changes in Representation and Warranty Reserve

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,		Full Year
	2012	2011	2012	2011	2011
Representation and warranty repurchase reserve, beginning of period ⁽¹⁾	\$ 1,101	\$846	\$ 943	\$816	\$ 816
Provision for repurchase losses ⁽²⁾	180	37	349	81	212
Net realized losses	(279)	(14)	(290)	(28)	(85)
Representation and warranty repurchase reserve, end of period ⁽¹⁾	<u>\$ 1,002</u>	<u>\$869</u>	<u>\$ 1,002</u>	<u>\$869</u>	<u>\$ 943</u>

⁽¹⁾ Reported in our consolidated balance sheets as a component of other liabilities.

⁽²⁾ The pre-tax portion of the provision for mortgage repurchase claims recognized in our consolidated statements of income as a component of non-interest income totaled \$26 million and \$42 million for the three and six months ended June 30, 2012, respectively, and \$4 million and \$9 million for the three and six months ended June 30, 2011, respectively. The pre-tax portion of the provision for mortgage repurchase claims recognized in our consolidated statements of income as a component of discontinued operations totaled \$154 million and \$307 million for the three and six months ended June 30, 2012, respectively, and \$33 million and \$72 million for the three and six months ended June 30, 2011, respectively.

We provide additional information related to the representation and warranty reserve, including factors that may impact the adequacy of the reserves and the ultimate amount of losses incurred by our subsidiaries, in “Note 15—Commitments, Contingencies and Guarantees.”

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

In the ordinary course of business, we are involved in various types of arrangements with limited liability companies, partnerships or trusts that often involve special purpose entities and variable interest entities (“VIEs”). Some of these arrangements are not recorded on our consolidated balance sheets or may be recorded in amounts different from the full contract or notional amount of the arrangements, depending on the nature or structure of, and accounting required to be applied to, the arrangement. These arrangements may expose us to potential losses in excess of the amounts recorded in the consolidated balance sheets. Our involvement in these arrangements can take many forms, including securitization and servicing activities, the purchase or sale of mortgage-backed or other asset-backed securities in connection with our home loan portfolio and loans to VIEs that hold debt, equity, real estate or other assets.

Our continuing involvement in unconsolidated VIEs primarily consists of certain mortgage loan trusts and community reinvestment and development entities. The carrying amount of assets and liabilities of these unconsolidated VIEs was \$2.6 billion and \$414 million, respectively, as of June 30, 2012, and our maximum exposure to loss was \$2.7 billion. We provide a discussion of our activities related to these VIEs in “Note 7—Variable Interest Entities and Securitizations.”

CAPITAL MANAGEMENT

The level and composition of our equity capital are determined by multiple factors, including our consolidated regulatory capital requirements and an internal risk-based capital assessment, and may also be influenced by rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in our business and market environments.

Capital Standards and Prompt Corrective Action

Bank holding companies and national banks are subject to capital adequacy standards adopted by the Federal Reserve and the Office of the Comptroller of the Currency (“OCC”), respectively. The capital adequacy

[Table of Contents](#)

standards set forth minimum risk-based and leverage capital requirements that are based on quantitative and qualitative measures of their assets and off-balance sheet items. Under the capital adequacy standards, bank holding companies and banks currently are required to maintain a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4%, and a Tier 1 leverage capital ratio of at least 4% (3% for banks that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate exposure and the highest regulatory rating) in order to be considered adequately capitalized.

National banks also are subject to prompt corrective action capital regulations. Under prompt corrective action regulations, a bank is considered to be well capitalized if it maintains a Tier 1 risk-based capital ratio of at least 6% (200 basis points higher than the above minimum capital standard), a total risk-based capital ratio of at least 10% (200 basis points higher than the above minimum capital standard), a Tier 1 leverage capital ratio of at least 5% and is not subject to any supervisory agreement, order or directive to meet and maintain a specific capital level for any capital reserve. A bank is considered to be adequately capitalized if it meets these minimum capital ratios and does not otherwise meet the well capitalized definition. Currently, prompt corrective action capital requirements do not apply to bank holding companies. We also disclose Tier 1 common ratios, which are regulatory capital measures widely used by investors, analysts, rating agencies and bank regulatory agencies to assess the capital position of financial services companies. There is currently no mandated minimum or “well capitalized” standard for Tier 1 common; instead the risk-based capital rules state that voting common stockholders’ equity should be the dominant element within Tier 1 common capital. While these regulatory capital measures are widely used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies, they may not be comparable to similarly titled measures reported by other companies. As discussed below, the joint regulators have recently released proposed capital regulations that will revise the prompt corrective action capital requirements and establish a minimum standard for the Tier 1 common ratio.

Table 14 provides a comparison of our capital ratios under the Federal Reserve’s capital adequacy standards; and the capital ratios of the Banks and ING Bank, fsb under the OCC’s capital adequacy standards as of June 30, 2012 and December 31, 2011. Table 15 provides the details of the calculation of our capital ratios.

Table 14: Capital Ratios Under Basel I⁽¹⁾

(Dollars in millions)	June 30, 2012 ⁽²⁾			December 31, 2011		
	Capital Ratio	Minimum Capital Adequacy	Well Capitalized	Capital Ratio	Minimum Capital Adequacy	Well Capitalized
Capital One Financial Corp⁽³⁾						
Tier 1 common ⁽⁴⁾	9.9%	N/A	N/A	9.7%	N/A	N/A
Tier 1 risk-based capital ⁽⁵⁾	11.6	4.0%	6.0%	12.0	4.0%	6.0%
Total risk-based capital ⁽⁶⁾	14.0	8.0	10.0	14.9	8.0	10.0
Tier 1 leverage ⁽⁷⁾	9.0	4.0	N/A	10.1	4.0	N/A
Capital One Bank (USA) N.A.						
Tier 1 risk-based capital	11.0%	4.0%	6.0%	11.2%	4.0%	6.0%
Total risk-based capital	14.5	8.0	10.0	15.0	8.0	10.0
Tier 1 leverage	10.2	4.0	5.0	10.2	4.0	5.0
Capital One, N.A.						
Tier 1 risk-based capital	11.8%	4.0%	6.0%	11.0%	4.0%	6.0%
Total risk-based capital	13.1	8.0	10.0	12.2	8.0	10.0
Tier 1 leverage	10.4	4.0	5.0	8.7	4.0	5.0
ING Bank, fsb						
Tier 1 risk-based capital	26.5%	4.0%	6.0%	N/A	N/A	N/A
Total risk-based capital	26.5	8.0	10.0	N/A	N/A	N/A
Tier 1 leverage	9.4	4.0	5.0	N/A	N/A	N/A

Table of Contents

- (1) Calculated under capital standards and regulations based on the international capital framework commonly known as Basel I. Capital ratios that are not applicable are denoted by “N/A.”
- (2) Regulatory capital ratios as of June 30, 2012 are preliminary and therefore subject to change.
- (3) The regulatory framework for prompt corrective action does not apply to Capital One Financial Corp. because it is a bank holding company.
- (4) Tier 1 common ratio is a regulatory capital measure calculated based on Tier 1 common capital divided by risk-weighted assets.
- (5) Calculated based on Tier 1 risk-based capital divided by risk-weighted assets.
- (6) Calculated based on total risk-based capital divided by risk-weighted assets.
- (7) Calculated based on Tier 1 capital divided by quarterly average total assets, after certain adjustments.

We exceeded minimum capital requirements and met the “well capitalized” ratio levels for total risk-based capital and Tier 1 risk-based capital under Federal Reserve rules for bank holding companies as of June 30, 2012 and December 31, 2011. The Banks and ING Bank, fsb also exceeded minimum regulatory requirements under the OCC’s applicable capital adequacy guidelines and were “well capitalized” under prompt corrective action requirements as of June 30, 2012 and December 31, 2011.

Table 15: Risk-Based Capital Components Under Basel I⁽¹⁾

(Dollars in millions)	June 30, 2012 ⁽²⁾	December 31, 2011
Total stockholders’ equity	\$ 37,192	\$ 29,666
Less: Net unrealized gains recorded in AOCI ⁽³⁾	(422)	(289)
Net losses on cash flow hedges recorded in AOCI ⁽³⁾	34	71
Disallowed goodwill and other intangible assets ⁽⁴⁾	(14,563)	(13,855)
Disallowed deferred tax assets	(758)	(534)
Other	(12)	(2)
Tier 1 common capital	21,471	15,057
Plus: Tier 1 restricted core capital items ⁽⁵⁾	3,636	3,635
Tier 1 risk-based capital	25,107	18,692
Plus: Long-term debt qualifying as Tier 2 capital	2,318	2,438
Qualifying allowance for loan and lease losses	2,740	1,979
Other Tier 2 components	15	23
Tier 2 risk-based capital	5,073	4,440
Total risk-based capital	\$ 30,180	\$ 23,132
Risk-weighted assets⁽⁶⁾	\$216,341	\$ 155,657

- (1) Calculated under capital standards and regulations based on the international capital framework commonly known as Basel I.
- (2) Regulatory capital ratios as of June 30, 2012 are preliminary and therefore subject to change.
- (3) Amounts presented are net of tax.
- (4) Disallowed goodwill and other intangible assets are net of related deferred tax liability.
- (5) Consists primarily of trust preferred securities.
- (6) Under regulatory guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total risk-weighted assets.

Under the Dodd-Frank Act, many trust preferred securities will cease to qualify for Tier 1 capital, subject to a three year phase-out period expected to begin in 2013.

[Table of Contents](#)

In November 2011, the Federal Reserve finalized capital planning rules applicable to large bank holding companies like us (commonly referred to as Comprehensive Capital Analysis and Review or CCAR). Under the rules, bank holding companies with consolidated assets of \$50.0 billion or more must submit capital plans to the Federal Reserve on an annual basis and must obtain approval from the Federal Reserve before making most capital distributions. The purpose of the rules is to ensure that large bank holding companies have robust, forward-looking capital planning processes that account for their unique risks and capital needs to continue operations through times of economic and financial stress. As part of its evaluation of a capital plan, the Federal Reserve will consider the comprehensiveness of the plan, the reasonableness of assumptions and analysis and methodologies used to assess capital adequacy and the ability of the bank holding company to maintain capital above each minimum regulatory capital ratio and above a Tier 1 common ratio of 5% on a pro forma basis under expected and stressful conditions throughout a planning horizon of at least nine quarters.

In January 2012, we submitted our capital plan to the Board of Governors of the Federal Reserve as part of the 2012 Comprehensive Capital Analysis and Review. On March 13, 2012, we were informed that the Federal Reserve had no objection to the capital actions contained in our capital plan submitted under CCAR.

Dividend Policy

The declaration and payment of dividends to our stockholders, as well as the amount thereof, are subject to the discretion of our Board of Directors and will depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. As a bank holding company, our ability to pay dividends is largely dependent upon the receipt of dividends or other payments from our subsidiaries. We provide additional information on our dividend policy in our 2011 Form 10-K under “Part I—Item 1. Business—Supervision and Regulation—Dividends, Stock Purchases and Transfer of Funds.”

Regulatory restrictions exist that limit the ability of the Banks and ING Bank, fsb to transfer funds to our bank holding company. Funds available for dividend payments from COBNA, CONA and ING Bank, fsb based on the Earnings Limitation Test were \$3.0 billion, \$697 million and \$480 million, respectively, as of June 30, 2012. Although funds are available for dividend payments from the Banks, we would execute a dividend from the Banks in consultation with the OCC. Applicable provisions that may be contained in our borrowing agreements or the borrowing agreements of our subsidiaries may limit our subsidiaries’ ability to pay dividends to us or our ability to pay dividends to our stockholders. There can be no assurance that we will declare and pay any dividends.

Equity and Debt Offering

On March 20, 2012 we closed a public offering of 24,442,706 shares of our common stock which we sold to the underwriters at a per share price of \$51.14 for net proceeds of approximately \$1.25 billion. In addition, we issued \$1.25 billion of our senior notes due 2015 in a public offering which closed on March 23, 2012. We used the net proceeds of these offerings, along with cash sourced from current liquidity, to fund the net consideration payable of \$31.1 billion in connection with the May 1, 2012 acquisition of HSBC’s U.S credit card business.

RISK MANAGEMENT

Overview

Risk management is an important part of our business model, as all financial institutions are exposed to a variety of business risks that can significantly affect their financial performance. Our business activities expose us to eight major categories of risks: strategic risk, reputational risk, compliance risk, legal risk, liquidity risk, credit risk, market risk and operational risk.

[Table of Contents](#)

Our risk management framework is intended to identify, assess and mitigate risks that affect or have the potential to affect our business. We target financial returns that compensate us for the amount of risk that we take and avoid excessive risk-taking. Our risk management framework consists of five key risk management principles:

- Individual businesses take and manage risk within established tolerance levels in pursuit of strategic, financial and other business objectives.
- Independent risk management organizations support individual businesses by providing risk management tools and policies and by aggregating risks; in some cases, risks are managed centrally.
- The Board of Directors and senior management review our aggregate risk position, establish the risk appetite and work with management to ensure conformance to policy and adherence to our adopted mitigation strategy.
- We employ a top risk identification system to maintain the appropriate focus on the risks and issues that may have the most impact and to identify emerging risks of consequence.
- Independent assurance functions, such as our Internal Audit and Credit Review teams, assess the governance framework and test transactions, business processes and procedures to provide assurance as to whether our risk programs are operating as intended.

We provide additional information on our risk management principles, roles and responsibilities, risk framework and risk appetite under “MD&A—Risk Management” in our 2011 Form 10-K.

CREDIT RISK PROFILE

Our loan portfolio accounts for the substantial majority of our credit risk exposure. Below we provide information about the composition of our loan portfolio, key concentrations and credit performance metrics.

We also engage in certain non-lending activities that may give rise to credit and counterparty settlement risk, including the purchase of securities for our investment securities portfolio, entering into derivative transactions to manage our market risk exposure and to accommodate customers, foreign exchange transactions and deposit overdrafts. We provide additional information on credit risk related to our investment securities portfolio under “Consolidated Balance Sheet Analysis—Investment Securities” and credit risk related to derivative transactions in “Note 10—Derivative Instruments and Hedging Activities.”

Loan Portfolio Composition

We provide a variety of lending products. Our primary products include credit cards, auto loans, home loans and commercial loans. For information on our lending policies and procedures, including our underwriting criteria, for our primary loan products, see “MD&A—Credit Risk Profile” in our 2011 Form 10-K.

Total loans that we manage consist of held-for-investment loans recorded on our balance sheet and loans held in our securitization trusts. Loans underlying our securitization trusts are reported on our consolidated balance sheets under restricted loans for securitization investors. Table 16 presents the composition of our total held-for-investment loan portfolio, by business segments, as of June 30, 2012 and December 31, 2011. Table 16 also displays acquired loans accounted for based on estimated cash flows expected to be collected, which consists of a limited portion of the credit card loans acquired in the HSBC transaction and the substantial majority of consumer and commercial loans acquired in the ING Direct and Chevy Chase Bank acquisitions. See the discussion of “Acquired Loans” below in this section.

Table 16: Loan Portfolio Composition

(Dollars in millions)	June 30, 2012				December 31, 2011			
	Loans	Acquired Loans ⁽¹⁾	Total	% of Total	Loans	Acquired Loans ⁽¹⁾	Total	% of Total
Credit Card business:								
Credit card loans:								
Domestic credit card loans	\$ 79,026	\$ 504	\$ 79,530	39.2%	\$ 54,682	\$ —	\$ 54,682	40.3%
International credit card loans	8,116	—	8,116	4.0	8,466	—	8,466	6.2
Total credit card loans	87,142	504	87,646	43.2	63,148	—	63,148	46.5
Installment loans:								
Domestic installment loans	1,243	25	1,268	0.6	1,927	—	1,927	1.4
Total installment loans	1,243	25	1,268	0.6	1,927	—	1,927	1.4
Total credit card	88,385	529	88,914	43.8	65,075	—	65,075	47.9
Consumer Banking business:								
Automobile	25,221	30	25,251	12.5	21,732	47	21,779	16.0
Home loan	7,582	40,642	48,224	23.8	6,321	4,112	10,433	7.7
Other retail	4,099	41	4,140	2.0	4,058	45	4,103	3.0
Total consumer banking	36,902	40,713	77,615	38.3	32,111	4,204	36,315	26.7
Commercial Banking business:								
Commercial and multifamily real estate	16,064	190	16,254	8.0	15,573	163	15,736	11.6
Commercial and industrial	18,226	241	18,467	9.1	16,770	318	17,088	12.6
Total commercial lending ⁽²⁾	34,290	431	34,721	17.1	32,343	481	32,824	24.2
Small-ticket commercial real estate	1,335	—	1,335	0.7	1,503	—	1,503	1.1
Total commercial banking	35,625	431	36,056	17.8	33,846	481	34,327	25.3
Other:								
Other loans	164	—	164	0.1	175	—	175	0.1
Total loans held for investment	\$ 161,076	\$ 41,673	\$ 202,749	100.0%	\$ 131,207	\$ 4,685	\$ 135,892	100.0%

⁽¹⁾ Consists of acquired loans accounted for based on estimated cash flows expected to be collected. See “Note 5—Loans” for additional information.

⁽²⁾ Includes construction and land development loans totaling \$2.3 billion and \$2.2 billion as of June 30, 2012 and December 31, 2011, respectively.

Credit Risk Measurement

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of larger balance, commercial loans. The improvements we have experienced in our credit trends across all of our businesses are stabilizing, and our credit performance is increasingly driven by seasonal trends.

We present information in the section below on the credit performance of our loan portfolio, including the key metrics we use in tracking changes in the credit quality of our loan portfolio. Loans acquired as part of the HSBC

[Table of Contents](#)

U.S. card, ING Direct and CCB acquisitions are included in the denominator used in calculating the credit quality metrics presented below. Because some of these acquired loans are accounted for based on expected cash flows to be collected, which takes into consideration future credit losses expected to be incurred, there are no charge-offs or an allowance associated with these loans unless the estimated cash flows expected to be collected decrease subsequent to acquisition. In addition, these loans are not classified as delinquent or nonperforming even though the customer may be contractually past due because we expect that we will fully collect the carrying value of these loans. The accounting and classification of these loans may significantly alter some of our reported credit quality metrics. We therefore supplement certain reported credit quality metrics with metrics adjusted to exclude the impact of these acquired loans.

See “Note 5—Loans” in this report for additional credit quality information. See “Note 1—Summary of Significant Accounting Policies” in our 2011 Form 10-K for information on our accounting policies for delinquent, nonperforming loans, charge-offs and TDRs for each of our loan categories.

Delinquency Rates

Table 17 compares 30+ day performing and total 30+ day delinquency rates, by loan category, as of June 30, 2012 and December 31, 2011. Table 17 also presents these metrics, adjusted to exclude from the denominator acquired loans accounted for based on estimated cash flows expected to be collected over the life of the loans.

Our 30+ day delinquency metrics include all held for investment loans that are 30 or more days past due, whereas our 30+ day performing delinquency metrics include loans that are 30 or more days past due and that are also currently classified as performing and accruing interest. The 30+ day delinquency and 30+ day performing delinquency metrics are the same for credit card loans, as we continue to classify credit card loans as performing until they are charged-off, generally when the loan is 180 days past due. However, the 30+ day delinquency and 30+ day performing delinquency metrics differ for other loan categories based on our policies for classifying loans as nonperforming.

Table 17: 30+ Day Delinquencies

(Dollars in millions)	June 30, 2012						December 31, 2011					
	30+ Day Performing			30+ Day Total			30+ Day Performing			30+ Day Total		
	Amount	Rate ⁽¹⁾	Rate ⁽²⁾	Amount	Rate ⁽¹⁾	Rate ⁽²⁾	Amount	Rate ⁽¹⁾	Rate ⁽²⁾	Amount	Rate ⁽¹⁾	Rate ⁽²⁾
Credit Card business:												
Domestic credit card and installment loans	\$2,252	2.79%	2.81%	\$2,252	2.79%	2.81%	\$2,073	3.66%	3.66%	\$2,073	3.66%	3.66%
International credit card	392	4.84	4.84	392	4.84	4.84	438	5.18	5.18	438	5.18	5.17
Total credit card	2,644	2.97	2.99	2,644	2.97	2.99	2,511	3.86	3.86	2,511	3.86	3.86
Consumer Banking business:												
Automobile	1,312	5.20	5.20	1,401	5.55	5.55	1,498	6.88	6.90	1,604	7.36	7.38
Home loan	70	0.15	0.93	428	0.89	5.64	93	0.89	1.47	478	4.58	7.56
Retail banking	29	0.69	0.70	87	2.10	2.12	34	0.83	0.84	94	2.29	2.32
Total consumer banking	1,411	1.82	3.82	1,916	2.47	5.19	1,625	4.47	5.06	2,176	5.99	6.78
Commercial Banking business:												
Commercial and multifamily real estate	41	0.25	0.25	187	1.15	1.16	217	1.38	1.40	342	2.17	2.20
Commercial and industrial	17	0.09	0.10	80	0.43	0.44	78	0.45	0.46	152	0.89	0.91
Total commercial lending	58	0.17	0.17	267	0.77	0.78	295	0.91	0.91	494	1.50	1.53
Small-ticket commercial real estate	39	2.87	2.87	51	3.82	3.82	104	6.94	6.94	141	9.38	9.38
Total commercial banking	97	0.27	0.27	318	0.88	0.89	399	1.16	1.18	635	1.85	1.88
Other:												
Other loans	17	10.36	10.36	51	31.10	31.10	17	9.65	9.65	46	26.29	26.29
Total	\$4,169	2.06%	2.59%	\$4,929	2.43%	3.06%	\$4,552	3.35%	3.47%	\$5,368	3.95%	4.09%

⁽¹⁾ Calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category, including acquired loans as applicable.

⁽²⁾ Calculated by excluding acquired loans from the denominator.

[Table of Contents](#)

Table 18 presents an aging of 30+ day delinquent loans included in the above table.

Table 18: Aging and Geography of 30+ Day Delinquent Loans

(Dollars in millions)	June 30, 2012		December 31, 2011	
	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾
Total loan portfolio	<u>\$ 202,749</u>	<u>100.00%</u>	<u>\$ 135,892</u>	<u>100.00%</u>
Delinquency status:				
30 – 59 days	\$ 2,102	1.04%	\$ 2,306	1.70%
60 – 89 days	1,060	0.52	1,092	0.80
90 + days	1,767	0.87	1,970	1.45
Total	<u>\$ 4,929</u>	<u>2.43%</u>	<u>\$ 5,368</u>	<u>3.95%</u>
Geographic region:				
Domestic	\$ 4,537	2.24%	\$ 4,930	3.63%
International	392	0.19	438	0.32
Total	<u>\$ 4,929</u>	<u>2.43%</u>	<u>\$ 5,368</u>	<u>3.95%</u>

⁽¹⁾ Calculated by dividing loans in each delinquency status category or geographic region as of the end of the period by the total held-for-investment loan portfolio, including acquired loans.

Table 19 summarizes loans that were 90 days or more past due as to interest or principal and still accruing interest as of June 30, 2012 and December 31, 2011. These loans consist primarily of credit card accounts between 90 days and 179 days past due. As permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council (“FFIEC”), we continue to accrue interest on credit card loans through the date of charge-off, typically in the period the account becomes 180 days past due. While credit card loans remain on accrual status until the loan is charged-off, we establish a reserve for finance charges and fees billed but not expected to be collected and exclude this amount from revenue.

Table 19: 90+ Days Delinquent Loans Accruing Interest

(Dollars in millions)	June 30, 2012		December 31, 2011	
	Amount	% of Total Loans	Amount	% of Total Loans
Loan category: ⁽¹⁾				
Credit card ⁽²⁾	\$ 1,056	1.19%	\$ 1,196	1.84%
Consumer	2	0.00	5	0.01
Commercial	16	0.04	41	0.12
Total	<u>\$ 1,074</u>	<u>0.53%</u>	<u>\$ 1,242</u>	<u>0.91%</u>
Geographic region: ⁽³⁾				
Domestic	\$ 899	0.44%	\$ 1,047	0.77%
International	175	0.09	195	0.14
Total	<u>\$ 1,074</u>	<u>0.53%</u>	<u>\$ 1,242</u>	<u>0.91%</u>

⁽¹⁾ Delinquency rates are calculated by loan category by dividing 90+ day delinquent loans accruing interest as of the end of the period by period-end loans held for investment for the specified loan category, including acquired loans as applicable.

⁽²⁾ Includes credit card loans that continue to accrue finance charges and fees until charged-off at 180 days. The amounts reported for credit card loans are net of billed finance charges and fees that we do not expect to collect. The estimated uncollectible portion of billed finance charges and fees excluded from revenue totaled \$311 million and \$112 million in the second quarter of 2012 and 2011, respectively and \$434 million and \$217 million in the first six months of 2012 and

[Table of Contents](#)

2011, respectively. The reserve for uncollectible billed finance charges and fees totaled \$268 million as of June 30, 2012, and \$74 million as of December 31, 2011.

⁽³⁾ Calculated by dividing loans in each geographic region as of the end of the period by the total loan portfolio.

Nonperforming Assets

Nonperforming assets consist of nonperforming loans and foreclosed property and repossessed assets. Nonperforming loans generally include loans that have been placed on nonaccrual status and certain restructured loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty. We do not report loans held for sale as nonperforming. In addition, we separately track and report acquired loans and disclose our delinquency and nonperforming loan rates with and without acquired loans.

Table 20 presents comparative information on nonperforming loans, by loan category, and other nonperforming assets as of June 30, 2012 and December 31, 2011. Nonperforming loans held for sale are excluded from nonperforming loans, as they are recorded at lower of cost or fair value.

Table 20: Nonperforming Loans and Other Nonperforming Assets^{(1) (2)}

(Dollars in millions)	June 30, 2012 ⁽³⁾		December 31, 2011	
	Amount	% of Total HFI Loans	Amount	% of Total HFI Loans
Nonperforming loans held for investment:				
Consumer Banking business:				
Automobile	\$ 89	0.35%	\$ 106	0.48%
Home loan	439	0.91	456	4.37
Retail banking	86	2.09	90	2.18
Total consumer banking	614	0.79	652	1.79
Commercial Banking business:				
Commercial and multifamily real estate	200	1.23	207	1.32
Commercial and industrial	140	0.76	125	0.73
Total commercial lending	340	0.98	332	1.01
Small-ticket commercial real estate	16	1.15	40	2.63
Total commercial banking	356	0.99	372	1.08
Other:				
Other loans	40	24.59	35	20.42
Total nonperforming loans held for investment ⁽⁴⁾	\$1,010	0.50%	\$1,059	0.78%
Other nonperforming assets:				
Foreclosed property ⁽⁵⁾	\$ 232	0.11%	\$ 169	0.13%
Repossessed assets	15	0.01	20	0.01
Total other nonperforming assets	247	0.12	189	0.14
Total nonperforming assets	\$1,257	0.62%	\$1,248	0.92%

⁽¹⁾ The ratio of nonperforming loans as a percentage of total loans held for investment is calculated based on the nonperforming loans in each loan category divided by the total outstanding unpaid principal balance of loans held for investment in each loan category. The denominator used in calculating the nonperforming asset ratios consists of total loans held for investment and other nonperforming assets.

⁽²⁾ The nonperforming loan ratios, excluding acquired loans from the denominator, for home loan, retail banking, total consumer banking, commercial and multifamily real estate, commercial and industrial, total commercial banking, and total nonperforming loans held for investment were 5.79%, 2.11%, 1.66%, 1.25%, 0.77%, 1.00% and 0.63%,

[Table of Contents](#)

respectively, as of June 30, 2012, compared with 7.22%, 2.21%, 2.03%, 1.33%, 0.75%, 1.10% and 0.81%, respectively, as of December 31, 2011. The nonperforming asset ratio, excluding acquired loans, was 0.78% and 0.95% as of June 30, 2012 and December 31, 2011, respectively.

- (3) We recognized interest income for loans classified as nonperforming of \$16 million and \$11 million for the six months ended June 30, 2012 and 2011, respectively. Interest income foregone related to nonperforming loans was \$29 million and \$30 million for the six months ended June 30, 2012 and 2011, respectively. Foregone interest income represents the amount of interest income that would have been recorded during the period for nonperforming loans as of the end of the period had the loans performed according to their contractual terms.
- (4) Nonperforming loans as a percentage of loans held for investment, excluding credit card loans from the denominator, was 0.88% and 1.50% as of June 30, 2012 and December 31, 2011, respectively.
- (5) Includes \$184 million and \$86 million of foreclosed properties related to acquired loans, as of June 30, 2012 and December 31, 2011, respectively.

Total nonperforming loans included TDRs totaling \$183 million and \$170 million as of June 30, 2012 and December 31, 2011, respectively. The decrease in our nonperforming loan ratio to 0.50% as of June 30, 2012, from 0.78% as of December 31, 2011 was primarily attributable to the addition of the ING Direct acquired loans, as well as, the improvement in the credit quality of our consumer banking loans.

Net Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine are uncollectible, net of recovered amounts. We exclude accrued and unpaid finance charges and fees and fraud losses from charge-offs.

Table 21 presents our net charge-off amounts and rates, by business segment, for the three and six months ended June 30, 2012, and 2011. We provide information on charge-off amounts by loan category below in Table 23. We also present net charge-off rates excluding acquired loans accounted for based on estimated cash flows expected to be collected over the life of the loans.

Table 21: Net Charge-Offs

(Dollars in millions)	Three Months Ended June 30,						Six Months Ended June 30,					
	2012			2011			2012			2011		
	Amount	Rate ⁽¹⁾	Rate ⁽²⁾	Amount	Rate ⁽¹⁾	Rate ⁽²⁾	Amount	Rate ⁽¹⁾	Rate ⁽²⁾	Amount	Rate ⁽¹⁾	Rate ⁽²⁾
Credit card	\$ 622	3.13%	3.14%	\$ 793	5.06%	5.06%	\$ 1,268	3.57%	3.58%	\$ 1,722	5.59%	5.59%
Consumer banking	93	0.48	1.02	88	1.01	1.17	201	0.60	1.15	221	1.29	1.50
Commercial banking	17	0.19	0.19	38	0.50	0.50	33	0.19	0.19	98	0.65	0.66
Other	6	18.04	18.04	12	23.96	23.96	16	20.97	20.97	35	31.51	31.51
Total	\$ 738	1.53%	1.96%	\$ 931	2.91%	3.03%	\$ 1,518	1.76%	2.17%	\$ 2,076	3.28%	3.42%
Average loans held for investment	\$192,632			\$127,916			\$172,767			\$126,504		
Average loans held for investment (excluding acquired loans) ⁽³⁾	150,450			122,804			140,142			121,296		

⁽¹⁾ Calculated for each loan category by dividing net charge-offs for the period by average loans held for investment during the period.

⁽²⁾ Calculated by excluding acquired loans from the denominator.

⁽³⁾ The carrying value of acquired loans accounted for based on estimated expected cash flows to be collected was \$41.7 billion and \$4.7 billion as of June 30, 2012, and December 31, 2011, respectively.

Loan Modifications and Restructurings

As part of our customer retention efforts, we may modify loans for certain borrowers who have demonstrated performance under the previous terms. As part of our loss mitigation efforts, we may make loan modifications to a borrower experiencing financial difficulty that are intended to minimize our economic loss and avoid the need for foreclosure or repossession of collateral. We may provide short-term (three to twelve months) or long-term (greater than twelve months) modifications to improve the long-term collectability of the loan. Our most common types of modifications include a reduction in the borrower's initial monthly or quarterly principal and interest payment through an extension of the loan term, a reduction in the interest rate, or a combination of both. These modifications may result in our receiving the full amount due, or certain installments due, under the loan over a period of time that is longer than the period of time originally provided for under the terms of the loan. In some cases, we may curtail the amount of principal owed by the borrower. Loan modifications in which an economic concession has been granted to a borrower experiencing financial difficulty are accounted for and reported as TDRs. We also classify loan modifications that involve a trial period as TDRs.

Table 22 presents the loan balances as of June 30, 2012 and December 31, 2011 of loan modifications made as part of our loss mitigation efforts, all of which are considered to be TDRs. Table 22 excludes loan modifications that do not meet the definition of a TDR and acquired loans, which we track and report separately. We provide additional detail on acquired loans below under "Acquired Loans."

[Table of Contents](#)**Table 22: Loan Modifications and Restructurings⁽¹⁾**

(Dollars in millions)	June 30, 2012	December 31, 2011
Modified and restructured loans:		
Credit card ⁽²⁾	\$ 859	\$ 898
Automobile	75	58
Home loan	106	104
Retail banking	73	80
Commercial	404	426
Total	<u>\$1,517</u>	<u>\$ 1,566</u>
Status of modified and restructured loans:		
Performing	\$1,334	\$ 1,396
Nonperforming	183	170
Total	<u>\$1,517</u>	<u>\$ 1,566</u>

⁽¹⁾ Reflects modifications and restructuring of loans in our total loan portfolio. The total loan portfolio includes loans recorded on our balance sheet and loans held in securitization trusts.

⁽²⁾ Amount reported reflects the total outstanding customer balance, which consists of unpaid principal balance, accrued interest and fees.

The vast majority of our credit card TDR loan modifications involve a reduction in the interest rate on the account and placing the customer on a fixed payment plan not exceeding 60 months. In some cases, the interest rate on a credit card account is automatically increased due to non-payment, late payment or similar events. We determine the effective interest rate for purposes of measuring impairment on modified loans that involve an increase and are considered to be a TDR based on the interest rate in effect immediately prior to the loan entering the modification program. In all cases, we cancel the customer's available line of credit on the credit card. If the cardholder does not comply with the modified payment terms, then the credit card loan agreement may revert back to its original payment terms, with the amount of any loan outstanding reflected in the appropriate delinquency category. The loan amount may then be charged-off in accordance with our standard charge-off policy.

The majority of our modified home loans involve a combination of an interest rate reduction, term extension or principal reduction. The vast majority of modified commercial loans include a reduction in interest rate or a term extension.

We provide additional information on modified loans accounted for as TDRs, including the performance of those loans subsequent to modification, in "Note 5—Loans."

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due from the borrower in accordance with the original contractual terms of the loan. Loans defined as individually impaired, based on applicable accounting guidance, include larger balance commercial nonperforming loans and TDR loans. We do not report nonperforming consumer loans that have not been modified in a TDR as individually impaired, as we collectively evaluate these smaller-balance homogenous loans for impairment in accordance with applicable accounting guidance. Loans held for sale are also not reported as impaired, as these loans are recorded at lower of cost or fair value. Impaired loans also exclude acquired loans accounted for based on expected cash flows because this accounting methodology takes into consideration future credit losses expected to be incurred, as discussed above under "Summary of Selected Financial Data."

[Table of Contents](#)

Impaired loans, including TDRs, totaled \$1.8 billion as of both June 30, 2012 and December 31, 2011, respectively. TDRs accounted for \$1.5 billion and \$1.6 billion of impaired loans as of June 30, 2012 and December 31, 2011, respectively. We provide additional information on our impaired loans, including the allowance established for these loans in “Note 5—Loans” and “Note 6—Allowance for Loan and Lease Losses.”

Acquired Loans

Our portfolio of acquired loans consists of loans acquired in the HSBC U.S. card, ING Direct, and Chevy Chase Bank acquisitions. These loans were recorded at fair value as of the date of each acquisition.

Acquired Loans Accounted for Based on Expected Cash Flows

We use the term “acquired loans” to refer to a limited portion of the credit card loans acquired in the HSBC U.S. card acquisition and the substantial majority of consumer and commercial loans acquired in the ING Direct and Chevy Chase Bank acquisitions, which are accounted for based on expected cash flows to be collected. Acquired loans accounted for based on expected cash flows to be collected increased to \$41.7 billion as of June 30, 2012, from \$4.7 billion as of December 31, 2011. The increase was largely due to the ING Direct acquisition.

We regularly update our estimate of the amount of expected principal and interest to be collected from these loans and evaluate the results on an aggregated pool basis for loans with common risk characteristics. Probable decreases in expected loan principal cash flows would trigger the recognition of impairment through our provision for credit losses. Probable and significant increases in expected cash flows would first reverse any previously recorded allowance for loan and lease losses, with any remaining increase in expected cash flows recognized prospectively in interest income over the remaining estimated life of the underlying loans. We decreased the allowance and recorded a benefit through our provision for credit losses of \$2 million for the three months ended June 30, 2012 and increased the allowance and recorded a provision for credit losses of \$11 million for the six months ended June 30, 2012 related to certain pools of acquired loans. The cumulative impairment recognized on acquired loans totaled \$37 million and \$26 million as of June 30, 2012 and December 31, 2011, respectively. The credit performance of the remaining pools has generally been in line with our expectations, and, in some cases, more favorable than expected, which has resulted in the reclassification of amounts from the nonaccretable difference to the accretable yield.

Acquired Loans Accounted for Based on Contractual Cash Flows

Of the loans acquired in the HSBC U.S. card acquisition, there were loans of \$26.2 billion designated as held for investment that had existing revolving privileges at acquisition and were therefore excluded from the accounting guidance applied to the acquired loans described in the paragraphs above.

These loans were recorded at a fair value of \$26.9 billion, resulting in a net premium of \$705 million at acquisition. Fair value was determined by discounting all expected cash flows (contractual principal, interest, finance charges and fees of \$33.3 billion less those amounts not expected to be collected of \$3.0 billion) at a market discount rate.

Under applicable accounting guidance, we are required to amortize the net premium of \$705 million over the contractual principal amount as an adjustment to interest income over the remaining life of the loans. Given the guidance applicable to acquired revolving loans, it is necessary to record an allowance through provision expense to properly recognize an estimate of incurred losses on the existing principal balances, which represents a portion of the total amounts not expected to be collected described above. In the second quarter of 2012, we recorded provision expense of \$1.2 billion to establish an allowance primarily related to these loans. The allowance was calculated using the same methodology utilized for determining the allowance for our existing credit card portfolio. The provision expense of \$1.2 billion is included in the total provision for credit losses of \$1.7 billion recorded in the second quarter of 2012 as indicated in “Note 6—Allowance for Loan and Lease Losses.”

[Table of Contents](#)

Excluded from the amounts above are acquired HSBC U.S. card revolving loans with a fair value of \$471 million that we designated as held for sale at acquisition. We expect to close the sale of these receivables early in the third quarter.

We provide additional information on acquired loans in “Note 5—Loans.”

Allowance for Loan and Lease Losses

Our allowance for loan and lease losses represents management’s best estimate of incurred loan and lease credit losses inherent in our held-for-investment portfolio as of each balance sheet date. We do not maintain an allowance for held-for-sale loans or acquired loans that are performing in accordance with or better than our expectations as of the date of acquisition, as the fair values of these loans already reflect a credit component. The allowance for loan and lease losses is increased through the provision for credit losses and reduced by net charge-offs. The provision for credit losses, which is charged to earnings, reflects credit losses we believe have been incurred and will eventually be reflected over time in our charge-offs. Charge-offs of uncollectible amounts are deducted from the allowance and subsequent recoveries are added. We describe our process for determining our allowance for loan and lease losses in “Note 1—Summary of Significant Accounting Policies” in our 2011 Form 10-K.

Table 23, which displays changes in our allowance for loan and lease losses for the three and six months ended June 30, 2012 and 2011, details, by loan type, the provision for credit losses recognized in our consolidated statements of income each period and the charge-offs recorded against our allowance for loan and lease losses.

Table 23: Summary of Allowance for Loan and Lease Losses

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Balance at beginning of period, as reported	\$ 4,060	\$ 5,067	\$ 4,250	\$ 5,628
Provision for credit losses ⁽¹⁾⁽²⁾	1,686	350	2,265	920
Charge-offs:				
Credit Card business:⁽²⁾				
Domestic credit card and installment	(746)	(905)	(1,534)	(1,997)
International credit card	(162)	(205)	(329)	(398)
Total credit card	(908)	(1,110)	(1,863)	(2,395)
Consumer Banking business:				
Automobile	(122)	(102)	(262)	(243)
Home loan	(19)	(22)	(43)	(54)
Retail banking	(20)	(25)	(40)	(55)
Total consumer banking	(161)	(149)	(345)	(352)
Commercial Banking business:				
Commercial and multifamily real estate	(8)	(15)	(17)	(40)
Commercial and industrial	(8)	(15)	(19)	(25)
Total commercial lending	(16)	(30)	(36)	(65)
Small-ticket commercial real estate	(8)	(20)	(24)	(53)
Total commercial banking	(24)	(50)	(60)	(118)
Other loans	(7)	(13)	(18)	(37)
Total charge-offs	(1,100)	(1,322)	(2,286)	(2,902)
Recoveries:				
Credit Card business:				
Domestic credit card and installment	236	267	493	555
International credit card	50	50	102	118
Total credit card	286	317	595	673
Consumer Banking business:				
Automobile	54	50	115	102
Home loan	7	5	16	16
Retail banking	7	6	13	13
Total consumer banking	68	61	144	131
Commercial Banking business:				
Commercial and multifamily real estate	1	2	6	7
Commercial and industrial	3	6	17	9
Total commercial lending	4	8	23	16
Small-ticket commercial real estate	3	4	4	4
Total commercial banking	7	12	27	20
Other loans	1	1	2	2
Total recoveries	362	391	768	826
Net charge-offs	(738)	(931)	(1,518)	(2,076)
Impact from loan sales and other changes ⁽²⁾	(10)	2	1	16
Balance at end of period	\$ 4,998	\$ 4,488	\$ 4,998	\$ 4,488

[Table of Contents](#)

(1) Excludes a negative provision for unfunded lending commitments of \$9 million and \$7 million for the three months ended June 30, 2012 and 2011, respectively and \$15 million and \$43 million for the six months ended June 30, 2012 and 2011, respectively.

(2) Includes foreign translation adjustments of \$10 million and \$21 million for the second quarter and first six months of 2012, respectively.

Table 24 presents an allocation of our allowance for loan and lease losses, by loan category, as of June 30, 2012 and December 31, 2011.

Table 24: Allocation of the Allowance for Loan and Lease Losses

(Dollars in millions)	June 30, 2012		December 31, 2011	
	Amount	% of Total HFI Loans ⁽¹⁾	Amount	% of Total HFI Loans ⁽¹⁾
Credit Card:				
Domestic credit card and installment	\$ 3,295	4.08%	\$ 2,375	4.20%
International credit card	455	5.61	472	5.58
Total credit card	3,750	4.22	2,847	4.37
Consumer Banking:				
Auto	447	1.77	391	1.80
Home loan	87	0.18	98	0.94
Retail banking	135	3.26	163	3.97
Total consumer banking	669	0.86	652	1.80
Commercial Banking:				
Commercial and multifamily real estate	309	1.90	415	2.64
Commercial and industrial	138	0.75	199	1.17
Total commercial lending	447	1.29	614	1.87
Small-ticket commercial real estate	88	6.59	101	6.75
Total commercial banking	535	1.48	715	2.08
Other loans	44	26.83	36	20.57
Total	\$ 4,998	2.47%	\$ 4,250	3.13%
Total allowance coverage ratios:				
Period-end loans	\$202,749	2.47%	\$135,892	3.13%
Period-end loans (excluding acquired loans)	161,076	3.10	131,207	3.24
Nonperforming loans ⁽²⁾	1,010	494.85	1,059	401.32
Allowance coverage ratios by loan category:				
Credit card (30 + day delinquent loans)	\$ 2,644	141.83%	\$ 2,511	113.38%
Consumer banking (30 + day delinquent loans)	1,916	34.92	2,176	29.96
Commercial banking (nonperforming loans)	356	150.28	372	192.20

(1) Calculated based on the allowance for loan and lease losses attributable to each loan category divided by the outstanding balance of loans within the specified loan category.

(2) As permitted by regulatory guidance issued by the FFEIC, our policy is generally not to classify credit card loans as nonperforming. We accrue interest on credit card loans through the date of charge-off, typically in the period that the loan becomes 180 days past due. The allowance for loan and lease losses as a percentage of nonperforming loans, excluding the allowance related to our credit card loans, was 123.56% as of June 30, 2012 and 132.48% as of December 31, 2011.

We increased our allowance by \$748 million in the first six months of 2012 to \$5.0 billion as of June 30, 2012. The increase was primarily driven by the establishment of an allowance of \$1.2 billion primarily related to the

[Table of Contents](#)

addition of the \$26.2 billion in outstanding HSBC U.S. card loans that had existing revolving privilege at acquisition. The allowance for these loans was calculated using the same methodology utilized for determining the allowance for our existing credit card loan portfolio.

Although the allowance increased, the coverage ratio of the allowance to total loans held for investment fell by 66 basis points to 2.47% as of June 30, 2012, from 3.13% as of December 31, 2011. The decrease in the allowance coverage ratio was largely due to the addition of the acquired HSBC U.S. card and ING Direct loans accounted for based on estimated cash flows expected to be collected. As discussed above in “Summary of Selected Financial Data,” because the accounting for these loans takes into consideration future credit losses expected to be incurred, there are no charge-offs or an allowance associated with these loans unless the estimated cash flows expected to be collected decrease subsequent to acquisition. We did not have an allowance associated with these loans as of June 30, 2012.

See “Note 6—Allowance for Loan and Lease Losses” in this Report for additional information. Also see “Note 1—Summary of Significant Accounting Policies” in our 2011 Form 10-K for information on the allowance methodology for our credit card loan portfolio.

LIQUIDITY RISK PROFILE

Liquidity

We have established liquidity guidelines that are intended to ensure that we have sufficient asset-based liquidity to withstand the potential impact of deposit attrition or diminished liquidity in the funding markets. Our guidelines include maintaining an adequate liquidity reserve to cover our potential funding requirements and diversified funding sources to avoid over-dependence on volatile, less reliable funding markets. Our liquidity reserves consist of cash and cash equivalents and unencumbered available-for-sale securities. Table 25 below presents the fair value of our liquidity reserves as of June 30, 2012 and December 31, 2011. Our liquidity reserves increased by \$17.9 billion in the first six months of 2012, to \$53.7 billion as of June 30, 2012. This increase was primarily driven by an increase in available-for-sale securities from our acquisition of ING Direct and an increase in cash from our equity and debt offerings during the first quarter of 2012.

Table 25: Liquidity Reserves

(Dollars in millions)	June 30, 2012	December 31, 2011
Cash and cash equivalents	\$ 5,979	\$ 5,838
Securities available-for-sale ⁽¹⁾	55,289	38,759
Less: Pledged available-for-sale securities	(7,615)	(8,762)
Unencumbered available-for-sale securities	47,674	29,997
Total liquidity reserves	<u>\$53,653</u>	<u>\$ 35,835</u>

⁽¹⁾ The weighted average life of our available-for-sale securities was approximately 3.7 years and 2.9 years as of June 30, 2012 and December 31, 2011, respectively.

See “MD&A—Risk Management” in our 2011 Form 10-K for additional information on our management of liquidity risk.

Funding

Our funding objective is to establish an appropriate maturity profile using a cost-effective mix of both short-term and long-term funds. We use a variety of funding sources, including deposits, short-term borrowings, the issuance of senior and subordinated notes and other borrowings, and, to a lesser extent, loan securitizations

[Table of Contents](#)

transactions. In addition, we utilize advances from the Federal Home Loan Bank (“FHLB”), which are secured by certain portions of our loan portfolios and investment securities, for our funding needs.

Deposits

Our deposits provide a stable and relatively low cost of funds and are our largest source of funding. Table 26 presents the composition of our deposits by type as of June 30, 2012 and December 31, 2011.

Table 26: Deposits

(Dollars in millions)	June 30, 2012	December 31, 2011
Non-interest bearing	\$ 20,072	\$ 18,281
NOW accounts	36,417	15,038
Money market deposit accounts	107,806	46,496
Savings accounts	30,554	31,433
Other consumer time deposits	13,181	11,471
Total core deposits	208,030	122,719
Public fund certificates of deposit \$100,000 or more	69	85
Certificates of deposit \$100,000 or more	4,890	4,501
Foreign time deposits	942	921
Total deposits	<u>\$213,931</u>	<u>\$ 128,226</u>

Total deposits increased by \$85.7 billion, or 67%, in the first six month of 2012 to \$213.9 billion as of June 30, 2012. The increase in deposits reflects the addition of \$84.4 billion in deposits from the ING Direct acquisition and increased retail marketing efforts to attract new business and continued strategy to leverage our bank outlets to attract lower cost deposit funding. Of our total deposits, approximately \$942 million and \$921 million were held in foreign banking offices as of June 30, 2012 and December 31, 2011, respectively. Large denomination domestic certificates of deposits of \$100,000 or more represented \$5.0 billion and \$4.6 billion of our total deposits as of June 30, 2012 and December 31, 2011, respectively.

We have brokered deposits, which we obtained through the use of third-party intermediaries. Brokered deposits are included in money market deposit accounts and other consumer time deposits in Table 26 above. The Federal Deposit Insurance Corporation Improvement Act of 1991 limits the use of brokered deposits to “well-capitalized” insured depository institutions and, with a waiver from the Federal Deposit Insurance Corporation, to “adequately capitalized” institutions. COBNA, CONA and ING Bank, fsb were “well-capitalized,” as defined under the federal banking regulatory guidelines, as of June 30, 2012, and therefore permitted to maintain brokered deposits. Our brokered deposits totaled \$12.1 billion, or 6% of total deposits, as of June 30, 2012 and \$13.0 billion, or 10% of total deposits, as of December 31, 2011. We expect to replace maturing brokered deposits with new brokered deposits or direct deposits and branch deposits.

Short-Term Borrowings

We also have access to and utilize various other short-term borrowings to support our operations. These borrowings are generally in the form of federal funds purchased and securities loaned or sold under agreements to repurchase, most of which are overnight borrowings. Other short-term borrowings do not represent a significant portion of our overall funding.

Other Funding Sources

Our debt, including federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and other borrowings, such as FHLB advances, but excluding securitized debt

[Table of Contents](#)

obligations, totaled \$22.3 billion as of June 30, 2012, decreased from \$23.0 billion as of December 31, 2011. The decrease in our debt, excluding securitized debt obligations, was primarily attributable to a \$1.8 billion decrease in short-term borrowings, a decrease of \$282 million due to the maturity of outstanding senior notes, and the proceeds of approximately \$1.25 billion from the issuance of new senior notes. We participate in the federal funds market on a regular basis, which is intended to ensure that we are able to access the federal funds market in a time of need. We expect monthly fluctuations in our borrowings, as borrowing amounts are highly dependent on our counterparties' cash positions. Our FHLB membership is secured by our investment in FHLB stock, which totaled \$686 million as of June 30, 2012.

Table 27 presents our short-term borrowings and long-term debt and the maturity profile based on expected maturities as of June 30, 2012. We provide additional information on our short-term borrowings and long-term debt in "Note 9—Deposits and Borrowings."

Table 27: Expected Maturity Profile of Short-term Borrowings and Long-term Debt

(Dollars in millions)	Up to 1 Year	> 1 Year to 2 Years	> 2 Years to 3 Years	> 3 Years to 4 Years	> 4 Years To 5 Years	> 5 Years	Total
Short-term borrowings:							
Federal funds purchased and securities loaned or sold under agreements to repurchase	\$ 1,101	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,101
FHLB advances	4,400	—	—	—	—	—	4,400
Total short-term borrowings	5,501	—	—	—	—	—	5,501
Long-term debt:							
Securitized debt obligations	4,205	3,322	430	908	2,878	1,865	13,608
Senior and subordinated notes:							
Unsecured senior debt	—	577	3,294	471	1,003	2,792	8,137
Unsecured subordinated debt	351	514	105	—	1,190	1,782	3,942
Total senior and subordinated notes	351	1,091	3,399	471	2,193	4,574	12,079
Other long-term borrowings:							
Junior subordinated debt	—	—	—	—	—	3,642	3,642
FHLB advances	13	28	940	9	33	21	1,044
Other long-term borrowings	13	28	940	9	33	3,663	4,686
Total long-term debt ⁽¹⁾	4,569	4,441	4,769	1,388	5,104	10,102	30,373
Total short-term borrowings and long-term debt	\$10,070	\$ 4,441	\$ 4,769	\$ 1,388	\$ 5,104	\$10,102	\$35,874
Percentage of total	28%	13%	13%	4%	14%	28%	100%

⁽¹⁾ Includes unamortized discounts, premiums and other cost basis adjustments of \$29 million as of June 30, 2012.

Borrowing Capacity

We filed a new effective shelf registration statement with the U.S. Securities & Exchange Commission ("SEC") on April 30, 2012, which will expire three years from the filing date, under which, from time to time, we may offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depository shares, common stock, purchase contracts, warrants and units. There is no limit under this shelf registration statement to the amount or number of such securities that we may offer and sell. During the first six months of 2012, we issued new senior notes in the total amount of \$1.25 billion, due 2015.

[Table of Contents](#)

In addition to issuance capacity under the shelf registration statement, we also have access to FHLB advances and letters of credit with a maximum borrowing capacity of \$29.5 billion as of June 30, 2012. We had \$5.4 billion outstanding as of June 30, 2012, and collateral pledged that would support an incremental \$24.3 billion of borrowings. This funding source is non-revolving, and funding availability is subject to market conditions. The ability to draw down funding is based on membership status, and the amount is dependent upon the Banks' ability to post collateral.

Credit Ratings

Our credit ratings have a significant impact on our ability to access capital markets and our borrowing costs. Rating agencies base their ratings on numerous factors, including liquidity, capital adequacy, asset quality, quality of earnings and the probability of systemic support. Significant changes in these factors could result in different ratings. Our equity capital and funding strategies are designed, among other things, to maintain appropriate and stable unsecured debt ratings from the major credit ratings agencies, Moody's, S&P, Fitch and DBRS. Such ratings help to support our cost effective unsecured funding as part of our overall financing programs. Table 28 provides a summary of the credit ratings for the senior unsecured debt of Capital One Financial Corporation, COBNA, and CONA as of June 30, 2012 and a comparison to the ratings as of December 31, 2011.

Table 28: Senior Unsecured Debt Credit Ratings

	June 30, 2012			December 31, 2011		
	Capital One Financial Corporation	Capital One Bank (USA), N.A.	Capital One, N.A.	Capital One Financial Corporation	Capital One Bank (USA), N.A.	Capital One, N.A.
Moody's	Baa1	A3	A3	Baa1	A3	A3
S&P	BBB	BBB+	BBB+	BBB	BBB+	BBB+
Fitch	A-	A-	A-	A-	A-	A-
DBRS	BBB**	A*	A*	BBB**	A*	A*

* low

** high

As of July 31, 2012, Moody's, Fitch and DBRS had us on a stable outlook, while S&P had us on negative outlook.

MARKET RISK PROFILE

Market risk is inherent in the financial instruments associated with our operations and activities, including loans, deposits, securities, short-term borrowings, long-term debt and derivatives. Below we provide additional information about our primary sources of market risk, our market risk management strategies and measures used to evaluate our market risk exposure.

Primary Market Risk Exposures

Our primary sources of market risk include interest rate risk and foreign exchange risk.

Interest Rate Risk

Interest rate risk, which represents exposure to instruments whose yield or price varies with the level or volatility of interest rates, is our most significant source of market risk exposure. Banks are inevitably exposed to interest rate risk due to differences in the timing between the maturities or repricing of assets and liabilities. For example, if more assets are repricing than deposits and other borrowings when interest rates are declining, our earnings will decrease. Similarly, if more deposits and other borrowings are repricing than assets when interest rates are rising, our earnings will decrease. Interest rate risk also results from changes in customer behavior and

[Table of Contents](#)

competitors' responses to changes in interest rates or other market conditions. For example, decreases in mortgage rates generally result in faster than expected prepayments, which may adversely affect earnings. Increases in interest rates, coupled with strong demand from competitors for deposits, may influence industry pricing. Such competition may affect customer decisions to maintain balances in the deposit accounts, which may require replacing lower cost deposits with higher cost alternative sources of funding.

Foreign Exchange Risk

Foreign exchange risk represents exposure to changes in the values of current holdings and future cash flows denominated in other currencies. The types of instruments exposed to this risk include investments in foreign subsidiaries, foreign currency-denominated loans and securities, future cash flows in foreign currencies arising from foreign exchange transactions, foreign currency-denominated debt and various foreign exchange derivative instruments whose values fluctuate with changes in the level or volatility of currency exchange rates or foreign interest rates.

We are exposed to changes in foreign exchange rates, which may impact the earnings of our foreign operations. Our asset/liability management policy requires that we use derivatives to hedge material foreign currency denominated transactions to limit our earnings exposure to foreign exchange risk.

Market Risk Management

We employ several techniques to manage our interest rate and foreign currency risk, which include, but are not limited to, changing the maturity and re-pricing characteristics of our various assets and liabilities. Derivatives are one of the primary tools we use in managing interest rate and foreign exchange risk. We execute our derivative contracts in both over-the-counter and exchange-traded derivative markets. Although the majority of our derivatives are interest rate swaps, we also use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage our interest rate and foreign currency risk.

The outstanding notional amount of our derivative contracts decreased to \$55.3 billion as of June 30, 2012, from \$73.2 billion as of December 31, 2011. This decrease was primarily attributable to the termination of interest-rate swaps of \$24.8 billion that we entered into in the second half of 2011 to manage the anticipated impact of the ING Direct acquisition on our market risk exposure and regulatory capital requirements. These swap transactions mitigated the effect of a rise in interest rates on the fair values of a significant portion of the ING Direct assets and liabilities during the period from when we entered into the swap transactions to the closing date of the ING Direct acquisition in early 2012.

Market Risk Measurement

We have prescribed risk management policies and limits established by our Asset/Liability Management Committee. Our objective is to manage our asset/liability risk position and exposure to market risk in accordance with these policies and prescribed limits based on prevailing market conditions and long-term expectations. Because no single measure can reflect all aspects of market risk, we use various industry standard market risk measurement techniques and analyses to measure, assess and manage the impact of changes in interest rates and foreign exchange rates on our earnings and the economic value of equity.

We consider the impact on both earnings and economic value of equity in measuring and managing our interest rate risk. Our earnings sensitivity measure estimates the impact on net interest income and the valuation of our mortgage servicing rights, including derivative hedging activity, resulting from movements in interest rates. Our economic value of equity sensitivity measure estimates the impact on the net present value of our assets and liabilities, including derivative hedging activity, resulting from movements in interest rates. Our earnings sensitivity and economic value of equity measurements are based on our existing assets and liabilities, including derivatives, and do not incorporate business growth assumptions or projected plans for funding mix changes. We

[Table of Contents](#)

do, however, assess and factor into our interest rate risk management decisions the potential impact of growth assumptions, changing business activities and alternative interest rate scenarios, such as a steepening or flattening of the yield curve.

Under our current asset/liability management policy, our objective is to: (i) limit the potential decrease in our projected net interest income resulting from a gradual plus or minus 200 basis point change in forward rates to less than 5% over the next 12 months and (ii) limit the adverse change in the economic value of our equity due to an instantaneous parallel interest rate shock to spot rates of plus or minus 200 basis points to less than 12%. The federal funds rate remained at a target range of zero to 0.25% during the second quarter of 2012. Given the level of short-term rates as of June 30, 2012 and December 31, 2011, a scenario where interest rates would decline by 200 basis points is highly unlikely. In 2008, we temporarily revised our customary declining interest rate scenario of 200 basis points to a 50 basis point decrease, except in scenarios where a 50 basis point decline would result in a rate less than 0% (in which case we assume a rate scenario of 0%), to compensate for the continued low rate environment. Our current asset/liability management policy also includes the use of derivatives to hedge material foreign currency denominated transactions to limit our earnings exposure to foreign exchange risk.

Table 29 shows the estimated percentage impact on our adjusted projected net interest income and economic value of equity, calculated under our base case interest rate scenario, as of June 30, 2012 and December 31, 2011, resulting from selected hypothetical interest rate scenarios. Our adjusted projected net interest income consists of net interest income adjusted to include changes in the fair value of mortgage service rights, including related derivative hedging activity, and changes in the fair value of free-standing interest rate swaps. In measuring the sensitivity of interest rate movements on our adjusted projected net interest income, we assume a hypothetical gradual increase in interest rates of 200 basis points and a hypothetical gradual decrease of 50 basis points to forward rates over the next twelve months. In measuring the sensitivity of interest rate movements on our economic value of equity, we assume a hypothetical instantaneous parallel shift in the level of interest rates of plus 200 basis points and minus 50 basis points to spot rates in measuring the sensitivity of the valuation of our economic value of equity.

Table 29: Interest Rate Sensitivity Analysis

(Dollars in millions)	June 30, 2012	December 31, 2011	
		Excluding ING Direct Swaps ⁽¹⁾	Including ING Direct Swaps
Impact on adjusted projected base-line net interest income:			
+ 200 basis points	(0.5)%	1.2%	13.7%
- 50 basis points	0.0	(0.5)	(3.9)
Impact on economic value of equity:			
+ 200 basis points	(1.6)	(1.0)	3.2
- 50 basis points	(0.7)	(0.4)	(1.5)

⁽¹⁾ Calculated excluding the impact of the interest-rate swap transactions of approximately \$24.8 billion entered into to mitigate some of the interest rate risk related to the ING Direct acquisition.

Because of the large but temporary impact of the ING Direct-related swap transactions on our standard interest rate risk reporting measures, we expanded our standard interest rate sensitivity analysis to present our interest rate risk measures as of December 31, 2011 both with and without the impact of the \$24.8 billion of interest rate swaps described above. This presentation highlights changes in our core interest rate risk profile and the incremental impact of the ING Direct-related swaps on our core profile over the time period that the swaps were outstanding. Excluding the \$24.8 billion swap transactions, our interest rate sensitivity measures reflect that we became less asset sensitive between December 31, 2011 and June 30, 2012. Our projected net interest income and economic value of equity sensitivity measures, both including and excluding the impact of the ING Direct related swap transactions, were within our prescribed asset/liability policy limits as of June 30, 2012 and December 31, 2011.

Limitations of Market Risk Measures

The interest rate risk models that we use in deriving these measures incorporate contractual information, internally-developed assumptions and proprietary modeling methodologies, which project borrower and deposit behavior patterns in certain interest rate environments. Other market inputs, such as interest rates, market prices and interest rate volatility, are also critical components of our interest rate risk measures. We regularly evaluate, update and enhance these assumptions, models and analytical tools as we believe appropriate to reflect our best assessment of the market environment and the expected behavior patterns of our existing assets and liabilities.

There are inherent limitations in any methodology used to estimate the exposure to changes in market interest rates. The above sensitivity analyses contemplate only certain movements in interest rates and are performed at a particular point in time based on the existing balance sheet, and do not incorporate other factors that may have a significant effect, most notably future business activities and strategic actions that management may take to manage interest rate risk. Actual earnings and economic value of equity could differ from the above sensitivity analyses.

SUPERVISION AND REGULATION

Required Enhancements to Compliance and Risk Management Programs

In recent weeks, we have been party to several consent orders and settlement agreements with certain federal agencies. On July 17, 2012, Capital One Bank (U.S.A.), N.A. entered into consent orders with each of the OCC and the CFPB relating to oversight of our vendor sales practices of payment protection and credit monitoring products. On July 26, 2012, Capital One Bank (U.S.A.), N.A. and Capital One, N.A. entered into consent orders with each of the Department of Justice and the OCC relating to compliance with the Servicemembers Civil Relief Act, or the SCRA, and, in the case of the OCC orders, third-party management.

In addition, in the first quarter of 2012, we closed the ING Direct acquisition. In its order approving the acquisition, the Federal Reserve Board required Capital One to enhance our risk-management systems and policies enterprise-wide to account for the changes to our business lines that would result from the acquisitions of ING Direct and HSBC's credit card operations in the U.S.

Among other things, our regulators require us to make enhancements to our compliance and risk management programs on an enterprise-wide basis in the following primary areas:

- Compliance with laws, rules and regulations regarding unfair and deceptive practices;
- Compliance with the SCRA;
- Compliance monitoring and transaction testing capabilities to detect any instances of non-compliance with consumer compliance laws and regulations;
- Third-party management, especially in the context of compliance with consumer laws and regulations; and
- Internal controls, policies and procedures and oversight by the Board and senior management.

Much of this work is already underway, and the financial impacts of the customer restitution required and the civil monetary penalties to be paid under the various consent orders were reflected in our recent results of operations. The enhancements to these compliance and risk management programs could put upward pressure on our operating expenses in future periods. However, we cannot at this time predict with certainty whether our overall operating expenses will increase materially as a result.

We are continuing to make significant changes to our systems and processes in order to enhance our enterprise-wide compliance and risk management programs. There will continue to be heightened regulatory oversight by the federal banking regulators to ensure that we build systems and processes that are commensurate with the nature of our business, and we expect this heightened oversight will continue for the foreseeable future until we meet the expectations of our regulators and can demonstrate that such systems and processes are sustainable.

[Table of Contents](#)

ING Bank

On February 17, 2012, in connection with the ING Direct acquisition, we acquired all the shares of ING Bank, fsb (“ING Bank”) and its subsidiaries and certain of its affiliates. ING Bank is a federal savings association chartered under the laws of the United States, the deposits of which are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to applicable limits. Subject to the receipt of all regulatory approvals, we expect to merge ING Bank with and into CONA in the fourth quarter of this year.

Basel III and Other Capital Rule Proposals

The Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency and FDIC released in June 2012 three proposed rules that would substantially revise the federal banking agencies’ current capital rules and implement the Basel Committee on Banking Supervision’s December 2010 regulatory capital reforms, known as Basel III. The first proposal, known as the Basel III proposal, would increase the general risk-based capital ratio minimum requirements; modify the definition of regulatory capital; introduce a new capital conservation buffer requirement; and update the prompt corrective action (“PCA”) framework to reflect the new regulatory capital minimums. For those institutions subject to the Basel II Advanced Approaches framework, known as “Advanced Approaches” institutions, the proposal would also implement a supplementary leverage ratio that incorporates a broader set of exposures in the denominator and would introduce a new countercyclical capital buffer requirement. As discussed in more detail in our 2011 Form 10-K, we expect to be subject to the Basel II Advanced Approaches rules at the end of 2012 as a result of the ING Direct acquisition.

The second proposal, known as the Standardized Approach proposal, would revise the federal banking agencies’ general approach for calculating risk-weighted assets, to reflect a more risk-sensitive risk-weighting approach and remove reliance on external credit ratings, as required by Section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”). The third proposal would modify the existing Basel II Advanced Approaches rules for calculating risk-weighted assets, by implementing elements of the Basel III framework and removing reliance on external credit ratings. Pursuant to Section 171 (commonly referred to as the Collins Amendment) of the Dodd-Frank Act, an Advanced Approaches institution must calculate its risk-based capital under both the Standardized Approach and the Advanced Approach and use the lower of each of the relevant capital ratios to determine whether it meets the minimum risk-based capital requirements.

The proposed rules would go into effect according to different start dates and phase-in periods, beginning with January 1, 2013. If finalized as proposed, the rules would increase the minimum capital that we and other institutions would be required to hold. We will continue to monitor regulators’ implementation of the new rules and assess the potential impact to us.

We provide information on our supervision and regulation in our 2011 Form 10-K under “Part I—Item 1. Business—Supervision and Regulation.”

ACCOUNTING CHANGES AND DEVELOPMENTS

See “Note 1—Summary of Significant Accounting Policies” for information concerning recently issued accounting pronouncements, including those that we have not yet adopted and that will likely affect our consolidated financial statements.

FORWARD-LOOKING STATEMENTS

From time to time, we have made and will make forward-looking statements, including those that discuss, among other things, strategies, goals, outlook or other non-historical matters; projections, revenues, income, expenses, capital measures, returns, accruals for claims in litigation and for other claims against us; earnings per share or

[Table of Contents](#)

other financial measures for us; future financial and operating results; our plans, objectives, expectations and intentions; the projected impact and benefits of the ING Direct and HSBC U.S. card acquisitions (collectively, the “Transactions”); and the assumptions that underlie these matters.

To the extent that any such information is forward-looking, it is intended to fit within the safe harbor for forward-looking information provided by the Private Securities Litigation Reform Act of 1995. Numerous factors could cause our actual results to differ materially from those described in such forward-looking statements, including, among other things:

- general economic and business conditions in the U.S., the U.K., Canada and our local markets, including conditions affecting employment levels, interest rates, consumer income and confidence, spending and savings that may affect consumer bankruptcies, defaults, charge-offs and deposit activity;
- an increase or decrease in credit losses (including increases due to a worsening of general economic conditions in the credit environment);
- the possibility that we may not fully realize the projected cost savings and other projected benefits of the Transactions;
- difficulties and delays in integrating the assets and businesses acquired in the Transactions;
- business disruption following the Transactions;
- diversion of management time on issues related to the Transactions, including integration of the assets and businesses acquired;
- reputational risks and the reaction of customers and counterparties to the Transactions;
- disruptions relating to the Transactions negatively impacting our ability to maintain relationships with customers, employees and suppliers;
- changes in asset quality and credit risk as a result of the Transactions;
- the accuracy of estimates and assumptions we use to determine the fair value of assets acquired and liabilities assumed in the Transactions, and the potential for our estimates or assumptions to change as additional information becomes available and we complete the accounting analysis of the Transactions;
- financial, legal, regulatory, tax or accounting changes or actions, including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations promulgated thereunder;
- developments, changes or actions relating to any litigation matter involving us;
- the inability to sustain revenue and earnings growth;
- increases or decreases in interest rates;
- our ability to access the capital markets at attractive rates and terms to capitalize and fund our operations and future growth;
- the success of our marketing efforts in attracting and retaining customers;
- increases or decreases in our aggregate loan balances or the number of customers and the growth rate and composition thereof, including increases or decreases resulting from factors such as shifting product mix, amount of actual marketing expenses we incur and attrition of loan balances;
- the level of future repurchase or indemnification requests we may receive, the actual future performance of mortgage loans relating to such requests, the success rates of claimants against us, any developments in litigation and the actual recoveries we may make on any collateral relating to claims against us;
- the amount and rate of deposit growth;
- changes in the reputation of or expectations regarding the financial services industry or us with respect to practices, products or financial condition;

Table of Contents

- any significant disruption in our operations or technology platform;
- our ability to maintain a compliance infrastructure suitable for the nature of our business;
- our ability to control costs;
- the amount of, and rate of growth in, our expenses as our business develops or changes or as it expands into new market areas;
- our ability to execute on our strategic and operational plans;
- any significant disruption of, or loss of public confidence in, the United States Mail service affecting our response rates and consumer payments;
- our ability to recruit and retain experienced personnel to assist in the management and operations of new products and services;
- changes in the labor and employment markets;
- fraud or misconduct by our customers, employees or business partners;
- competition from providers of products and services that compete with our businesses; and
- other risk factors listed from time to time in reports that we file with the SEC.

Any forward-looking statements made by or on behalf of Capital One speak only as of the date they are made or as of the date indicated, and Capital One does not undertake any obligation to update forward-looking statements as a result of new information, future events or otherwise. You should carefully consider the factors discussed above in evaluating these forward-looking statements. For additional information on factors that could materially influence forward-looking statements included in this report, see the risk factors in this report in “Part II—Item 1A. Risk Factors” and in our 2011 Form 10-K in “Part I—Item 1A. Risk Factors.”

SUPPLEMENTAL TABLES
Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures

(Dollars in millions) (unaudited)	June 30, 2012 ⁽¹⁾	December 31, 2011
Stockholders' Equity to Non-GAAP Tangible Common Equity		
Total stockholders' equity	\$ 37,192	\$ 29,666
Less: Intangible assets ⁽²⁾	(16,477)	(13,908)
Tangible common equity	<u>\$ 20,715</u>	<u>\$ 15,758</u>
Total Assets to Tangible Assets		
Total assets	\$ 296,572	\$ 206,019
Less: Assets from discontinued operations	(310)	(305)
Total assets from continuing operations	296,262	205,714
Less: Intangible assets ⁽²⁾	(16,477)	(13,908)
Tangible assets	<u>\$ 279,785</u>	<u>\$ 191,806</u>
Non-GAAP TCE Ratio		
Tangible common equity	\$ 20,715	\$ 15,758
Tangible assets	279,785	191,806
TCE ratio ⁽³⁾	7.4%	8.2%
Regulatory Capital and Non-GAAP Tier 1 Common Equity Ratios		
Total stockholders' equity	\$ 37,192	\$ 29,666
Less: Net unrealized gains recorded in AOCI ⁽⁴⁾	(422)	(289)
Net losses on cash flow hedges recorded in AOCI ⁽⁴⁾	34	71
Disallowed goodwill and other intangible assets ⁽⁵⁾	(14,563)	(13,855)
Disallowed deferred tax assets	(758)	(534)
Other	(12)	(2)
Tier 1 common capital	21,471	15,057
Plus: Tier 1 restricted core capital items ⁽⁶⁾	3,636	3,635
Tier 1 capital	25,107	18,692
Plus: Long-term debt qualifying as Tier 2 capital	2,318	2,438
Qualifying allowance for loan and lease losses	2,740	1,979
Other Tier 2 components	15	23
Tier 2 capital	5,073	4,440
Total risk-based capital ⁽⁷⁾	<u>\$ 30,180</u>	<u>\$ 23,132</u>
Risk-weighted assets ⁽⁸⁾	<u>\$ 216,341</u>	<u>\$ 155,657</u>
Tier 1 common ratio ⁽⁹⁾	9.9%	9.7%
Tier 1 risk-based capital ratio ⁽¹⁰⁾	11.6	12.0
Total risk-based capital ratio ⁽¹¹⁾	14.0	14.9

⁽¹⁾ Regulatory capital ratios as of June 30, 2012 are preliminary and therefore subject to change.

⁽²⁾ Includes impact from related deferred taxes.

⁽³⁾ Calculated based on tangible common equity divided by tangible assets.

⁽⁴⁾ Amounts presented are net of tax.

⁽⁵⁾ Disallowed goodwill and other intangible assets are net of related deferred tax liability.

⁽⁶⁾ Consists primarily of trust preferred securities.

⁽⁷⁾ Total risk-based capital equals the sum of Tier 1 capital and Tier 2 capital.

[Table of Contents](#)

- ⁽⁸⁾ Calculated based on prescribed regulatory guidelines.
- ⁽⁹⁾ Tier 1 common ratio is a regulatory capital measure calculated based on Tier 1 common capital divided by risk-weighted assets.
- ⁽¹⁰⁾ Tier 1 risk-based capital ratio is a regulatory capital measure calculated based on Tier 1 capital divided by risk-weighted assets.
- ⁽¹¹⁾ Total risk-based capital ratio is a regulatory capital measure calculated based on total risk-based capital divided by risk-weighted assets.

Item 1. Financial Information and Supplementary Data

CAPITAL ONE FINANCIAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in millions, except per share data)	June 30, 2012	December 31, 2011
Assets:		
Cash and due from banks	\$ 2,297	\$ 2,097
Interest-bearing deposits with banks	3,352	3,399
Federal funds sold and securities purchased under agreements to resell	330	342
Cash and cash equivalents	5,979	5,838
Restricted cash for securitization investors	370	791
Securities available for sale, at fair value	55,289	38,759
Loans held for investment:		
Unsecuritized loans held for investment, at amortized cost	158,680	88,242
Restricted loans for securitization investors	44,069	47,650
Total loans held for investment	202,749	135,892
Less: Allowance for loan and lease losses	(4,998)	(4,250)
Net loans held for investment	197,751	131,642
Loans held for sale, at lower-of-cost-or-fair value	1,047	201
Accounts receivable from securitizations	96	94
Premises and equipment, net	3,556	2,748
Interest receivable	1,623	1,029
Goodwill	13,864	13,592
Other	16,997	11,325
Total assets	\$296,572	\$ 206,019
Liabilities:		
Interest payable	\$ 462	\$ 466
Customer deposits:		
Non-interest bearing deposits	20,072	18,281
Interest bearing deposits	193,859	109,945
Total customer deposits	213,931	128,226
Securitized debt obligations	13,608	16,527
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	1,101	1,464
Senior and subordinated notes	12,079	11,034
Other borrowings	9,086	10,536
Total other debt	22,266	23,034
Other liabilities	9,113	8,100
Total liabilities	259,380	176,353
Stockholders' equity:		
Preferred stock, par value \$.01 per share; authorized 50,000,000 shares; zero shares issued or outstanding as of June 30, 2012 and December 31, 2011	0	0
Common stock, par value \$.01 per share; authorized 1,000,000,000 shares; 630,248,839 and 508,594,308 issued as of June 30, 2012 and December 31, 2011, respectively	6	5
Paid-in capital, net	25,217	19,274
Retained earnings	14,905	13,462
Accumulated other comprehensive income	350	169
Less: Treasury stock, at cost; 49,571,662 and 48,647,091 shares as of June 30, 2012 and December 31, 2011, respectively	(3,286)	(3,244)
Total stockholders' equity	37,192	29,666
Total liabilities and stockholders' equity	\$296,572	\$ 206,019

See Notes to Condensed Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in millions, except per share-related data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest income:				
Loans held for investment, including past-due fees	\$ 4,255	\$ 3,367	\$ 7,910	\$ 6,784
Investment securities	335	313	633	629
Other	26	19	52	38
Total interest income	<u>4,616</u>	<u>3,699</u>	<u>8,595</u>	<u>7,451</u>
Interest expense:				
Deposits	373	307	684	629
Securitized debt obligations	69	113	149	253
Senior and subordinated notes	87	63	175	127
Other borrowings	86	80	172	166
Total interest expense	<u>615</u>	<u>563</u>	<u>1,180</u>	<u>1,175</u>
Net interest income	4,001	3,136	7,415	6,276
Provision for credit losses	1,677	343	2,250	877
Net interest income after provision for credit losses	<u>2,324</u>	<u>2,793</u>	<u>5,165</u>	<u>5,399</u>
Non-interest income:				
Service charges and other customer-related fees	539	460	954	985
Interchange fees, net	408	331	736	651
Total other-than-temporary losses	(21)	(27)	(25)	(50)
Portion of other-than-temporary losses recorded in AOCI	8	21	(2)	41
Net other-than-temporary impairment losses recognized in earnings	(13)	(6)	(27)	(9)
Bargain purchase gain	0	0	594	0
Other	120	72	318	172
Total non-interest income	<u>1,054</u>	<u>857</u>	<u>2,575</u>	<u>1,799</u>
Non-interest expense:				
Salaries and associate benefits	971	715	1,835	1,456
Marketing	334	329	655	605
Communications and data processing	203	162	375	326
Supplies and equipment	178	124	325	259
Occupancy	145	118	268	237
Merger related	133	0	219	0
Other	1,178	807	1,969	1,534
Total non-interest expense	<u>3,142</u>	<u>2,255</u>	<u>5,646</u>	<u>4,417</u>
Income from continuing operations before income taxes	236	1,395	2,094	2,781
Income tax provision	43	450	396	804
Income from continuing operations, net of tax	193	945	1,698	1,977
Loss from discontinued operations, net of tax	(100)	(34)	(202)	(50)
Net income	93	911	1,496	1,927
Dividends and undistributed earnings allocated to participating securities	(1)	0	(8)	0
Net income available to common stockholders	<u>\$ 92</u>	<u>\$ 911</u>	<u>\$ 1,488</u>	<u>\$ 1,927</u>
Basic earnings per common share:				
Income from continuing operations	\$ 0.33	\$ 2.07	\$ 3.11	\$ 4.35
Loss from discontinued operations	(0.17)	(0.07)	(0.37)	(0.11)
Net income per basic common share	<u>\$ 0.16</u>	<u>\$ 2.00</u>	<u>\$ 2.74</u>	<u>\$ 4.24</u>
Diluted earnings per common share:				
Income from continuing operations	\$ 0.33	\$ 2.04	\$ 3.09	\$ 4.29
Loss from discontinued operations	(0.17)	(0.07)	(0.37)	(0.11)
Net income per diluted common share	<u>\$ 0.16</u>	<u>\$ 1.97</u>	<u>\$ 2.72</u>	<u>\$ 4.18</u>
Dividends paid per common share	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.10</u>	<u>\$ 0.10</u>

See Notes to Condensed Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$ 93	\$ 911	\$ 1,496	\$ 1,927
Other comprehensive income(loss), net of taxes:				
Unrealized gains on securities, net of tax provision of \$66 million and \$94 million for the three months ended June 30, 2012 and 2011, respectively and \$62 million and \$67 million for the six months ended June 30, 2012 and 2011, respectively	105	172	99	122
Other-than-temporary impairment not recognized in earnings, net of tax benefit of \$2 million for the three months ended June 30, 2011 and net of tax provision of \$21 million and tax benefit of \$4 million for the six months ended June 30, 2012 and 2011, respectively	0	(3)	34	(7)
Defined benefit plans, net of tax benefit of \$2 million for the three months ended June 30, 2012 and \$2 million for the six months ended June 30, 2012	(3)	0	(3)	0
Foreign currency translation adjustments	(44)	4	11	63
Unrealized gains on cash flow hedges, net of tax provision of \$21 million and \$14 million for the three months ended June 30, 2012 and 2011, respectively and \$21 million and \$10 million for the six months ended June 30, 2012 and 2011, respectively	39	24	40	16
Other comprehensive income	97	197	181	194
Comprehensive income	<u>\$ 190</u>	<u>\$ 1,108</u>	<u>\$ 1,677</u>	<u>\$ 2,121</u>

See Notes to Condensed Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(UNAUDITED)

(Dollars in millions, except per share data)	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount					
Balance as of December 31, 2011	508,594,308	\$ 5	\$ 19,274	\$ 13,462	\$ 169	\$(3,244)	\$ 29,666
Comprehensive income				1,496	181		1,677
Cash dividends—common stock \$0.10 per share				(53)			(53)
Purchases of treasury stock						(42)	(42)
Issuances of common stock and restricted stock, net of forfeitures	66,791,991		3,200				3,200
Exercise of stock options and tax benefits of exercises and restricted stock vesting	834,454		45				45
Compensation expense for restricted stock awards and stock options			61				61
Issuance of common stock related to acquisition	54,028,086	1	2,637				2,638
Balance as of June 30, 2012	630,248,839	\$ 6	\$ 25,217	\$ 14,905	\$ 350	\$(3,286)	\$ 37,192

See Notes to Condensed Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)	Six Months Ended June 30,	
	2012	2011
Operating activities:		
Income from continuing operations, net of tax	\$ 1,698	\$ 1,977
Loss from discontinued operations, net of tax	(202)	(50)
Net income	<u>1,496</u>	<u>1,927</u>
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	2,250	877
Depreciation and amortization, net	692	299
Net gains on sales of securities available for sale	(41)	(11)
Impairment loss on securities available for sale	6	0
Bargain purchase gain	(594)	0
Loans held for sale:		
Originations/Transfers in	(1,813)	(209)
(Gains) losses on sales	(29)	23
Proceeds from sales	996	334
Stock plan compensation expense	116	117
Changes in operating assets and liabilities, net of effects of acquisitions		
(Increase) decrease in interest receivable	(424)	43
(Increase) decrease in accounts receivable from securitizations	(2)	12
Decrease in other assets	24	792
Decrease in interest payable	(4)	(19)
Decrease in other liabilities	458	127
Net cash provided by operating activities attributable to discontinued operations	21	49
Net cash provided by operating activities	<u>3,152</u>	<u>4,361</u>
Investing activities:		
Increase in restricted cash for securitization investors	421	274
Purchases of securities available for sale	(9,095)	(5,085)
Proceeds from paydowns and maturities of securities available for sale	8,651	4,715
Proceeds from sales of securities available for sale	14,258	2,570
Net decrease in loans held for investment	(638)	(4,474)
Principal recoveries of loans previously charged off	768	826
Additions of premises and equipment	(262)	(159)
Net cash payment for companies acquired, net of cash received	(17,603)	(1,444)
Net cash used in investing activities	<u>(3,500)</u>	<u>(2,777)</u>
Financing activities:		
Net increase in deposits	1,279	3,907
Net decrease in securitized debt obligations	(2,919)	(7,055)
Net increase (decrease) in other borrowings	(1,989)	2,983
Maturities of senior notes	(282)	0
Issuance of senior and subordinated notes and junior subordinated debentures	1,250	0
Purchases of treasury stock	(42)	(39)
Dividends paid on common stock	(53)	(46)
Net proceeds from issuances of common stock	3,200	18
Proceeds from share-based payment activities	45	42
Net cash provided by (used in) financing activities	<u>489</u>	<u>(190)</u>
Increase in cash and cash equivalents	141	1,394
Cash and cash equivalents at beginning of the period	5,838	5,249
Cash and cash equivalents at end of the period	<u>\$ 5,979</u>	<u>\$ 6,643</u>
Supplemental cash flow information:		
Non-cash items:		
Excess of the net fair value of assets acquired over consideration transferred for acquired businesses	\$ (322)	\$ 3

See Notes to Condensed Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Capital One Financial Corporation, which was established in 1995, is a diversified financial services holding company headquartered in McLean, Virginia. Capital One Financial Corporation and its subsidiaries (the “Company”) offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. Our principal subsidiaries include Capital One Bank (USA), National Association (“COBNA”), Capital One, National Association (“CONA”) and ING Bank, fsb. The Company and its subsidiaries are hereafter collectively referred to as “we,” “us” or “our.” CONA and COBNA are hereafter collectively referred to as the “Banks.” As one of the 10 largest banks in the United States based on deposits, we serve banking customers across the U.S. through the internet and through branch locations primarily in New York, New Jersey, Texas, Louisiana, Maryland, Virginia and the District of Columbia. In addition to bank lending and depository services, we offer credit and debit card products, mortgage banking and treasury management services. We offer our products outside of the United States principally through operations in the United Kingdom and Canada.

In 2011, we entered into a purchase and sale agreement with ING Groep N.V., ING Bank N.V., ING Direct N.V., ING Direct Bancorp (collectively, the “ING Sellers”), under which we would acquire substantially all of the ING Sellers’ ING Direct business in the United States (“ING Direct”). On February 17, 2012, we closed the acquisition of ING Direct, which included (i) the acquisition of all the equity interests of ING Bank, fsb, (ii) the acquisition of all the equity interests of each of WS Realty, LLC and ING Direct Community Development LLC and (iii) the acquisition of certain other assets and the assumption of certain other liabilities of ING Direct Bancorp. See “Note 2—Acquisitions” for additional information related to the ING Direct acquisition.

On May 1, 2012, we completed the previously announced acquisition of assets and the assumption of liabilities of the credit card and private label credit card business in the United States (other than the HSBC Bank USA, National Association consumer credit card program and certain other retained assets and liabilities) of HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology & Services (USA) Inc. (collectively, the “HSBC Sellers”). See “Note 2—Acquisitions” for additional information related to the HSBC U.S. Card acquisition.

Our principal operations are organized into three primary business segments, which are defined based on the products and services provided, or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. In the first quarter of 2012, we re-aligned the reporting of our Commercial Banking business to reflect the operations on a product basis rather than by customer type (See “Note 14—Business Segments” for additional information).

Basis of Presentation and Use of Estimates

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and should be read in conjunction with the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2011 (“2011 Form 10-K”). Certain financial information that is normally included in annual financial statements prepared in conformity with U.S. GAAP, but is not required for interim reporting purposes, has been condensed or omitted. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our interim unaudited financial statements have been reflected.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. Interim period results may not be indicative of results for the full year.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of Capital One Financial Corporation and all other entities in which we have a controlling financial interest. All significant intercompany accounts and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation.

Significant Accounting Policies

We provide a summary of our significant accounting policies in our 2011 Form 10-K under “Notes to Consolidated Statements—Note 1—Summary of Significant Accounting Policies.” Below we describe accounting standards that we adopted in 2012 and recently issued accounting standards that we have not yet adopted.

Accounting Standards Adopted in 2012

Goodwill Impairment

In September 2011, the Financial Accounting Standards Board (“FASB”) issued guidance that is intended to simplify goodwill impairment testing by providing entities with the option to first assess qualitatively whether it is necessary to perform the two-step quantitative analysis currently required. If an entity chooses to perform a qualitative assessment and determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step goodwill impairment test is required. Otherwise, goodwill is deemed to be not impaired and no further analysis would be necessary. The amended goodwill impairment guidance does not affect the manner in which a company estimates fair value. The amended guidance was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We adopted the amended guidance on January 1, 2012. We had \$13.9 billion in goodwill as of June 30, 2012, the value of which was not affected by the adoption of this standard.

Presentation of Comprehensive Income

In June 2011, the FASB issued new accounting guidance that revises the manner in which comprehensive income is required to be presented in financial statements. The new guidance requires companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. The guidance eliminates the option to present components of other comprehensive income in the statement of changes in stockholders’ equity. It does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified from other comprehensive income to net income. The guidance requires retrospective application and was effective for interim and annual periods beginning on or after December 15, 2011. We adopted the guidance in the first quarter of 2012 and elected to present other comprehensive income in a separate statement immediately following our consolidated statement of income. Our adoption of the guidance had no effect on our financial condition, results of operations or liquidity since it impacts presentation only.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (“IFRS”)

In May 2011, the FASB issued amended guidance on fair value that is intended to provide a converged fair value framework for U.S. GAAP and IFRS. While the amended guidance continues to define fair value as an exit price, it changes some fair value measurement principles and expands the existing disclosure requirements for fair value measurements. The amended guidance was effective for public entities during interim and annual periods beginning after December 15, 2011, with early adoption prohibited. The new guidance requires prospective application and disclosure in the period of adoption of the change, if any, in valuation techniques and related inputs resulting from application of the amendments and quantification of the total effect, if practicable. We adopted the amended guidance in the first quarter of 2012. The change in fair value measurement principles did not result in any changes to the fair value of our assets or liabilities carried at fair value and thus, had no effect on our financial condition, results of operations or liquidity. The new disclosures required by the amended guidance are included in “Note 13—Fair Value of Financial Instruments.”

Transfers and Servicing: Reconsideration of Effective Control for Repurchase Agreements

In April 2011, the FASB issued an amendment to the guidance for transfers and servicing with regard to repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. This amendment removes the criterion related to collateral maintenance from the transferor’s assessment of effective control. It focuses the assessment of effective control on the transferor’s rights and obligations with respect to the transferred financial assets and not whether the transferor has the practical ability to perform in accordance with those rights or obligations. We adopted the amended guidance on January 1, 2012, which did not have a material impact on our consolidated financial statements.

Recently Issued but Not Yet Adopted Accounting Standards

Offsetting Financial Assets and Liabilities

In December 2011, the FASB issued guidance intended to enhance current disclosure requirements on offsetting financial assets and liabilities. The new disclosures will enable financial statement users to compare balance sheets prepared under U.S. GAAP and IFRS, which are subject to different offsetting models. Upon adoption, entities will be required to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The disclosures will be required irrespective of whether such instruments are presented gross or net on the balance sheet. The guidance is effective for annual and interim reporting periods beginning on or after January 1, 2013, with comparative retrospective disclosures required for all periods presented. Our adoption of the guidance will have no effect on our financial condition, results of operations or liquidity since it impacts disclosures only.

NOTE 2—ACQUISITIONS

We regularly explore opportunities to enter into strategic partnership agreements or acquire financial services companies, businesses and portfolios to expand our distribution channels, enhance our businesses and grow our customer base. We may structure these transactions with both an initial payment and later contingent payments tied to future financial performance. In some partnership agreements, we may enter into collaborative risk-sharing arrangements that provide for revenue and loss sharing. We provide information on our accounting for acquisitions and partnership agreements in “Note 2—Acquisitions and Restructuring Activities” of our 2011 Form 10-K.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

2012 Acquisitions

ING Direct

On June 16, 2011, we entered into a purchase and sale agreement with ING Sellers, under which we would acquire ING Direct. On February 17, 2012, we closed the acquisition of ING Direct, which included (i) the acquisition of all the equity interests of ING Bank, fsb (ii) the acquisition of all equity interests of each of WS Realty LLC and ING Direct Community Development LLC and (iii) the acquisition of certain other assets and the assumption of certain other liabilities of ING Direct Bancorp. Headquartered in Wilmington, Delaware, ING Direct is the largest direct bank in the United States. The ING Direct acquisition strengthens our customer franchise and adds over seven million customers and approximately \$84.4 billion in deposits to our Consumer Banking segment.

The aggregate consideration paid by us in the ING Direct acquisition was approximately \$6.3 billion in cash and 54,028,086 shares of Capital One common stock with a fair value of approximately \$2.6 billion as of the acquisition date of February 17, 2012. We used current liquidity sources as well as proceeds from public debt and equity offerings described below to fund the cash consideration.

In the third quarter of 2011, we closed a public offering of four different series of our senior notes for total cash proceeds of approximately \$3.0 billion and a public underwritten offering of 40 million shares of our common stock, subject to forward sale agreements. We settled the forward sale agreements entirely by physical delivery of shares of common stock in exchange for cash proceeds from the forward purchasers of approximately \$1.9 billion on February 16, 2012.

We also incurred transaction costs related to the ING Direct acquisition totaling \$62 million as of March 31, 2012, of which \$25 million was recognized in 2011 and \$37 million was recognized in the first quarter of 2012 and reported in our consolidated statement of income as a component of non-interest expense. These transaction costs do not include other merger-related expenses, such as integration costs.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Accounting for ING Direct Acquisition

The ING Direct acquisition was accounted for under the acquisition method of accounting, which requires, among other things, that we allocate the purchase price to the assets acquired and liabilities assumed based on their fair values as of the acquisition date. The following table summarizes our allocation of the ING Direct purchase price to the fair value of assets acquired and liabilities assumed.

(Dollars in millions)	Fair Value
Purchase price:	
Cash	\$ 6,321
Fair value of Capital One common stock issued (54,028,086 shares)	2,638
Aggregate consideration transferred	<u>\$ 8,959</u>
Allocation of purchase price to net assets acquired:	
Assets:	
Cash and due from banks	\$ 20,061
Investments	30,237
Loans held for investment	40,042
Loans held for sale	367
Premises and equipment	245
Accrued interest receivable ⁽¹⁾	170
Identifiable intangible assets	358
Other assets ⁽²⁾	2,854
Total assets	<u>94,334</u>
Liabilities:	
Interest payable	31
Interest-bearing deposits	84,410
Other borrowings	6
Other liabilities ⁽³⁾	334
Total liabilities	<u>84,781</u>
Net assets acquired	9,553
Bargain purchase gain	<u>\$ 594</u>

⁽¹⁾ Includes \$79 million of accrued interest receivable attributable to loans held for investment.

⁽²⁾ Other assets include \$801 million of deferred tax assets, net of a valuation allowance of \$8 million, as of the acquisition date.

⁽³⁾ Other liabilities include \$181 million of deferred tax liabilities as of the acquisition date.

At acquisition, the fair value of the net assets acquired from ING Direct of \$9.6 billion exceeded the purchase price of \$9.0 billion, resulting in the recognition of a bargain purchase gain of \$594 million, which was reported as a component of non-interest income on our consolidated statement of income for the first quarter of 2012. A substantial portion of the assets acquired from ING Direct were mortgage-related assets, which generally decrease in value as interest rates rise and increase in value as interest rates fall. The bargain purchase gain was driven largely by a substantial decline in long-term interest rates between the period shortly after our announcement of the ING Direct acquisition and its closing, which resulted in an increase in the fair value of the acquired mortgage assets and the overall net fair value of assets acquired. Further, the purchase and sale agreement did not include a mechanism to adjust the purchase price to reflect the increase to the fair value of the net assets acquired.

CAPITAL ONE FINANCIAL CORPORATION**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)*****HSBC U.S. Card Business Acquisition***

On May 1, 2012, Capital One completed the previously announced acquisition of assets and assumption of liabilities of the credit card and private label credit card business in the United States (other than the HSBC Bank USA, National Association consumer credit card program and certain other retained assets and liabilities) of HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology & Services (USA) Inc. (collectively, the “HSBC Sellers”), pursuant to the Purchase and Assumption Agreement, dated as of August 10, 2011 by and among Capital One and each of the HSBC Sellers (the “HSBC U.S. card acquisition”). We acquired approximately \$28.3 billion of outstanding credit card receivables as well as \$327 million in other net assets in exchange for consideration of approximately \$31.1 billion in cash to the HSBC sellers, net of a \$252 million receivable. We financed the acquisition through a combination of existing cash, cash acquired from the ING Direct acquisition, the sale of securities held as available-for-sale, as well as the public debt and equity offerings described below. The HSBC U.S. card acquisition enhances the existing franchise and scale in the Domestic Card business and accelerates our achievement of a leading position in retail credit card partnerships.

In the first quarter of 2012, we closed a public offering of 24,442,706 shares of our common stock which we sold to the underwriters at a per share price of \$51.14 for net proceeds of approximately \$1.25 billion. In addition, we issued \$1.25 billion of our senior notes due 2015 in a public offering which also closed in the first quarter for net proceeds of approximately \$1.25 billion. Direct costs of approximately \$2 million paid to third parties in connection with this debt issuance were capitalized as deferred charges in the balance sheet and are amortized over the term of the debt as a component of interest expense using the effective interest method.

We also incurred transaction costs related to the HSBC U.S. card acquisition totaling \$40 million as of June 30, 2012. \$3 million was recognized as part of non-interest expense in the 2011 consolidated statement of income. The remaining \$37 million is included in our current consolidated statement of income as a component of non-interest expenses. These costs do not include other merger-related expenses such as integration costs.

Accounting for the HSBC U.S. Card Acquisition

The HSBC U.S. card acquisition was accounted for under the acquisition method of accounting, which requires, among other things, that we allocate the purchase price to the assets acquired and liabilities assumed based on their fair values as of the acquisition date. The following table summarizes the initial accounting for the HSBC U.S. card acquisition which is based on provisional estimates given the limited time between the acquisition date and the issuance of these financial statements. We will finalize the accounting for intangible assets acquired and other liabilities assumed in the HSBC U.S. card acquisition during the measurement period. Immaterial adjustments to these items as presented below may be necessary and may have an immaterial impact on the amount of goodwill recognized. Based on the initial accounting estimates presented below, the purchase price of assets acquired and liabilities assumed exceeded the fair value of these items and resulted in the recognition of \$272 million of goodwill which is assigned to the Credit Card segment. Goodwill results from expertise gained through an enhanced retail partnership business as well as economies of scale obtained through infrastructure enhancements and additions to our current staff. For tax reporting purposes, the HSBC U.S. card acquisition is treated a taxable purchase of assets. As such, the total amount of goodwill recognized is amortizable for tax purposes over 15 years.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	Fair Value
Purchase price:	
Cash	\$ 31,343
Receivable due from HSBC	(252)
Total consideration transferred	<u>\$ 31,091</u>
Allocation of purchase price to net assets acquired:	
Assets:	
Loans receivable ⁽¹⁾	\$ 28,234
Other assets	378
Premises and equipment	502
Intangible assets	2,213
Total assets	<u>31,327</u>
Liabilities:	
Other liabilities	508
Total liabilities	<u>508</u>
Net assets acquired	<u>30,819</u>
Goodwill	<u>\$ 272</u>

⁽¹⁾ Loans receivable includes the fair value of unpaid principal balances of loans, the associated accrued interest and balances in certain loan settlement accounts.

ING Direct and HSBC U.S. Card Results

Our results for the second quarter and first six months of 2012 include the operations of ING Direct from the acquisition date of February 17, 2012, through June 30, 2012 and the operations of the acquired HSBC U.S. card business from the acquisition date of May 1, 2012 through June 30, 2012.

The tables below present the estimated impact of the ING Direct acquisition and the HSBC U.S. card acquisition on our revenue and income from continuing operations, net of tax for the second quarter and first six months of 2012. The table also includes condensed pro forma information on our combined results of operations as they may have appeared assuming the ING Direct acquisition and HSBC U.S. card acquisitions had been completed on January 1, 2011. These amounts do not include certain corporate expenses, transaction costs, or merger-related expenses that resulted from the two acquisitions and are therefore not representative of the actual results of the operations of these businesses on a stand-alone basis. As we continue to integrate these businesses into our existing operations over the remainder of the year, it may become impracticable to separately identify and to estimate these operating results.

Because the HSBC U.S. card acquisition did not involve the acquisition of an entire legal entity, we were not able to develop a complete income statement for the current reporting period. To determine the amounts provided below, we relied on historical HSBC management reports. Corporate expenses, such as salary expenses, fixed asset depreciation, and intangible asset amortization were estimated and allocated based on the total amount of these expenses as of December 31, 2011. Also included in the combined pro forma results are adjustments to reflect the impact of amortizing certain purchase accounting adjustments, such as the amortization of intangible assets and the accretion of interest income on certain acquired loans. Because the bargain purchase gain recognized in the ING Direct acquisition is a nonrecurring item, it is excluded from the pro forma results to present the information on a more comparative basis.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The pro forma condensed combined financial information is presented for illustrative purposes only and does not indicate the actual combined financial results had the closing of the ING Direct acquisition or the HSBC U.S. card acquisition been completed on January 1, 2011 nor does it reflect the benefits obtained through the integration of business operations realized since acquisition. Furthermore, the information is not indicative of the results of operations in future periods. The pro forma condensed combined financial information does not reflect the impact of possible business model changes nor does it consider any potential impacts of market conditions, expense efficiencies or other factors.

(Dollars in millions)	ING Direct Impact	HSBC Impact	Combined Pro Forma Results	
	Three Months Ended June 30, 2012	From May 1, 2012 through June 30, 2012	Three Months Ended June 30,	
			2012	2011
Revenue ⁽¹⁾	\$ 512	\$ 733	\$ 6,093	\$ 6,095
Income from continuing operations, net of tax	126	(545)	176	1,145

(Dollars in millions)	ING Direct Impact	HSBC Impact	Combined Pro Forma Results	
	From February 17, 2012 through June 30, 2012	From May 1, 2012 through June 30, 2012	Six Months Ended June 30,	
			2012	2011
Revenue ⁽¹⁾	\$ 749	\$ 733	\$12,418	\$12,970
Income from continuing operations, net of tax	163	(545)	1,695	2,521

⁽¹⁾ The amounts reported consist of gross interest income and gross non-interest income. Net revenue for ING Direct was \$348 million for the three months ended June 30, 2012 and \$503 from acquisition on February 17, 2012 through June 30, 2012. Net revenue for HSBC from acquisition on May 1, 2012 through June 30, 2012 was \$663 million. Net revenue includes interest income, non-interest income and interest expense.

NOTE 3—DISCONTINUED OPERATIONS

Shutdown of Mortgage Origination Operations of Wholesale Mortgage Banking Unit

In the third quarter of 2007, we closed the mortgage origination operations of our wholesale mortgage banking unit, acquired by us in December 2006 as part of the North Fork acquisition. The results of the mortgage origination operations of our wholesale mortgage banking unit have been accounted for as a discontinued operation and therefore not included in our results from continuing operations for the three and six months ended June 30, 2012 and 2011. We have no significant continuing involvement in these operations.

The following table summarizes the results from discontinued operations related to the closure of our wholesale mortgage banking unit:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net interest expense	\$ 0	\$ 0	\$ 0	\$ 0
Non-interest expense	(160)	(53)	(321)	(78)
Loss from discontinued operations before taxes	(160)	(53)	(321)	(78)
Income tax benefit	(60)	(19)	(119)	(28)
Loss from discontinued operations, net of taxes	\$ (100)	\$ (34)	\$ (202)	\$ (50)

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The loss from discontinued operations includes an expense of \$154 million (\$97 million net of tax) and \$307 million (\$194 million net of tax) for the three and six months ended June 30, 2012, respectively, and an expense of \$33 million (\$22 million net of tax) and \$72 million (\$51 million net of tax) for the three and six months ended June 30, 2011, respectively, attributable to provisions for mortgage loan repurchase losses related to representations and warranties provided on loans previously sold to third parties by the wholesale banking unit. The increase in the provision for mortgage loan repurchase losses was largely driven by updated estimates of anticipated outcomes from various litigation and threatened litigation in the insured securitization segment based on relevant factual and legal developments and an increased reserve associated with a first quarter settlement between a subsidiary and a GSE to resolve present and future repurchase claims.

The discontinued mortgage origination operations of our wholesale mortgage banking unit had remaining assets, which consisted primarily of income tax receivables, of \$310 million and \$304 million as of June 30, 2012 and December 31, 2011, respectively. Liabilities totaled \$706 million and \$680 million as of June 30, 2012 and December 31, 2011, respectively, consisting primarily of reserves for representations and warranties on loans previously sold to third parties.

NOTE 4—INVESTMENT SECURITIES

Our investment securities portfolio, which had a fair value of \$55.3 billion and \$38.8 billion, as of June 30, 2012 and December 31, 2011, respectively, consists of U.S. Treasury and U.S. agency debt obligations; agency and non-agency mortgage-backed securities; asset-backed securities collateralized primarily by credit card loans, auto loans, student loans, auto dealer floor plan inventory loans, equipment loans, commercial paper, and home equity lines of credit; municipal securities; foreign government/agency bonds; covered bonds; and Community Reinvestment Act (“CRA”) equity securities. Our investment securities increased by \$16.5 billion, or 43%, in the first six months of 2012 which was primarily attributable to the acquisition of ING Direct which included investment securities of \$30.2 billion at acquisition offset by a sale of approximately \$14.3 billion investment securities. Our investment securities portfolio continues to be concentrated in securities that generally have lower credit risk and high credit ratings, such as securities issued and guaranteed by the U.S. Treasury and government sponsored enterprises or agencies. Our investments in U.S. Treasury, agency securities and other securities guaranteed by the U.S. Government, based on fair value, represented 68% of our total investment securities portfolio as of June 30, 2012, compared with 69% as of December 31, 2011.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Securities Amortized Cost and Fair Value

All of our investment securities were classified as available-for-sale as of June 30, 2012 and December 31, 2011, and are reported in our consolidated balance sheet at fair value. The following tables present the amortized cost, fair values and corresponding gross unrealized gains (losses), by major security type, for our investment securities as of June 30, 2012 and December 31, 2011. The gross unrealized gains (losses) related to our available-for-sale securities are recorded, net of tax, as a component of accumulated other comprehensive income (“AOCI”).

(Dollars in millions)	June 30, 2012					Fair Value
	Amortized Cost	Total Gross Unrealized Gains	Gross Unrealized Losses-OTTI ⁽¹⁾	Gross Unrealized Losses-Other ⁽²⁾	Total Gross Unrealized Losses	
Securities available for sale:						
U.S. Treasury debt obligations	\$ 1,559	\$ 3	\$ 0	\$ 0	\$ 0	\$ 1,562
U.S. Agency debt obligations ⁽³⁾	381	8	0	(1)	(1)	388
Residential mortgage-backed securities (“RMBS”):						
Agency ⁽⁴⁾	30,013	629	0	(26)	(26)	30,616
Non-agency	3,800	41	(116)	(54)	(170)	3,671
Total RMBS	33,813	670	(116)	(80)	(196)	34,287
Commercial mortgage-backed securities (“CMBS”):						
Agency ⁽⁴⁾	4,740	71	0	0	0	4,811
Non-agency	1,264	35	0	(1)	(1)	1,298
Total CMBS	6,004	106	0	(1)	(1)	6,109
Asset-backed securities (“ABS”) ⁽⁵⁾	11,646	56	0	(13)	(13)	11,689
Other ⁽⁶⁾	1,219	37	0	(2)	(2)	1,254
Total securities available for sale	\$ 54,622	\$ 880	\$ (116)	\$ (97)	\$ (213)	\$55,289

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	December 31, 2011					
	Amortized Cost	Total Gross Unrealized Gains	Gross Unrealized Losses- OTTI ⁽¹⁾	Gross Unrealized Losses- Other ⁽²⁾	Total Gross Unrealized Losses	Fair Value
Securities available for sale:						
U.S. Treasury debt obligations	\$ 115	\$ 9	\$ 0	\$ 0	\$ 0	\$ 124
U.S. Agency debt obligations ⁽³⁾	131	7	0	0	0	138
Residential mortgage-backed securities("RMBS"):						
Agency ⁽⁴⁾	24,980	539	0	(31)	(31)	25,488
Non-agency	1,340	1	(170)	(9)	(179)	1,162
Total RMBS	26,320	540	(170)	(40)	(210)	26,650
Commercial mortgage-backed securities ("CMBS"):						
Agency ⁽⁴⁾	697	14	0	0	0	711
Non-agency	459	17	0	0	0	476
Total CMBS	1,156	31	0	0	0	1,187
Asset-backed securities ("ABS") ⁽⁵⁾	10,119	45	0	(14)	(14)	10,150
Other ⁽⁶⁾	462	51	0	(3)	(3)	510
Total securities available for sale	\$ 38,303	\$ 683	\$ (170)	\$ (57)	\$ (227)	\$38,759

⁽¹⁾ Represents the amount of cumulative non-credit other-than-temporary impairment ("OTTI") losses recorded in AOCI. These losses are included in total gross unrealized losses.

⁽²⁾ Represents the amount of cumulative gross unrealized losses on securities for which we have not recognized OTTI.

⁽³⁾ Consists of debt securities issued by Fannie Mae and Freddie Mac, which had an amortized cost of \$130 million as of June 30, 2012 and December 31, 2011, respectively, and fair value of \$135 million and \$137 million, as of both June 30, 2012 and December 31, 2011. The remaining balance consists of debt that is guaranteed by the U.S. Government.

⁽⁴⁾ Consists of MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae with an amortized cost of \$15.1 billion, \$10.3 billion and \$9.4 billion and \$12.3 billion, \$8.9 billion and \$4.5 billion, as of June 30, 2012 and December 31, 2011, respectively, and fair value of \$15.4 billion, \$10.5 billion and \$9.5 billion and \$12.6 billion, \$9.1 billion and \$4.5 billion, as of June 30, 2012 and December 31, 2011, respectively. The book value of Fannie Mae, Freddie Mac and Ginnie Mae investments individually exceeded 10% of our stockholders' equity as of June 30, 2012 and December 31, 2011.

⁽⁵⁾ Consists of securities collateralized by credit card loans, auto dealer floor plan inventory loans and leases, auto loans, student loans, equipment loans, and other. The distribution among these asset types was approximately 73% credit card loans, 13% auto dealer floor plan inventory loans and leases, 6% auto loans, 1% student loans, 2% equipment loans, 2% commercial paper, and 3% other as of June 30, 2012. In comparison, the distribution was approximately 75% credit card loans, 11% auto dealer floor plan inventory loans and leases, 6% auto loans, 4% student loans, 2% equipment loans, and 2% other as of December 31, 2011. Approximately 85% of the securities in our asset-backed security portfolio were rated AAA or its equivalent as of June 30, 2012, compared with 86% as of December 31, 2011.

⁽⁶⁾ Consists of foreign government/agency bonds, covered bonds, municipal securities and equity investments, primarily related to CRA activities.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Securities Available for Sale in a Gross Unrealized Loss Position

The table below provides, by major security type, information about our available-for-sale securities in a gross unrealized loss position and the length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2012 and December 31, 2011.

(Dollars in millions)	June 30, 2012					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities available for sale:						
US Treasury Debt Obligations	\$ 69	\$ (1)	\$ 0	\$ 0	\$ 69	\$ (1)
RMBS:						
Agency ⁽¹⁾	3,545	(25)	377	(1)	3,922	(26)
Non-agency	1,243	(64)	1,001	(106)	2,244	(170)
Total RMBS	4,788	(89)	1,378	(107)	6,166	(196)
CMBS:						
Agency ⁽¹⁾	14	0	0	0	14	0
Non-agency	224	(1)	0	0	224	(1)
Total CMBS	238	(1)	0	0	238	(1)
Total ABS	1,387	(2)	237	(11)	1,624	(13)
Other	335	(1)	32	(1)	367	(2)
Total securities available-for-sale in a gross unrealized loss position	\$ 6,817	\$ (94)	\$ 1,647	\$ (119)	\$ 8,464	\$ (213)

(Dollars in millions)	December 31, 2011					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities available for sale:						
RMBS:						
Agency ⁽¹⁾	\$ 4,731	\$ (30)	\$ 334	\$ (1)	\$ 5,065	\$ (31)
Non-agency	151	(17)	986	(162)	1,137	(179)
Total RMBS	4,882	(47)	1,320	(163)	6,202	(210)
CMBS:						
Agency ⁽¹⁾	100	0	0	0	100	0
Non-agency	67	0	0	0	67	0
Total CMBS	167	0	0	0	167	0
Total ABS	2,084	(11)	81	(3)	2,165	(14)
Other	198	0	85	(3)	283	(3)
Total securities available-for-sale in a gross unrealized loss position	\$ 7,331	\$ (58)	\$ 1,486	\$ (169)	\$ 8,817	\$ (227)

⁽¹⁾ Consists of mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

CAPITAL ONE FINANCIAL CORPORATION**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)**

The gross unrealized losses on our available-for-sale securities of \$213 million as of June 30, 2012 relate to 776 individual securities. Our investments in non-agency MBS and non-agency asset-backed securities accounted for \$184 million, or 87%, of total gross unrealized losses as of June 30, 2012. Of the \$213 million gross unrealized losses as of June 30, 2012, \$119 million related to securities that had been in a loss position for more than 12 months. We conduct periodic reviews of all securities with unrealized losses to assess whether the impairment is other-than-temporary. Based on our assessments, we have recorded OTTI for a portion of our non-agency residential MBS, which is discussed in more detail later in this footnote.

Maturities and Yields of Securities Available for Sale

The following table summarizes the remaining scheduled contractual maturities, assuming no prepayments, of our investment securities as of June 30, 2012:

(Dollars in millions)	June 30, 2012	
	Amortized Cost	Fair Value
Due in 1 year or less	\$ 5,639	\$ 5,653
Due after 1 year through 5 years	8,363	8,397
Due after 5 years through 10 years	3,114	3,205
Due after 10 years ⁽¹⁾	37,506	38,034
Total	<u>\$ 54,622</u>	<u>\$ 55,289</u>

⁽¹⁾ Investments with no stated maturities, which consist of equity securities, are included with contractual maturities due after 10 years.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Because borrowers may have the right to call or prepay certain obligations, the expected maturities of our securities are likely to differ from the scheduled contractual maturities presented above. The table below summarizes, by major security type, the expected maturities and the weighted average yields of our investment securities as of June 30, 2012. Actual calls or prepayment rates may differ from our estimates, which may cause the actual maturities of our investment securities to differ from the expected maturities presented below.

(Dollars in millions)	June 30, 2012									
	Due in 1 Year or Less		Due > 1 Year through 5 Years		Due > 5 Years through 10 Years		Due > 10 Years		Total	
	Amount	Average Yield ⁽¹⁾	Amount	Average Yield ⁽¹⁾	Amount	Average Yield ⁽¹⁾	Amount	Average Yield ⁽¹⁾	Amount	Average Yield ⁽¹⁾
Fair value of securities available for sale:										
U.S. Treasury debt obligations	\$ 706	0.21%	\$ 856	0.50%	\$ 0	0%	\$ 0	0%	\$ 1,562	0.37%
U.S. Agency debt obligations ⁽²⁾	30	4.43	132	4.38	211	2.06	15	3.48	388	3.07
RMBS:										
Agency ⁽³⁾	1,511	3.86	22,733	2.88	6,219	2.70	153	3.35	30,616	2.90
Non-agency	188	6.45	1,659	8.15	1,725	7.52	99	7.68	3,671	7.76
Total RMBS	1,699	4.15	24,392	3.26	7,944	3.80	252	5.21	34,287	3.44
CMBS:										
Agency ⁽³⁾	131	2.50	3,330	1.74	1,350	2.46	0	0	4,811	1.96
Non-agency	354	3.50	362	4.01	582	3.63	0	0	1,298	3.70
Total CMBS	485	3.23	3,692	1.96	1,932	2.81	0	0	6,109	2.32
Total ABS	4,856	1.94	6,381	1.14	363	3.63	89	6.79	11,689	1.59
Other ⁽⁴⁾	404	1.25	709	1.21	1	6.89	140	0.04	1,254	1.12
Total securities available for sale	<u>\$8,180</u>	<u>2.30%</u>	<u>\$36,162</u>	<u>2.65%</u>	<u>\$10,451</u>	<u>3.58%</u>	<u>\$ 496</u>	<u>4.25%</u>	<u>\$55,289</u>	<u>2.78%</u>
Amortized cost of securities available-for-sale	<u>\$8,165</u>		<u>\$35,679</u>		<u>\$10,317</u>		<u>\$ 461</u>		<u>\$54,622</u>	

⁽¹⁾ Average yields are calculated based on the amortized cost of each security.

⁽²⁾ Consists of debt securities issued by Fannie Mae, Freddie Mac and other investments which are guaranteed by the U.S. Government.

⁽³⁾ Consists of mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

⁽⁴⁾ Yields of tax-exempt securities are calculated on a fully taxable-equivalent (FTE) basis.

Other-Than-Temporary Impairment

We evaluate all securities in an unrealized loss position at least quarterly, and more often as market conditions require, to assess whether the impairment is other-than-temporary. Our OTTI assessment is a subjective process requiring the use of judgments and assumptions. Accordingly, we consider a number of qualitative and quantitative criteria in our assessment, including the extent and duration of the impairment; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings and the failure of the issuer to make scheduled interest or principal payments; the value of underlying collateral; our intent and ability to hold the security; and current market conditions.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

We assess, measure, and recognize OTTI in accordance with the accounting guidance for recognition and presentation of OTTI. Under this guidance, if we determine that impairment on our debt securities is other-than-temporary and we have made the decision to sell the security, or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we recognize the entire portion of the impairment in earnings. If we have not made a decision to sell the security and we do not expect that we will be required to sell the security prior to recovery of the amortized cost basis, we recognize only the credit component of OTTI in earnings. The remaining unrealized loss due to factors other than credit, or the non-credit component, is recorded in AOCI. We determine the credit component based on the difference between the security's amortized cost basis and the present value of its expected future cash flows, discounted based on the effective yield. The non-credit component represents the difference between the security's fair value and the present value of expected future cash flows.

The following table summarizes other-than-temporary impairment losses on debt securities recognized in earnings for the three and six months ended June 30, 2012 and 2011:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Total OTTI losses	\$ 21	\$ 27	\$ 25	\$ 50
Portion of other-than-temporary losses recorded in AOCI	(8)	(21)	2	(41)
Net OTTI losses recognized in earnings	\$ 13	\$ 6	\$ 27	\$ 9

As indicated in the table above, we recorded credit related losses in earnings totaling \$13 million and \$6 million for the three months ended June 30, 2012 and 2011, respectively and \$27 million and \$9 million for the six months ended June 30, 2012 and 2011. The cumulative non-credit related portion of OTTI on these securities recorded in AOCI totaled \$116 million as of both June 30, 2012 and 2011. We estimate the portion of loss attributable to credit using a discounted cash flow model, and we estimate the expected cash flows from the underlying collateral using industry-standard third party modeling tools. These tools take into consideration security specific delinquencies, product specific delinquency roll rates and expected severities. Key assumptions used in estimating the expected cash flows include default rates, loss severity and prepayment rates. Assumptions used can vary widely based on the collateral underlying the securities and are influenced by factors such as collateral type, loan interest rate, geographical location of the borrower, and borrower characteristics.

We believe the gross unrealized losses related to all other securities of \$97 million and \$57 million as of June 30, 2012 and December 31, 2011, respectively, are attributable to issuer specific credit spreads and changes in market interest rates and asset spreads. Therefore, we currently do not expect to incur credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses and it is not more likely than not that we will be required to sell these securities prior to recovery of the amortized cost. Accordingly, we have concluded that the impairment on these securities is not other-than-temporary.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The table below presents activity for the three and six months ended June 30, 2012 and 2011, related to the credit component of OTTI recognized in earnings on investment debt securities:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Credit loss component, beginning of period	\$ 82	\$ 50	\$ 68	\$ 49
Additions:				
Initial credit impairment	9	2	10	3
Subsequent credit impairment	4	4	17	6
Total additions	13	6	27	9
Reductions:				
Sales of credit-impaired securities	0	0	0	(2)
Total reductions	0	0	0	(2)
Ending balance	\$ 95	\$ 56	\$ 95	\$ 56

AOCI, Net of Taxes, Related to Securities Available for Sale

The table below presents the changes in AOCI, net of taxes, related to our available-for-sale securities. The net unrealized gains (losses) represent the fair value adjustments recorded on available-for-sale securities, net of tax, during the period. The net reclassification adjustment for net realized losses (gains) represent the amount of those fair value adjustments, net of tax, that were recognized in earnings due to the sale of an available-for-sale security or the recognition of an other-than-temporary impairment loss.

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Beginning balance AOCI related to securities available for sale, net of tax ⁽¹⁾	\$ 310	\$ 311	\$ 286	\$ 369
Net unrealized gains (losses), net of tax ⁽²⁾	126	164	157	109
Net realized losses (gains) reclassified from AOCI into earnings, net of tax ⁽³⁾	(19)	3	(26)	0
Ending balance AOCI related to securities available for sale, net of tax	\$ 417	\$ 478	\$ 417	\$ 478

⁽¹⁾ Net of tax provision of \$178 million and \$171 million for the three months ended June 30, 2012 and 2011, respectively and \$157 million and \$203 million for the six months ended June 30, 2012 and 2011, respectively.

⁽²⁾ Net of tax provision of \$69 million and \$90 million for the three months ended June 30, 2012 and 2011, respectively and \$88 million and \$60 million for the six months ended June 30, 2012 and 2011, respectively.

⁽³⁾ Net of tax provision of \$11 million and \$2 million for the three months ended June 30, 2012 and 2011, respectively and net of tax provision of \$15 million and \$0 million for the six months ended June 30, 2012 and 2011, respectively.

Realized Gains and Losses on Securities Available for Sale

The following table presents the gross realized gains and losses on the sale and redemption of available-for-sale securities recognized in earnings for the three and six months ended June 30, 2012 and 2011. The gross realized investment losses presented below exclude credit losses recognized in earnings attributable to OTTI. We sold approximately \$6.9 billion and \$1.7 billion of investment securities for the three months ended June 30, 2012 and

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

2011, respectively and \$14.3 billion and \$2.6 billion for the six months ended June 30, 2012 and 2011, respectively. These sales resulted in net gains of \$30 million and \$8 million for the three months ended June 30, 2012 and 2011, respectively and \$41 million and \$11 million for the six months ended June 30, 2012 and 2011, respectively.

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Gross realized investment gains	\$ 32	\$ 9	\$ 49	\$ 14
Gross realized investment losses	(2)	(1)	(8)	(3)
Net realized gains	\$ 30	\$ 8	\$ 41	\$ 11
Total proceeds from sales	\$ 6,921	\$ 1,724	\$ 14,258	\$ 2,570

Securities Pledged

As part of our liquidity management strategy, we pledge securities to secure borrowings from the Federal Home Loan Bank (“FHLB”) and the Federal Reserve Bank. We also pledge securities to secure trust and public deposits and for other purposes as required or permitted by law. We pledged securities with a fair value of \$7.6 billion and \$8.8 billion as of June 30, 2012 and December 31, 2011, respectively.

Securities Acquired

In connection with the acquisition of ING Direct on February 17, 2012, we acquired investment debt securities with a fair value of \$30.2 billion. We concluded that a portion of the investment debt securities we acquired from ING Direct had some evidence of credit deterioration for which it is probable at the date of acquisition that we will not collect all contractually required principal and interest payments. These investment debt securities are considered credit-impaired investment debt securities. The ING Direct investment debt securities we concluded were credit-impaired had contractual outstanding unpaid principal and interest balance at acquisition of \$5.6 billion and estimated fair value of \$2.9 billion.

In determining the fair value of the credit-impaired investment debt securities at acquisition, we employed a methodology consistent with how we derive the fair value for our existing available-for-sale securities population. That is, we utilized third party pricing services to obtain fair value measures for these securities. The techniques used by these pricing services utilize observable market data to the extent available. Pricing models may be used, which can vary by asset class and may incorporate available trade, bid and other market information. Across asset classes, information such as trader/dealer input, credit spreads, forward curves, and prepayment speeds are used to help determine appropriate valuations. Because many fixed income securities do not trade on a daily basis, the evaluated pricing applications may apply available information through processes such as benchmarking curves, like securities, sector groupings, and matrix pricing to prepare valuations. In addition, model processes are used by the pricing services to develop prepayment and interest rate scenarios.

We validated the pricing obtained from the primary pricing providers through comparison of pricing to additional sources, including other pricing services, dealer pricing indications in transaction results, and other internal sources. Pricing variances among different pricing sources were analyzed and validated.

The difference between contractually required payments due and the cash flows we expect to collect at acquisition, considering the impact of prepayments, is referred to as the nonaccretable difference. The

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

nonaccretable difference, which is neither accreted into income nor recorded on our consolidated balance sheet, reflects estimated future credit losses expected to be incurred over the life of the security. The excess of cash flows expected to be collected over the estimated fair value of credit-impaired debt securities is referred to as the accretable yield. This amount is not recorded on our consolidated balance sheet, but is accreted into interest income over the remaining life of the security using the effective interest method.

Subsequent to acquisition, we complete quarterly evaluations of expected cash flows. Decreases in expected cash flows attributable to credit will result in an other-than-temporary impairment. Increases in expected cash flows are recognized prospectively over the remaining life of the security through adjustment to the accretable yield.

For acquired debt securities that are not deemed impaired at acquisition, subsequent to acquisition we recognize unamortized premiums and discounts in interest income over the contractual life of the security using the effective interest method.

Initial Fair Value and Accretable Yield of Acquired Credit-Impaired Investment Debt Securities

The table below displays the contractually required principal and interest cash flows expected to be collected and the fair value at acquisition related to the acquired ING Direct credit-impaired investment debt securities we acquired. The table also displays the nonaccretable difference and the accretable yield at acquisition.

At Acquisition on February 17, 2012

<u>(Dollars in millions)</u>	<u>Purchased Credit- Impaired Securities</u>
Contractually outstanding principal and interest at acquisition	\$ 5,646
Less: Nonaccretable difference (expected principal losses of \$1.1 billion and foregone interest of \$157 million)	(1,260)
Cash flows expected to be collected at acquisition ⁽¹⁾	4,386
Less: Accretable yield	(1,474)
Fair value of securities acquired	<u>\$ 2,912</u>

⁽¹⁾ Represents undiscounted expected principal and interest cash flows at acquisition.

Outstanding Balance and Carrying Value of Acquired Securities

The table below presents the outstanding contractual balance and the carrying value of the acquired credit-impaired investment debt securities as of June 30, 2012:

<u>(Dollars in millions)</u>	<u>June 30, 2012 Purchased Credit-Impaired Securities</u>
Contractual balance	\$ 5,212
Carrying value	<u>\$ 2,645</u>

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Changes in Accretable Yield of Acquired Securities

The following table presents changes in the accretable yield related to the acquired credit-impaired investment debt securities:

(Dollars in millions)	Purchased Credit- Impaired Securities
Accretable yield prior to February 17, 2012	\$ 0
Additions from new acquisitions	1,474
Accretion recognized in earnings	(12)
Reductions due to disposals, transfers, and other non-credit related changes	0
Net reclassifications (to)/from nonaccretable difference	0
Accretable yield as of March 31, 2012	\$ 1,462
Additions from new acquisitions	4
Accretion recognized in earnings	(22)
Reductions due to disposals, transfers, and other non-credit related changes	0
Net reclassifications (to)/from nonaccretable difference	132
Accretable yield as of June 30, 2012	<u>\$ 1,576</u>

NOTE 5—LOANS**Loan Portfolio Composition**

Our total loan portfolio consists of loans we own and loans underlying our securitization trusts. The table below presents the composition of our held-for investment loan portfolio, including restricted loans for securitization investors, as of June 30, 2012 and December 31, 2011. Our loan portfolio consists of credit card, consumer banking and commercial banking loans. Credit card loans consist of domestic and international credit card loans as well as installment loans. Consumer banking loans consist of auto, home, and retail banking loans. Commercial banking loans consist of commercial and multifamily real estate, commercial and industrial and small-ticket commercial real estate loans.

Acquired Loans

Our portfolio of acquired loans consists of loans acquired in the HSBC U.S. card, ING Direct, and Chevy Chase Bank acquisition. These loans were recorded at fair value as of the date of acquisition.

Acquired Loans Accounted for Based on Expected Cash Flows

We use the term “acquired loans” to refer to a limited portion of the credit card loans acquired in the HSBC U.S. card acquisition and the substantial majority of consumer and commercial loans acquired in the ING Direct and CCB acquisitions, which are accounted for based on expected cash flows to be collected. Acquired loans accounted for based on expected cash flows to be collected increased to \$41.7 billion as of June 30, 2012, from \$4.7 billion as of December 31, 2011. The increase was largely due to the ING Direct acquisition.

We regularly update our estimate of the amount of expected principal and interest to be collected from these loans and evaluate the results on an aggregated pool basis for loans with common risk characteristics. Probable decreases in expected loan principal cash flows would trigger the recognition of impairment through our

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

provision for credit losses. Probable and significant increases in expected cash flows would first reverse any previously recorded allowance for loan and lease losses, with any remaining increase in expected cash flows recognized prospectively in interest income over the remaining estimated life of the underlying loans. We decreased the allowance and recorded a benefit through our provision for credit losses of \$2 million for the three months ended June 30, 2012 and increased the allowance and recorded a provision for credit losses of \$11 million for the six months ended June 30, 2012 related to certain pools of acquired loans. The cumulative impairment recognized on acquired loans totaled \$37 million and \$26 million as of June 30, 2012 and December 31, 2011, respectively. The credit performance of the remaining pools has generally been in line with our expectations, and, in some cases, more favorable than expected, which has resulted in the reclassification of amounts from the nonaccretable difference to the accretable yield.

Acquired Loans Accounted for Based on Contractual Cash Flows

Of the loans acquired in the HSBC U.S. card acquisition, there were loans of \$26.2 billion designated as held for investment that had existing revolving privileges at acquisition and were therefore excluded from the accounting guidance applied to the acquired loans described in the paragraphs above.

These loans were recorded at a fair value of \$26.9 billion, resulting in a net premium of \$705 million at acquisition. Fair value was determined by discounting all expected cash flows (contractual principal, interest, finance charges and fees of \$33.3 billion less those amounts not expected to be collected of \$3.0 billion) at a market discount rate.

Under applicable accounting guidance, we are required to amortize the net premium of \$705 million over the contractual principal amount as an adjustment to interest income over the remaining life of the loans. Given the guidance applicable to acquired revolving loans, it is necessary to record an allowance through provision expense to properly recognize an estimate of incurred losses on the existing principal balances, which represents a portion of the total amounts not expected to be collected described above. In the second quarter of 2012, we recorded provision expense of \$1.2 billion to establish an allowance primarily related to these loans. The allowance was calculated using the same methodology utilized for determining the allowance for our existing credit card portfolio. The provision expense of \$1.2 billion is included in the total provision for credit losses of \$1.7 billion recorded in the second quarter of 2012 as indicated in “Note 6 —“Allowance for Loan and Lease Losses.”

Excluded from the amounts above are acquired HSBC U.S. card revolving loans with a fair value of \$471 million that we designated as held for sale at acquisition. We expect to close the sale of these receivables early in the third quarter.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	June 30, 2012	December 31, 2011
Credit card business:		
Domestic credit card loans	\$ 79,530	\$ 54,682
International credit card loans	8,116	8,466
Total credit card loans	<u>87,646</u>	<u>63,148</u>
Domestic installment loans	1,268	1,927
Total installment loans	<u>1,268</u>	<u>1,927</u>
Total credit card	<u>88,914</u>	<u>65,075</u>
Consumer Banking business:		
Auto	25,251	21,779
Home loan	48,224	10,433
Other retail	4,140	4,103
Total consumer banking	<u>77,615</u>	<u>36,315</u>
Commercial Banking business:⁽¹⁾		
Commercial and multifamily real estate	16,254	15,736
Commercial and industrial	18,467	17,088
Total commercial lending	<u>34,721</u>	<u>32,824</u>
Small-ticket commercial real estate	1,335	1,503
Total commercial banking	<u>36,056</u>	<u>34,327</u>
Other:		
Other loans	164	175
Total loans	<u>\$202,749</u>	<u>\$ 135,892</u>

⁽¹⁾ Includes construction loans and land development loans totaling \$2.3 billion and \$2.2 billion as of June 30, 2012 and December 31, 2011, respectively.

The significant increase in loans held for investment from was attributable to the addition of \$40.4 billion of loans from the ING Direct acquisition and \$27.8 billion of unpaid principal balance and accrued interest receivable of loans classified as held for investment from the HSBC U.S. card acquisition, which was partially offset by the continued expected run-off of loans in businesses we exited or repositioned, other loan pay downs and charge-offs.

Credit Quality

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of larger balance, commercial loans.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The following table summarizes the payment status of loans in our total loan portfolio, including an aging of delinquent loans, loans 90 days or more past due continuing to accrue interest and loans classified as nonperforming. We present information below on the credit performance of our loan portfolio, by major loan category, including key metrics that we use in tracking changes in the credit quality of each of our loan portfolios. The delinquency aging includes all past due loans, both performing and nonperforming, as of June 30, 2012 and December 31, 2011.

Loans 90 days or more past due totaled approximately \$1.8 billion and \$2.0 billion as of June 30, 2012 and December 31, 2011, respectively. Loans classified as nonperforming totaled \$1.0 billion and \$1.1 billion as of June 30, 2012 and December 31, 2011, respectively.

(Dollars in millions)	June 30, 2012								
	Current	30-59 Days	60-89 Days	³ 90 Days	Total Delinquent Loans	Acquired Loans ⁽¹⁾	Total Loans	³ 90 Days and Accruing ⁽²⁾	Nonperforming Loans ⁽²⁾
Credit card:									
Domestic credit card	\$ 78,017	\$ 835	\$ 536	\$ 881	\$ 2,252	\$ 529	\$ 80,798	\$ 881	\$ 0
International credit card	7,724	132	85	175	392	0	8,116	175	0
Total credit card	85,741	967	621	1,056	2,644	529	88,914	1,056	0
Consumer Banking:									
Auto	23,820	942	370	89	1,401	30	25,251	0	89
Home loan	7,154	69	32	327	428	40,642	48,224	0	439
Retail banking	4,012	27	8	52	87	41	4,140	2	86
Total consumer banking	34,986	1,038	410	468	1,916	40,713	77,615	2	614
Commercial Banking:									
Commercial and multifamily real estate	15,877	24	14	149	187	190	16,254	14	200
Commercial and industrial	18,146	20	3	57	80	241	18,467	2	140
Total commercial lending	34,023	44	17	206	267	431	34,721	16	340
Small-ticket commercial real estate	1,284	41	5	5	51	0	1,335	0	16
Total commercial banking	35,307	85	22	211	318	431	36,056	16	356
Other:									
Other loans	113	12	7	32	51	0	164	0	40
Total	\$156,147	\$2,102	\$1,060	\$1,767	\$ 4,929	\$ 41,673	\$202,749	\$ 1,074	\$ 1,010
% of Total loans	77.0%	1.0%	0.5%	0.9%	2.4%	20.6%	100.0%	0.5%	0.5%

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

	December 31, 2011								
(Dollars in millions)	Current	30-59 Days	60-89 Days	³ 90 Days	Total Delinquent Loans	Acquired Loans ⁽¹⁾	Total Loans	³ 90 Days and Accruing ⁽²⁾	Nonperforming Loans ⁽²⁾
Credit card:									
Domestic credit card	\$ 54,536	\$ 627	\$ 445	\$1,001	\$ 2,073	\$ 0	\$ 56,609	\$ 1,001	\$ 0
International credit card	8,028	145	98	195	438	0	8,466	195	0
Total credit card	<u>62,564</u>	<u>772</u>	<u>543</u>	<u>1,196</u>	<u>2,511</u>	<u>0</u>	<u>65,075</u>	<u>1,196</u>	<u>0</u>
Consumer Banking:									
Auto	20,128	1,075	423	106	1,604	47	21,779	0	106
Home loan	5,843	89	43	346	478	4,112	10,433	1	456
Retail banking	3,964	24	17	53	94	45	4,103	4	90
Total consumer banking	<u>29,935</u>	<u>1,188</u>	<u>483</u>	<u>505</u>	<u>2,176</u>	<u>4,204</u>	<u>36,315</u>	<u>5</u>	<u>652</u>
Commercial Banking:									
Commercial and multifamily real estate	15,231	172	23	147	342	163	15,736	34	207
Commercial and industrial	16,618	63	16	73	152	318	17,088	7	125
Total commercial lending	<u>31,849</u>	<u>235</u>	<u>39</u>	<u>220</u>	<u>494</u>	<u>481</u>	<u>32,824</u>	<u>41</u>	<u>332</u>
Small-ticket commercial real estate	1,362	98	19	24	141	0	1,503	0	40
Total commercial banking	<u>33,211</u>	<u>333</u>	<u>58</u>	<u>244</u>	<u>635</u>	<u>481</u>	<u>34,327</u>	<u>41</u>	<u>372</u>
Other:									
Other loans	129	13	8	25	46	0	175	0	35
Total	<u>\$125,839</u>	<u>\$2,306</u>	<u>\$1,092</u>	<u>\$1,970</u>	<u>\$ 5,368</u>	<u>\$ 4,685</u>	<u>\$135,892</u>	<u>\$ 1,242</u>	<u>\$ 1,059</u>
% of Total loans	<u>92.6%</u>	<u>1.7%</u>	<u>0.8%</u>	<u>1.5%</u>	<u>4.0%</u>	<u>3.4%</u>	<u>100.00%</u>	<u>0.9%</u>	<u>0.8%</u>

⁽¹⁾ Acquired loans include loans acquired and accounted for under the accounting guidance for loans acquired in a transfer including business combinations. These loans are subsequently accounted for based on the acquired loan's expected cash flows. Excludes loans subsequently accounted for based on the acquired loan's contractual cash flows.

⁽²⁾ Acquired loans are excluded from loans reported as 90 days and still accruing interest and nonperforming loans.

Credit Card

Our credit card loan portfolio is generally highly diversified across millions of accounts and multiple geographies without significant individual exposures. We therefore generally manage credit risk on a portfolio basis. The risk in our credit card portfolio is correlated with broad economic trends, such as unemployment rates, gross domestic product ("GDP") growth, and home values, as well as customer liquidity, which can have a material effect on credit performance. The primary factors we assess in monitoring the credit quality and risk of our credit card portfolio are delinquency and charge-off trends, including an analysis of the migration of loans between delinquency categories over time. The table below displays the geographic profile of our credit card loan portfolio and delinquency statistics as of June 30, 2012 and December 31, 2011. We also present comparative net-charge offs for the second quarter and first six months of 2012 and 2011.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Credit Card: Risk Profile by Geographic Region and Delinquency Status

(Dollars in millions)	June 30, 2012						December 31, 2011	
	Loans	% of Total ⁽¹⁾	Acquired Loans	% of Total ⁽¹⁾	Total	% of Total ⁽¹⁾	Total	% of Total ⁽¹⁾
Domestic credit card and installment loans:								
California	\$ 8,982	10.1%	\$ 58	0.1%	\$ 9,040	10.2%	\$ 6,410	9.9%
Texas	5,713	6.4	43	0.1	5,756	6.5	3,862	5.9
New York	5,642	6.4	40	0.1	5,682	6.5	3,737	5.7
Florida	4,645	5.2	31	0.0	4,676	5.2	3,382	5.2
Illinois	3,950	4.4	27	0.0	3,977	4.4	2,664	4.1
Pennsylvania	3,704	4.2	25	0.0	3,729	4.2	2,575	4.0
Ohio	3,242	3.7	22	0.0	3,264	3.7	2,284	3.5
New Jersey	2,941	3.3	18	0.0	2,959	3.3	2,162	3.3
Michigan	2,830	3.2	21	0.0	2,851	3.2	1,834	2.8
Other	38,620	43.4	244	0.3	38,864	43.7	27,699	42.6
Total domestic credit card and installment loans	<u>80,269</u>	<u>90.3</u>	<u>529</u>	<u>0.6</u>	<u>80,798</u>	<u>90.9</u>	<u>56,609</u>	<u>87.0</u>
International credit card:								
United Kingdom	3,585	4.0	0	0.0	3,585	4.0	3,828	5.9
Canada	4,531	5.1	0	0.0	4,531	5.1	4,638	7.1
Total international credit card	<u>8,116</u>	<u>9.1</u>	<u>0</u>	<u>0.0</u>	<u>8,116</u>	<u>9.1</u>	<u>8,466</u>	<u>13.0</u>
Total Credit Card	<u>\$88,385</u>	<u>99.4%</u>	<u>\$ 529</u>	<u>0.6%</u>	<u>\$88,914</u>	<u>100.0%</u>	<u>\$65,075</u>	<u>100.0%</u>
Selected credit metrics:								
30+ day delinquencies ⁽²⁾	\$ 2,235	2.51%	\$ 409	0.46%	\$ 2,644	2.97%	\$ 2,511	3.86%
90+ day delinquencies ⁽²⁾	693	0.78	363	0.41	1,056	1.19	1,196	1.84

(Dollars in millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	2012		2011		2012		2011	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs:								
Domestic credit card	\$ 510	2.86%	\$ 638	4.74%	\$1,041	3.32%	\$1,442	5.45%
International credit card	112	5.49	155	7.02	227	5.51	280	6.39
Total ⁽³⁾	<u>\$ 622</u>	<u>3.13%</u>	<u>\$ 793</u>	<u>5.06%</u>	<u>\$1,268</u>	<u>3.57%</u>	<u>\$1,722</u>	<u>5.59%</u>

⁽¹⁾ Percentages by geographic region within the domestic and international credit card portfolios are calculated based on the total held-for-investment credit card loans as of the end of the reported period.

⁽²⁾ Delinquency rates calculated by dividing delinquent credit card loans by the total balance of credit card loans held for investment as of the end of the reported period.

⁽³⁾ Calculated by dividing net charge-offs by average credit card loans held for investment during the three and six months ended June 30, 2012 and 2011.

The 30+ day delinquency rate for our entire credit card loan portfolio, decreased to 2.97% as of June 30, 2012, from 3.86% as of December 31, 2011, reflecting strong underlying credit improvement trends.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Consumer Banking

Our consumer banking loan portfolio consists of auto, home loan and retail banking loans. Similar to our credit card loan portfolio, the risk in our consumer banking loan portfolio is correlated with broad economic trends, such as unemployment rates, gross domestic product (“GDP”) growth, and home values, as well as customer liquidity, which can have a material effect on credit performance. Delinquency, nonperforming loans and charge-off trends are key factors we assess in monitoring the credit quality and risk of our consumer banking loan portfolio. The table below displays the geographic profile of our consumer banking loan portfolio, including acquired loans. We also present the delinquency and nonperforming loan rates of our consumer banking loan portfolio, excluding acquired loans, as of June 30, 2012 and December 31, 2011, and net-charge offs for the three and six months ended June 30, 2012 and 2011.

Consumer Banking: Risk Profile by Geographic Region, Delinquency Status and Performing Status

(Dollars in millions)	June 30, 2012					
	Loans		Acquired Loans		Total	
	Loans	% of Total ⁽¹⁾	Loans	% of Total ⁽¹⁾	Loans	% of Total ⁽¹⁾
Auto:						
Texas	\$ 4,211	5.4%	\$ 0	0.0%	\$ 4,211	5.4%
California	2,377	3.1	0	0.0	2,377	3.1
Louisiana	1,471	1.9	0	0.0	1,471	1.9
Florida	1,467	1.9	0	0.0	1,467	1.9
Georgia	1,301	1.7	0	0.0	1,301	1.7
Illinois	1,070	1.4	0	0.0	1,070	1.4
New York	1,013	1.3	0	0.0	1,013	1.3
Other	12,311	15.8	30	0.1	12,341	15.9
Total auto	<u>\$25,221</u>	<u>32.5%</u>	<u>\$ 30</u>	<u>0.1%</u>	<u>\$25,251</u>	<u>32.6%</u>
Home loan:						
California	\$ 1,126	1.5%	\$10,086	13.0%	\$11,212	14.5%
New York	1,760	2.3	1,792	2.3	3,552	4.6
Illinois	92	0.1	3,291	4.2	3,383	4.3
Maryland	376	0.5	2,064	2.7	2,440	3.2
New Jersey	405	0.5	1,887	2.4	2,292	2.9
Virginia	304	0.4	1,930	2.5	2,234	2.9
Florida	179	0.2	2,041	2.6	2,220	2.8
Other	3,340	4.3	17,551	22.6	20,891	26.9
Total home loan	<u>\$ 7,582</u>	<u>9.8%</u>	<u>\$40,642</u>	<u>52.3%</u>	<u>\$48,224</u>	<u>62.1%</u>
Retail banking:						
Louisiana	\$ 1,583	2.0%	\$ 0	0.0%	\$ 1,583	2.0%
Texas	903	1.2	0	0.0	903	1.2
New York	882	1.1	0	0.0	882	1.1
New Jersey	326	0.4	0	0.0	326	0.4
Maryland	124	0.1	22	0.1	146	0.2
Virginia	84	0.1	12	0.0	96	0.1
District of Columbia	27	0.1	5	0.0	32	0.1
Other	170	0.2	2	0.0	172	0.2
Total retail banking	<u>\$ 4,099</u>	<u>5.2%</u>	<u>\$ 41</u>	<u>0.1%</u>	<u>\$ 4,140</u>	<u>5.3%</u>
Total consumer banking	<u>\$36,902</u>	<u>47.5%</u>	<u>\$40,713</u>	<u>52.5%</u>	<u>\$77,615</u>	<u>100.0%</u>

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	June 30, 2012							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Credit performance:⁽²⁾								
30+ day delinquencies	\$ 1,401	5.55%	\$ 428	0.89%	\$ 87	2.10%	\$ 1,916	2.47%
90+ day delinquencies	89	0.35%	327	0.68%	52	1.26%	468	0.60
Nonperforming loans	89	0.35%	439	0.91%	86	2.09%	614	0.79

(Dollars in millions)	December 31, 2011					
	Loans		Acquired Loans		Total	
	Loans	% of Total ⁽¹⁾	Loans	% of Total ⁽¹⁾	Loans	% of Total ⁽¹⁾
Auto:						
Texas	\$ 3,901	10.7%	\$ 0	0.0%	\$ 3,901	10.7%
California	1,837	5.1	0	0.0	1,837	5.1
Louisiana	1,389	3.8	0	0.0	1,389	3.8
Florida	1,196	3.3	0	0.0	1,196	3.3
Georgia	1,124	3.1	0	0.0	1,124	3.1
Illinois	950	2.6	0	0.0	950	2.6
New York	940	2.6	0	0.0	940	2.6
Other	10,395	28.7	47	0.1	10,442	28.8
Total auto	\$ 21,732	59.9%	\$ 47	0.1%	\$ 21,779	60.0%
Home loan:						
New York	\$ 1,770	4.9%	\$ 276	0.8%	\$ 2,046	5.7%
California	768	2.1	1,128	3.1	1,896	5.2
Louisiana	1,528	4.2	2	0.0	1,530	4.2
Maryland	286	0.8	618	1.7	904	2.5
Virginia	206	0.6	588	1.6	794	2.2
New Jersey	344	0.9	235	0.6	579	1.5
Other	1,419	3.9	1,265	3.5	2,684	7.4
Total home loan	\$ 6,321	17.4%	\$ 4,112	11.3%	\$ 10,433	28.7%
Retail banking:						
Louisiana	\$ 1,514	4.2%	\$ 0	0.0%	\$ 1,514	4.2%
Texas	930	2.6	0	0.0	930	2.6
New York	896	2.5	0	0.0	896	2.5
New Jersey	295	0.8	0	0.0	295	0.8
District of Columbia	254	0.7	7	0.0	261	0.7
Maryland	49	0.1	23	0.1	72	0.2
Virginia	30	0.1	12	0.0	42	0.1
Other	90	0.2	3	0.0	93	0.2
Total retail banking	\$ 4,058	11.2%	\$ 45	0.1%	\$ 4,103	11.3%
Total consumer banking	\$ 32,111	88.5%	\$ 4,204	11.5%	\$ 36,315	100.0%

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	December 31, 2011							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Credit performance:⁽²⁾								
30+ day delinquencies	\$ 1,604	7.36%	\$ 478	4.58%	\$ 94	2.29%	\$ 2,176	5.99%
90+ day delinquencies	106	0.48	346	3.32	53	1.29	505	1.39
Nonperforming loans	106	0.48	456	4.37	90	2.18	652	1.79

(Dollars in millions)	Three Months Ended June 30, 2012							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs ⁽³⁾	\$ 68	1.11%	\$ 12	0.09%	\$ 13	1.27%	\$ 93	0.48%

(Dollars in millions)	Three Months Ended June 30, 2011							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs ⁽³⁾	\$ 52	1.11%	\$ 17	0.60%	\$ 19	1.73%	\$ 88	1.01%

(Dollars in millions)	Six Months Ended June 30, 2012							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs ⁽³⁾	\$ 147	1.25%	\$ 27	0.13%	\$ 27	1.33%	\$ 201	0.60%

(Dollars in millions)	Six Months Ended June 30, 2011							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs ⁽³⁾	\$ 141	1.53%	\$ 38	0.65%	\$ 42	2.00%	\$ 221	1.29%

⁽¹⁾ Percentages by geographic region are calculated based on the total held-for-investment consumer banking loans as of the end of the reported period.

⁽²⁾ Credit performance statistics exclude acquired loans, which were recorded at fair value at acquisition. Although acquired loans may be contractually delinquent, we separately track these loans and do not include them in our delinquency and nonperforming loan statistics as the fair value recorded at acquisition included an estimate of credit losses expected to be realized over the remaining lives of the loans.

⁽³⁾ Calculated by dividing net charge-offs by average loans held for investment for the three and six months ended June 30, 2012 and 2011.

Home Loan

Our home loan portfolio consists of both first-lien and second-lien residential mortgage loans. In evaluating the credit quality and risk of our home loan portfolio, we continually monitor a variety of mortgage loan characteristics that may affect the default experience on our overall home loan portfolio, such as vintage, geographic concentrations, lien priority and product type. Certain loan concentrations have experienced higher delinquency rates as a result of the significant decline in home prices since the home price peak in 2006 and rise in unemployment. These loan concentrations include loans originated during 2008, 2007 and 2006 in an environment of decreasing home sales, broadly declining home prices and more relaxed underwriting standards

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

and loans on properties in Arizona, California, Florida and Nevada, which have experienced the most severe decline in home prices. The following table presents the distribution of our home loan portfolio as of June 30, 2012 and December 31, 2011, based on selected key risk characteristics.

Home Loan: Risk Profile by Vintage, Geography, Lien Priority and Interest Rate Type

(Dollars in millions)	June 30, 2012					
	Loans		Acquired Loans		Total Home Loans	
	Amount	% of Total ⁽¹⁾	Amount	% of Total ⁽¹⁾	Amount	% of Total ⁽¹⁾
Origination year:						
< = 2005	\$3,844	8.0%	\$ 5,251	10.9%	\$ 9,095	18.9%
2006	683	1.4	3,079	6.4	3,762	7.8
2007	493	1.0	6,674	13.8	7,167	14.8
2008	290	0.6	5,764	12.0	6,054	12.6
2009	192	0.4	3,974	8.2	4,166	8.6
2010	218	0.5	7,019	14.6	7,237	15.1
2011	355	0.7	7,814	16.2	8,169	16.9
2012	1,507	3.1	1,067	2.2	2,574	5.3
Total	<u>\$7,582</u>	<u>15.7%</u>	<u>\$40,642</u>	<u>84.3%</u>	<u>\$48,224</u>	<u>100.0%</u>
Geographic concentration:⁽²⁾						
California	\$1,126	2.3%	\$10,086	20.9%	\$11,212	23.2%
New York	1,760	3.7	1,792	3.7	3,552	7.4
Illinois	92	0.2	3,291	6.8	3,383	7.0
Maryland	376	0.8	2,064	4.3	2,440	5.1
New Jersey	405	0.8	1,887	3.9	2,292	4.7
Virginia	304	0.6	1,930	4.0	2,234	4.6
Florida	179	0.4	2,041	4.2	2,220	4.6
Arizona	90	0.2	2,043	4.3	2,133	4.5
Washington	110	0.2	1,991	4.1	2,101	4.3
Colorado	121	0.3	1,795	3.8	1,916	4.1
Other	3,019	6.2	11,722	24.3	14,741	30.5
Total	<u>\$7,582</u>	<u>15.7%</u>	<u>\$40,642</u>	<u>84.3%</u>	<u>\$48,224</u>	<u>100.0%</u>
Lien type:						
1 st lien	\$6,313	13.1%	\$40,096	83.2%	\$46,409	96.3%
2 nd lien	1,269	2.6	546	1.1	1,815	3.7
Total	<u>\$7,582</u>	<u>15.7%</u>	<u>\$40,642</u>	<u>84.3%</u>	<u>\$48,224</u>	<u>100.0%</u>
Interest rate type:						
Fixed rate	\$2,568	5.3%	\$ 4,486	9.3%	\$ 7,054	14.6%
Adjustable rate	5,014	10.4	36,156	75.0	41,170	85.4
Total	<u>\$7,582</u>	<u>15.7%</u>	<u>\$40,642</u>	<u>84.3%</u>	<u>\$48,224</u>	<u>100.0%</u>

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	December 31, 2011					
	Loans		Acquired Loans		Total Home Loans	
	Amount	% of Total ⁽¹⁾	Amount	% of Total ⁽¹⁾	Amount	% of Total ⁽¹⁾
Origination year:						
< = 2005	\$4,113	39.4%	\$1,675	16.1%	\$ 5,788	55.5%
2006	699	6.7	908	8.7	1,607	15.4
2007	508	4.9	1,114	10.7	1,622	15.6
2008	243	2.3	325	3.1	568	5.4
2009	178	1.7	27	0.3	205	2.0
2010	237	2.3	49	0.4	286	2.7
2011	343	3.3	14	0.1	357	3.4
Total	<u>\$6,321</u>	<u>60.6%</u>	<u>\$4,112</u>	<u>39.4%</u>	<u>\$10,433</u>	<u>100.0%</u>
Geographic concentration:⁽²⁾						
New York	\$1,770	17.0%	\$ 276	2.6%	\$ 2,046	19.6%
California	768	7.4	1,128	10.8	1,896	18.2
Louisiana	1,528	14.6	2	0.1	1,530	14.7
Maryland	286	2.7	618	5.9	904	8.6
Virginia	206	2.0	588	5.6	794	7.6
New Jersey	344	3.3	235	2.3	579	5.6
Texas	460	4.4	32	0.3	492	4.7
Florida	107	1.0	212	2.0	319	3.0
District of Columbia	69	0.7	158	1.5	227	2.2
Connecticut	87	0.8	76	0.7	163	1.5
Other	696	6.7	787	7.6	1,483	14.3
Total	<u>\$6,321</u>	<u>60.6%</u>	<u>\$4,112</u>	<u>39.4%</u>	<u>\$10,433</u>	<u>100.0%</u>
Lien type:						
1 st lien	\$5,194	49.8%	\$3,547	34.0%	\$ 8,741	83.8%
2 nd lien	1,127	10.8	565	5.4	1,692	16.2
Total	<u>\$6,321</u>	<u>60.6%</u>	<u>\$4,112</u>	<u>39.4%</u>	<u>\$10,433</u>	<u>100.0%</u>
Interest rate type:						
Fixed rate	\$2,627	25.2%	\$ 119	1.1%	\$ 2,746	26.3%
Adjustable rate	3,694	35.4	3,993	38.3	7,687	73.7
Total	<u>\$6,321</u>	<u>60.6%</u>	<u>\$4,112</u>	<u>39.4%</u>	<u>\$10,433</u>	<u>100.0%</u>

⁽¹⁾ Percentages within each risk category calculated based on total held-for-investment home loans.

⁽²⁾ Represents the top ten states in which we have the highest concentration of home loans.

Commercial Banking

We evaluate the credit risk of commercial loans individually and use a risk-rating system to determine the credit quality of our commercial loans. We assign internal risk grades to loans based on relevant information about the ability of borrowers to service their debt. In determining the risk rating of a particular loan, among the factors considered are the borrower's current financial condition, historical credit performance, projected future credit performance, prospects for support from financially responsible guarantors, the estimated realizable value of any collateral and current economic trends. The ratings scale based on our internal risk-rating system is as follows:

- *Noncriticized*: Loans that have not been designated as criticized, frequently referred to as "pass" loans.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

- *Criticized performing:* Loans in which the financial condition of the obligor is stressed, affecting earnings, cash flows or collateral values. The borrower currently has adequate capacity to meet near-term obligations; however, the stress, left unabated, may result in deterioration of the repayment prospects at some future date.
- *Criticized nonperforming:* Loans that are not adequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. Loans classified as criticized nonperforming have a well-defined weakness, or weaknesses, which jeopardize the repayment of the debt. These loans are characterized by the distinct possibility that we will sustain a credit loss if the deficiencies are not corrected.

We use our internal risk-rating system for regulatory reporting, determining the frequency of review of the credit exposures and evaluation and determination of the allowance for commercial loans. Loans of \$1 million or more designated as criticized performing and criticized nonperforming are reviewed quarterly by management for further deterioration or improvement to determine if they are appropriately classified/graded and whether impairment exists. All other loans greater than \$1 million are specifically reviewed at least annually to determine the appropriate loan grading. In addition, during the renewal process of any loan, as well if a loan becomes past due, we evaluate the risk rating.

The following table presents the geographic distribution and internal risk ratings of our commercial loan portfolio as of June 30, 2012 and December 31, 2011.

Commercial Banking: Risk Profile by Geographic Region and Internal Risk Rating⁽¹⁾

(Dollars in millions)	June 30, 2012							
	Commercial & Multifamily Real Estate	% of Total ⁽²⁾	Commercial and Industrial	% of Total ⁽²⁾	Small-ticket Commercial Real Estate	% of Total ⁽²⁾	Total Commercial	% of Total ⁽²⁾
Geographic concentration:⁽³⁾								
Loans:								
Northeast	\$ 12,828	78.9%	\$ 5,103	27.7%	\$ 807	60.4%	\$ 18,738	52.0%
Mid-Atlantic	1,061	6.5	1,037	5.6	50	3.8	2,148	6.0
South	1,719	10.6	8,296	44.9	84	6.3	10,099	28.0
Other	456	2.8	3,790	20.5	394	29.5	4,640	12.8
Loans	16,064	98.8	18,226	98.7	1,335	100.0	35,625	98.8
Acquired loans	190	1.2	241	1.3	0	0.0	431	1.2
Total	\$ 16,254	100.0%	\$ 18,467	100.0%	\$ 1,335	100.0%	\$ 36,056	100.0%
Internal risk rating:⁽⁴⁾								
Loans:								
Noncriticized	\$ 14,896	91.6%	\$ 17,568	95.1%	\$ 1,281	96.0%	\$ 33,745	93.6%
Criticized performing	968	6.0	518	2.8	38	2.8	1,524	4.2
Criticized nonperforming	200	1.2	140	0.8	16	1.2	356	1.0
Loans	16,064	98.8	18,226	98.7	1,335	100.0	35,625	98.8
Acquired loans:								
Noncriticized	\$ 126	0.8%	\$ 222	1.2%	\$ 0	0.0%	\$ 348	1.0%
Criticized performing	64	0.4	19	0.1	0	0.0	83	0.2
Total acquired loans	190	1.2	241	1.3	0	0.0	431	1.2
Total	\$ 16,254	100.0%	\$ 18,467	100.0%	\$ 1,335	100.0%	\$ 36,056	100.0%

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	December 31, 2011							
	Commercial & Multifamily Real Estate	% of Total⁽²⁾	Commercial and Industrial	% of Total⁽²⁾	Small-ticket Commercial Real Estate	% of Total⁽²⁾	Total Commercial	% of Total⁽²⁾
Geographic concentration:⁽³⁾								
Loans:								
Northeast	\$ 11,470	72.9%	\$ 4,987	29.1%	\$ 790	52.6%	\$ 17,247	50.2%
Mid-Atlantic	1,305	8.3	763	4.5	56	3.7	2,124	6.2
South	1,743	11.1	8,324	48.7	93	6.2	10,160	29.6
Other	1,055	6.7	2,696	15.8	564	37.5	4,315	12.6
Loans	15,573	99.0	16,770	98.1	1,503	100.0	33,846	98.6
Acquired loans	163	1.0	318	1.9	0	0.0	481	1.4
Total	\$ 15,736	100.0%	\$ 17,088	100.0%	\$ 1,503	100.0%	\$ 34,327	100.0%
Internal risk rating:⁽⁴⁾								
Loans:								
Noncriticized	\$ 14,256	90.6%	\$ 16,002	93.6%	\$ 1,359	90.4%	\$ 31,617	92.1%
Criticized performing	1,110	7.1	642	3.8	105	7.0	1,857	5.4
Criticized nonperforming	207	1.3	126	0.7	39	2.6	372	1.1
Loans	15,573	99.0	16,770	98.1	1,503	100.0	33,846	98.6
Acquired loans:								
Noncriticized	\$ 127	0.8%	\$ 303	1.8%	\$ 0	0.0%	\$ 430	1.3%
Criticized performing	36	0.2	15	0.1	0	0.0	51	0.1
Total acquired loans	163	1.0	318	1.9	0	0.0	481	1.4
Total	\$ 15,736	100.0%	\$ 17,088	100.0%	\$ 1,503	100.0%	\$ 34,327	100.0%

(1) Amounts based on total loans as of June 30, 2012 and December 31, 2011.

(2) Percentages calculated based on total held-for-investment commercial loans in each respective loan category as of the end of the reported period.

(3) Northeast consists of CT, ME, MA, NH, NJ, NY, PA and VT. Mid-Atlantic consists of DE, DC, MD, VA and WV. South consists of AL, AR, FL, GA, KY, LA, MS, MO, NC, SC, TN and TX.

(4) Criticized exposures correspond to the "Special Mention," "Substandard" and "Doubtful" asset categories defined by banking regulatory authorities.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The following table presents information about our individually impaired loans, excluding acquired loans, which are reported separately and discussed below:

(Dollars in millions)	June 30, 2012							
	With an Allowance	Without an Allowance	Total Recorded Investment	Related Allowance	Net Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Income Recognized
Credit card and Installment loans:								
Domestic credit card and installment loan	\$ 668	\$ 0	\$ 668	\$ 210	\$ 458	\$ 652	\$ 680	\$ 34
International credit card and installment loans	191	0	191	120	71	181	192	6
Total credit card and installment loans ⁽¹⁾	859	0	859	330	529	833	872	40
Consumer banking:								
Auto	75	0	75	10	65	75	68	6
Home loan	106	0	106	17	89	117	104	1
Retail banking	58	29	87	8	79	91	87	1
Total consumer banking	239	29	268	35	233	283	259	8
Commercial banking:								
Commercial and multifamily real estate	170	188	358	35	323	405	358	2
Commercial and industrial	138	105	243	29	214	275	206	1
Total commercial lending	308	293	601	64	537	680	564	3
Small-ticket commercial real estate	6	15	21	1	20	29	20	0
Total commercial banking	314	308	622	65	557	709	584	3
Total	\$ 1,412	\$ 337	\$ 1,749	\$ 430	\$ 1,319	\$ 1,825	\$ 1,715	\$ 51

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	December 31, 2011							
	With an Allowance	Without an Allowance	Total Recorded Investment	Related Allowance	Net Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Income Recognized
Credit card and Installment loans:								
Domestic credit card and installment loan	\$ 708	\$ 0	\$ 708	\$ 244	\$ 464	\$ 691	\$ 736	\$ 73
International credit card and installment loans	190	0	190	109	81	179	181	7
Total credit card and installment loans ⁽¹⁾	<u>898</u>	<u>0</u>	<u>898</u>	<u>353</u>	<u>545</u>	<u>870</u>	<u>917</u>	<u>80</u>
Consumer banking:								
Auto	58	0	58	8	50	58	25	5
Home loan	104	0	104	10	94	110	79	5
Retail banking	65	26	91	12	79	97	55	1
Total consumer banking	<u>227</u>	<u>26</u>	<u>253</u>	<u>30</u>	<u>223</u>	<u>265</u>	<u>159</u>	<u>11</u>
Commercial banking:								
Commercial and multifamily real estate	232	157	389	54	335	459	401	8
Commercial and industrial	123	96	219	19	200	258	166	2
Total commercial lending	<u>355</u>	<u>253</u>	<u>608</u>	<u>73</u>	<u>535</u>	<u>717</u>	<u>567</u>	<u>10</u>
Small-ticket commercial real estate	10	30	40	2	38	62	35	1
Total commercial banking	<u>365</u>	<u>283</u>	<u>648</u>	<u>75</u>	<u>573</u>	<u>779</u>	<u>602</u>	<u>11</u>
Total	<u>\$ 1,490</u>	<u>\$ 309</u>	<u>\$ 1,799</u>	<u>\$ 458</u>	<u>\$ 1,341</u>	<u>\$ 1,914</u>	<u>\$ 1,678</u>	<u>\$ 102</u>

⁽¹⁾ Credit card and Installment loans include finance charges and fees.

TDR loans accounted for \$1.5 billion and \$1.6 billion of impaired loans as of June 30, 2012 and December 31, 2011, respectively. Consumer TDR loans classified as performing totaled \$1.1 billion, respectively, as of June 30, 2012, and December 31, 2011. Commercial TDR loans classified as performing totaled \$281 million, and \$305 million, respectively, as of June 30, 2012 and December 31, 2011.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

As part of our loan modifications to borrowers experiencing financial difficulty, we may provide multiple concessions to minimize our economic loss and improve long-term loan performance and collectability. The following tables present the types, amounts and financial effects of loans modified and accounted for as troubled debt restructurings during the period:

(Dollars in millions)	Three Months Ended June 30, 2012						
	Total Loans Modified ⁽¹⁾	Reduced Interest Rate		Term Extension		Balance Reduction	
		% of TDR Activity ⁽²⁾⁽⁸⁾	Average Rate Reduction ⁽³⁾	% of TDR Activity ⁽⁴⁾⁽⁸⁾	Average Term Extension (Months) ⁽⁵⁾	% of TDR Activity ⁽⁶⁾⁽⁸⁾	Gross Balance Reduction ⁽⁷⁾
Credit card:							
Domestic credit card	\$ 88	100%	11.09%	0%	0	0%	\$ 0
International credit card	51	100	24.12	0	0	0	0
Total credit card	139	100	15.88	0	0	0	0
Consumer banking:							
Auto	20	72	1.40	100	10	0	0
Home loan	12	67	2.32	74	108	5	0
Retail banking	7	1	2.99	99	10	0	0
Total consumer banking	39	57	1.73	92	34	2	0
Commercial banking:							
Commercial and multifamily real estate	4	100	1.75	100	30	0	0
Commercial and industrial	32	1	1.36	100	9	0	0
Total commercial lending	36	13	1.71	100	12	0	0
Small-ticket commercial real estate	0	0	0.00	0	0	0	0
Total commercial banking	36	13	1.71	100	12	0	0
Other:							
Other loans	0	0	0.00	0	0	0	0
Total	\$ 214	78%	13.57%	33%	23	0%	\$ 0

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	Six Months Ended June 30, 2012						
	Total Loans Modified ⁽¹⁾	Reduced Interest Rate		Term Extension		Balance Reduction	
		% of TDR Activity ⁽²⁾⁽⁸⁾	Average Rate Reduction ⁽³⁾	% of TDR Activity ⁽⁴⁾⁽⁸⁾	Average Term Extension (Months) ⁽⁵⁾	% of TDR Activity ⁽⁶⁾⁽⁸⁾	Gross Balance Reduction ⁽⁷⁾
Credit card:							
Domestic credit card	\$ 145	100%	10.84%	0%	0	0%	\$ 0
International credit card	115	100	24.08	0	0	0	0
Total credit card	260	100	15.70	0	0	0	0
Consumer banking:							
Auto	45	71	1.40	100	10	0	0
Home loan	17	55	2.11	67	113	5	0
Retail banking	14	1	3.00	99	11	0	0
Total consumer banking	76	54	1.57	92	27	1	0
Commercial banking:							
Commercial and multifamily real estate	28	16	1.71	100	10	0	0
Commercial and industrial	66	6	6.62	99	12	0	0
Total commercial lending	94	9	4.04	99	11	0	0
Small-ticket commercial real estate	0	0	0.00	0	0	0	0
Total commercial banking	94	9	4.04	99	11	0	0
Other:							
Other loans	0	0	0.00	0	0	0	0
Total	\$ 430	72%	13.49%	38%	18	0%	\$ 0

⁽¹⁾ Represents total loans modified and accounted for as a TDR during the period. Paydowns, charge-offs and any other changes in the loan carrying value subsequent to the loan entering TDR status are not reflected.

⁽²⁾ Percentage of loans modified and accounted for as a TDR during the period that were granted a reduced interest rate.

⁽³⁾ Weighted average interest rate reduction for those loans that received an interest rate concession.

⁽⁴⁾ Percentage of loans modified and accounted for as a TDR during the period that were granted a maturity date extension.

⁽⁵⁾ Weighted average change in maturity date for those loans that received a maturity date extension.

⁽⁶⁾ Percentage of loans modified and accounted for as a TDR during the period that were granted forgiveness or forbearance of a portion of their balance.

⁽⁷⁾ Total amount of forgiven or forborne balances.

⁽⁸⁾ Due to multiple concessions granted to some troubled borrowers, percentages may total more than 100% for certain loan types.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

TDR—Subsequent Payment Defaults of Completed TDR Modifications

The following table presents the type, number and amount of loans accounted for as TDRs that experienced a payment default during the period and had completed a modification event in the twelve months prior to the payment default. A payment default occurs if the loan is either 90 days or more delinquent or the loan has been charged-off as of the end of the period presented.

(Dollars in millions)	June 30, 2012			
	Three Months Ended		Six Months Ended	
	Number of Contracts	Total Loans	Number of Contracts	Total Loans
Credit card:				
Domestic credit card	9,541	\$ 19	18,170	\$ 39
International credit card ⁽¹⁾	12,945	44	25,053	87
Total credit card	<u>22,486</u>	<u>63</u>	<u>43,223</u>	<u>126</u>
Consumer banking:				
Auto	1,033	9	1,865	17
Home loan	31	3	67	6
Retail banking	26	1	69	7
Total consumer banking	<u>1,090</u>	<u>13</u>	<u>2,001</u>	<u>30</u>
Commercial banking:				
Commercial and multifamily real estate	2	6	5	8
Commercial and industrial	3	2	8	15
Total commercial lending	<u>5</u>	<u>8</u>	<u>13</u>	<u>23</u>
Small-ticket commercial real estate	0	0	3	2
Total commercial banking	<u>5</u>	<u>8</u>	<u>16</u>	<u>25</u>
Total	<u>23,581</u>	<u>\$ 84</u>	<u>45,240</u>	<u>\$ 181</u>

⁽¹⁾ The regulatory regime in the United Kingdom (“U.K.”) requires U.K. credit card businesses to accept payment plan proposals even when the proposed payments are less than the contractual minimum amount. As a result, loans entering long-term TDR payment programs in the U.K. typically continue to age and ultimately charge-off even when fully in compliance with the TDR program terms.

Initial Fair Value and Accretable Yield of Acquired Loans

At acquisition of ING Direct and HSBC’s U.S. credit card business, we estimated the cash flows we expected to collect on these loans. Under the accounting guidance for loans acquired in a transfer, including a business combination, the difference between the contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference.

This difference is neither accreted into income nor recorded on our consolidated balance sheet. We apply judgmental prepayment assumptions to both contractually required payments and cash flows expected to be collected at acquisition. The excess of cash flows expected to be collected over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan, or pool of loans, using the effective yield method. The table below displays the contractually required principal and

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

interest, cash flows expected to be collected and fair value at acquisition related to the ING Direct loans we acquired that are accounted for based on expected cash flows. The table also displays the nonaccretable difference and the accretable yield at acquisition.

(Dollars in millions)	At Acquisition on February 17, 2012		
	Total	Impaired Loans	Non-Impaired Loans
Contractually required principal and interest at acquisition	\$50,649	\$ 3,605	\$47,044
Less: Nonaccretable difference	(4,443)	(2,343)	(2,100)
Cash flows expected to be collected at acquisition ⁽¹⁾	46,206	1,262	44,944
Less: Accretable yield	(6,644)	(94)	(6,550)
Fair value of loans acquired ⁽²⁾⁽³⁾	<u>\$39,562</u>	<u>\$ 1,168</u>	<u>\$38,394</u>

⁽¹⁾ Represents undiscounted expected principal and interest cash flows at acquisition.

⁽²⁾ A portion of the loans acquired in connection with the ING Direct acquisition is accounted for based on the loan's contractual cash flows rather than the expected cash flows. These loans, which had an estimated fair value at acquisition of \$559 million, are not included in the above tables. The contractual cash flows for these loans at acquisition was \$858 million of which we do not expect to collect \$15 million.

⁽³⁾ A portion of the loans acquired in connection with the ING Direct acquisition was classified as held for sale. These loans, which had an estimated fair value at acquisition of \$367 million, are not included in the above tables. The contractual cash flows for these loans at acquisition was \$384 million, of which we do not expect to collect \$16 million.

The table below displays the contractually required principal and interest, cash flows expected to be collected and fair value at acquisition related to the HSBC U.S. credit card business we acquired that are accounted for based on expected cash flows. The table also displays the nonaccretable difference and the accretable yield at acquisition.

(Dollars in millions)	At Acquisition on May 1, 2012
	Impaired Loans
Contractually required principal and interest at acquisition	\$ 1,537
Less: Nonaccretable difference	(741)
Cash flows expected to be collected at acquisition ⁽¹⁾	796
Less: Accretable yield	(145)
Fair value of loans acquired ⁽²⁾⁽³⁾	<u>\$ 651</u>

⁽¹⁾ Represents undiscounted expected cash flows of principal interest, finance charges, and fees at acquisition.

⁽²⁾ The majority of the loans acquired in connection with the HSBC U.S. card acquisition retained revolving privileges. As such, the accounting for these loans is based on the contractual cash flows of the loans rather than the expected cash flows. These loans, which had an estimated fair value at acquisition of \$26.9 billion, are not included in the above table.

⁽³⁾ A portion of the loans acquired in connection with the HSBC U.S. card acquisition was classified as held for sale. These loans, which had an estimated fair value of \$471 million at acquisition, are not included in the table above.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Outstanding Balance and Carrying Value of Acquired Loans

The table below presents the outstanding contractual balance and the carrying value of the HSBC U.S. credit card business, ING Direct and Chevy Chase Bank acquired loans as of June 30, 2012 and December 31, 2011:

(Dollars in millions)	June 30, 2012			December 31, 2011		
	Total	Impaired Loans	Non-Impaired Loans	Total	Impaired Loans	Non-Impaired Loans
Contractual balance	<u>\$44,310</u>	<u>\$ 7,409</u>	<u>\$36,901</u>	<u>\$5,751</u>	<u>\$ 4,565</u>	<u>\$ 1,186</u>
Carrying value ⁽¹⁾	<u>\$41,733</u>	<u>\$ 4,778</u>	<u>\$36,955</u>	<u>\$4,658</u>	<u>\$ 3,576</u>	<u>\$ 1,082</u>

⁽¹⁾ Includes \$38 million and \$27 million of cumulative impairment recognized as of June 30, 2012 and December 31, 2011, respectively.

Changes in Accretable Yield of Acquired Loans

Subsequent to acquisition, we are required to periodically evaluate our estimate of cash flows expected to be collected. These evaluations, performed quarterly, require the continued use of key assumptions and estimates, similar to the initial estimate of fair value. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications from nonaccretable yield to accretable. Increases in the cash flows expected to be collected will generally result in an increase in interest income over the remaining life of the loan or pool of loans. Decreases in expected cash flows due to further credit deterioration will generally result in an impairment charge recognized in our provision for loan and lease losses, resulting in an increase to the allowance for loan losses. We decreased the allowance related to these pools of loans by \$2 million and increased the allowance related to these pools of loans by \$11 million for the three and six months ended June 30, 2012, respectively. We recorded a benefit through our provision for credit losses of \$2 million and recorded an impairment of \$0 million for the three months ended June 30, 2012 and 2011, respectively and recorded an impairment of \$11 million and \$8 million for the six months ended June 30, 2012 and 2011, respectively, related to acquired loans. The cumulative impairment recognized on acquired loans totaled \$37 million as of June 30, 2012 and \$26 million as of December 31, 2011.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The following table presents changes in the accretable yield related to the acquired HSBC U.S. card business, ING Direct and Chevy Chase Bank loans:

(Dollars in millions)	Total	Impaired Loans	Non- Impaired Loans
Accretable yield as of December 31, 2010	\$2,012	\$ 1,754	\$ 258
Accretion recognized in earnings	(431)	(365)	(66)
Reclassifications from nonaccretable difference for loans with improvement in expected cash flows ⁽¹⁾	237	232	5
Reductions in accretable yield for non-credit related changes in expected cash flows ⁽²⁾	(66)	(55)	(11)
Accretable yield as of December 31, 2011	1,752	1,566	186
Acquired loans accretable yield	6,777	227	6,550
Accretion recognized in earnings	(632)	(178)	(454)
Reclassifications from nonaccretable difference for loans with improvement in expected cash flows ⁽¹⁾	110	101	9
Reductions in accretable yield for non-credit related changes in expected cash flows ⁽²⁾	3	(1)	4
Accretable yield as of June 30, 2012	<u>\$8,010</u>	<u>\$ 1,715</u>	<u>\$ 6,295</u>

⁽¹⁾ Represents increases in accretable yields for those pools with increases primarily the result of improved credit performance.

⁽²⁾ Represents changes in accretable yields for those pools with reductions driven primarily by changes in prepayment levels.

Unfunded Lending Commitments

We manage the potential risk in credit commitments by limiting the total amount of arrangements, both by individual customer and in total, by monitoring the size and maturity structure of these portfolios and by applying the same credit standards for all of our credit activities. Unused credit card lines available to our customers totaled \$305.3 billion and \$206.0 billion as of June 30, 2012 and December 31, 2011, respectively. While these amounts represented the total available unused credit card lines, we have not experienced, and do not anticipate, that all of our customers will access their entire available line at any given point in time.

In addition to available unused credit card lines, we enter into commitments to extend credit that are legally binding conditional agreements having fixed expirations or termination dates and specified interest rates and purposes. These commitments generally require customers to maintain certain credit standards. Collateral requirements and loan-to-value ratios are the same as those for funded transactions and are established based on management's credit assessment of the customer. These commitments may expire without being drawn upon.

Therefore, the total commitment amount does not necessarily represent future funding requirements. The outstanding unfunded commitments to extend credit other than credit card lines were approximately \$16.9 billion and \$14.8 billion as of June 30, 2012 and December 31, 2011, respectively.

We maintain a reserve for unfunded loan commitments and letters of credit to absorb estimated probable losses related to these unfunded credit facilities in other liabilities, on our consolidated balance sheets. Our reserve for unfunded loan commitments and letters of credit was \$51 million and \$66 million as of June 30, 2012 and December 31, 2011, respectively. See "Note 6—Allowance for Loan and Lease Losses" below for additional information.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

NOTE 6—ALLOWANCE FOR LOAN AND LEASE LOSSES

We maintain an allowance for loan and lease losses (“the allowance”) that represents management’s best estimate of incurred loan and lease credit losses inherent in our held-for-investment portfolio as of each balance sheet date. We do not maintain an allowance for held for sale loans or acquired loans that are performing in accordance with or better than our expectations as of the date of acquisition, as the fair values of these loans already reflect a credit component.

In addition to the allowance for loan and lease losses, we also estimate probable losses related to unfunded lending commitments, such as letters of credit and financial guarantees, and binding unfunded loan commitments. The provision for unfunded lending commitments is included in the provision for credit losses on our consolidated statements of income and the related reserve for unfunded lending commitments is included in other liabilities on our consolidated balance sheets. See “Note 1—Summary of Significant Accounting Policies” in our 2011 Form 10-K for a description of the methodologies and policies for determining our allowance for loan and lease losses for each of our loan portfolio segments.

Allowance for Loan and Lease Losses Activity

The allowance for loan and lease losses is increased through the provision for credit losses and reduced by net charge-offs. The provision for credit losses, which is charged to earnings, reflects credit losses we believe have been incurred and will eventually be reflected over time in our charge-offs. Charge-offs of uncollectible amounts are deducted from the allowance and subsequent recoveries are included. The table below summarizes changes in the allowance for loan and lease losses, by portfolio segment, for the three and six months ended June 30, 2012 and 2011:

(Dollars in millions)	Three Months Ended June 30, 2012							Allowance for Loan and Lease Losses	Unfunded Lending Commitments Reserve	Allowance for Credit Losses
	Consumer					Commercial	Other ⁽¹⁾			
	Credit Card	Auto	Home Loan	Retail Banking	Total Consumer					
Balance as of March 31, 2012	\$2,671	\$ 459	\$ 102	\$ 157	\$ 718	\$ 636	\$ 35	\$ 4,060	\$ 60	\$ 4,120
Provision for credit losses	1,711	56	(3)	(9)	44	(84)	15	1,686	(9)	1,677
Charge-offs	(908)	(122)	(19)	(20)	(161)	(24)	(7)	(1,100)	0	(1,100)
Recoveries	286	54	7	7	68	7	1	362	0	362
Net charge-offs	(622)	(68)	(12)	(13)	(93)	(17)	(6)	(738)	0	(738)
Other changes	(10)	0	0	0	0	0	0	(10)	0	(10)
Balance as of June 30, 2012	<u>\$3,750</u>	<u>\$ 447</u>	<u>\$ 87</u>	<u>\$ 135</u>	<u>\$ 669</u>	<u>\$ 535</u>	<u>\$ 44</u>	<u>\$ 4,998</u>	<u>\$ 51</u>	<u>\$ 5,049</u>

(Dollars in millions)	Six Months Ended June 30, 2012							Allowance for Loan and Lease Losses	Unfunded Lending Commitments Reserve	Allowance for Credit Losses
	Consumer					Commercial	Other ⁽¹⁾			
	Credit Card	Auto	Home Loan	Retail Banking	Total Consumer					
Balance as of December 31, 2011	\$ 2,847	\$ 391	\$ 98	\$ 163	\$ 652	\$ 715	\$ 36	\$ 4,250	\$ 66	\$ 4,316
Provision for credit losses	2,170	203	16	(1)	218	(147)	24	2,265	(15)	2,250
Charge-offs	(1,863)	(262)	(43)	(40)	(345)	(60)	(18)	(2,286)	0	(2,286)
Recoveries	595	115	16	13	144	27	2	768	0	768
Net charge-offs	(1,268)	(147)	(27)	(27)	(201)	(33)	(16)	(1,518)	0	(1,518)
Other changes	1	0	0	0	0	0	0	1	0	1
Balance as of June 30, 2012	<u>\$ 3,750</u>	<u>\$ 447</u>	<u>\$ 87</u>	<u>\$ 135</u>	<u>\$ 669</u>	<u>\$ 535</u>	<u>\$ 44</u>	<u>\$ 4,998</u>	<u>\$ 51</u>	<u>\$ 5,049</u>

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	Three Months Ended June 30, 2011							Allowance for Loan and Lease Losses	Unfunded Lending Commitments Reserve	Allowance For Credit Loans
	Consumer						Commercial			
	Credit Card	Auto	Home Loans	Retail Banking	Total Consumer	Other ⁽¹⁾				
Balance as of March 31, 2011	\$ 3,576	\$ 318	\$ 118	\$ 204	\$ 640		\$ 785	\$ 66	\$ 5,067	\$ 71
Provision for credit losses	309	56	(12)	1	45	(15)	11	350	(7)	343
Charge-offs	(1,110)	(102)	(22)	(25)	(149)	(50)	(13)	(1,322)	0	(1,322)
Recoveries	317	50	5	6	61	12	1	391	0	391
Net charge-offs	(793)	(52)	(17)	(19)	(88)	(38)	(12)	(931)	0	(931)
Other changes	1	0	1	0	1	0	0	2	0	2
Balance as of June 30, 2011	<u>\$ 3,093</u>	<u>\$ 322</u>	<u>\$ 90</u>	<u>\$ 186</u>	<u>\$ 598</u>	<u>\$ 732</u>	<u>\$ 65</u>	<u>\$ 4,488</u>	<u>\$ 64</u>	<u>\$ 4,552</u>

(Dollars in millions)	Six Months Ended June 30, 2011							Allowance for Loan and Lease Losses	Unfunded Lending Commitments Reserve	Allowance For Credit Loans
	Consumer						Commercial			
	Credit Card	Auto	Home Loans	Retail Banking	Total Consumer	Other ⁽¹⁾				
Balance as of December 31, 2010	\$ 4,041	\$ 353	\$ 112	\$ 210	\$ 675		\$ 830	\$ 82	\$ 5,628	\$ 107
Provision for credit losses	759	110	16	18	144	0	17	920	(43)	877
Charge-offs	(2,395)	(243)	(54)	(55)	(352)	(118)	(37)	(2,902)	0	(2,902)
Recoveries	673	102	16	13	131	20	2	826	0	826
Net charge-offs	(1,722)	(141)	(38)	(42)	(221)	(98)	(35)	(2,076)	0	(2,076)
Other changes	15	0	0	0	0	0	1	16	0	16
Balance as of June 30, 2011	<u>\$ 3,093</u>	<u>\$ 322</u>	<u>\$ 90</u>	<u>\$ 186</u>	<u>\$ 598</u>	<u>\$ 732</u>	<u>\$ 65</u>	<u>\$ 4,488</u>	<u>\$ 64</u>	<u>\$ 4,552</u>

⁽¹⁾ Other consists of our discontinued GreenPoint mortgage operations loan portfolio and our community redevelopment loan portfolio.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Components of Allowance for Loan and Lease Losses by Impairment Methodology

The table below presents the components of our allowance for loan and lease losses, by loan category and impairment methodology, and the recorded investment of the related loans as of June 30, 2012 and December 31, 2011:

(Dollars in millions)	June 30, 2012							
	Credit Card	Consumer			Total Consumer	Commercial	Other	Total
		Auto	Home Loan	Retail Banking				
Allowance for loan and lease losses by impairment methodology:								
Formula-based ⁽¹⁾	\$ 3,420	\$ 437	\$ 36	\$ 126	\$ 599	\$ 468	\$ 44	\$ 4,531
Asset-specific ⁽²⁾	330	10	17	8	35	65	0	430
Acquired loans	0	0	34	1	35	2	0	37
Total allowance for loan and lease losses	<u>\$ 3,750</u>	<u>\$ 447</u>	<u>\$ 87</u>	<u>\$ 135</u>	<u>\$ 669</u>	<u>\$ 535</u>	<u>\$ 44</u>	<u>\$ 4,998</u>
Held-for-investment loans by impairment methodology:								
Formula-based ⁽¹⁾	\$87,526	\$25,146	\$ 7,476	\$4,012	\$ 36,634	\$ 35,003	\$ 164	\$159,327
Asset-specific ⁽²⁾	859	75	106	87	268	622	0	1,749
Acquired loans	529	30	40,642	41	40,713	431	0	41,673
Total held-for-investment loans	<u>\$88,914</u>	<u>\$25,251</u>	<u>\$48,224</u>	<u>\$4,140</u>	<u>\$ 77,615</u>	<u>\$ 36,056</u>	<u>\$ 164</u>	<u>\$202,749</u>
Allowance as a percentage of period-end held-for-investment loans	4.22%	1.77%	0.18%	3.26%	0.86%	1.48%	26.83%	2.47%
(Dollars in millions)	December 31, 2011							
	Credit Card	Consumer			Total Consumer	Commercial	Other	Total
		Auto	Home Loan	Retail Banking				
Allowance for loan and lease losses by impairment methodology:								
Formula-based ⁽¹⁾	\$ 2,494	\$ 383	\$ 65	\$ 150	\$ 598	\$ 638	\$ 36	\$ 3,766
Asset-specific ⁽²⁾	353	8	10	12	30	75	0	458
Acquired loans	0	0	23	1	24	2	0	26
Total allowance for loan and lease losses	<u>\$ 2,847</u>	<u>\$ 391</u>	<u>\$ 98</u>	<u>\$ 163</u>	<u>\$ 652</u>	<u>\$ 715</u>	<u>\$ 36</u>	<u>\$ 4,250</u>
Held-for-investment loans by impairment methodology:								
Formula-based ⁽¹⁾	\$64,177	\$21,674	\$ 6,217	\$3,968	\$ 31,859	\$ 33,198	\$ 175	\$129,409
Asset-specific ⁽²⁾	898	58	104	90	252	648	0	1,798
Acquired loans	0	47	4,112	45	4,204	481	0	4,685
Total held-for-investment loans	<u>\$65,075</u>	<u>\$21,779</u>	<u>\$10,433</u>	<u>\$4,103</u>	<u>\$ 36,315</u>	<u>\$ 34,327</u>	<u>\$ 175</u>	<u>\$135,892</u>
Allowance as a percentage of period-end held-for-investment loans	4.37%	1.80%	0.94%	3.97%	1.80%	2.08%	20.57%	3.13%

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

-
- (1) The formula-based component of the allowance for credit card and other consumer loans that we collectively evaluate for impairment is based on a statistical calculation supplemented by judgment and interpretation. The formula-based component of the allowance for commercial loans that we collectively evaluate for impairment is based on our historical loss experience for loans with similar characteristics and consideration of credit quality supplemented by management judgment and interpretation.
- (2) The asset specific component of the allowance for smaller-balance impaired loans is calculated on a pool basis using historical loss experience for the respective class of assets. The asset-specific component of the allowance for larger-balance, commercial loans is individually calculated for each loan.

NOTE 7—VARIABLE INTEREST ENTITIES AND SECURITIZATIONS

In the normal course of business, we enter into various types of transactions with entities that are considered to be variable interest entities (“VIEs”). Historically, our primary involvement with VIEs related to our securitization transactions in which we transferred assets from our balance sheet to securitization trusts. These securitization trusts typically meet the definition of a VIE. We generally securitized credit card loans, auto loans, home loans and installment loans, which provided a source of funding for us and as a means of transferring a certain portion of the economic risk of the loans or debt securities to third parties.

Under revised consolidation accounting guidance that became effective on January 1, 2010, the entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and is required to consolidate the VIE. As a result of this guidance, the vast majority of the VIEs in which we are involved have been consolidated in our financial statements.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Summary of Consolidated and Unconsolidated VIEs

The table below presents a summary of VIEs, aggregated based on VIEs with similar characteristics, in which we had continuing involvement or held a variable interest as of June 30, 2012 and December 31, 2011. We separately present information for consolidated and unconsolidated VIEs.

For consolidated VIEs, we present the carrying amount of assets and liabilities reflected on our consolidated balance sheets. The assets of consolidated VIEs primarily consist of cash and loans, which we report on our consolidated balance sheets under restricted cash for securitization investors and restricted loans for securitization investors, respectively. The assets of a particular VIE are the primary source of funds to settle its obligations. The creditors of the VIEs typically do not have recourse to the general credit of our company. The liabilities primarily consist of debt securities issued by the VIEs, which we report under securitized debt obligations. For unconsolidated VIEs, we present the carrying amount of assets and liabilities reflected on our consolidated balance sheets and our maximum exposure to loss. Our maximum exposure to loss is estimated based on the unlikely event that all of the assets in the VIEs became worthless and we were required to meet our maximum remaining funding obligations.

	Consolidated		June 30, 2012		Maximum Exposure to Loss ⁽³⁾
	Carrying Amount of Assets	Carrying Amount of Liabilities	Carrying Amount of Assets	Carrying Amount of Liabilities	
(Dollars in millions)					
Securitization-related VIEs:					
Credit card loan securitizations ⁽⁴⁾	\$44,420	\$ 14,642	\$ 0	\$ 0	\$ 0
Auto loan securitizations ⁽⁴⁾	0	0	0	0	0
Home loan securitizations	0	0	158 ⁽¹⁾	24 ⁽²⁾	256
Other asset securitizations ⁽⁴⁾	21	21	0	0	0
Total securitization related VIEs	44,441	14,663	158	24	256
Other VIEs:					
Affordable housing entities	0	0	2,209	300	2,209
Entities that provide capital to low-income and rural communities	258	0	6	4	6
Other	1	0	213	86	213
Total Other VIEs	259	0	2,428	390	2,428
Total VIEs	\$44,700	\$ 14,663	\$ 2,586	\$ 414	\$ 2,684

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	December 31, 2011				
	Consolidated		Non-Consolidated		Maximum Exposure to Loss ⁽³⁾
	Carrying Amount of Assets	Carrying Amount of Liabilities	Carrying Amount of Assets	Carrying Amount of Liabilities	
Securitization-related VIEs:					
Credit card loan securitizations ⁽⁴⁾	\$48,309	\$ 17,443	\$ 0	\$ 0	\$ 0
Auto loan securitizations ⁽⁴⁾	95	78	0	0	0
Home loan securitizations	0	0	161 ⁽¹⁾	27 ⁽²⁾	269
Other asset securitizations ⁽⁴⁾	36	36	0	0	0
Total securitization related VIEs	<u>48,440</u>	<u>17,557</u>	<u>161</u>	<u>27</u>	<u>269</u>
Other VIEs:					
Affordable housing entities	0	0	2,044	289	2,044
Entities that provide capital to low-income and rural communities	258	0	6	3	6
Other	1	0	139	0	139
Total Other VIEs	<u>259</u>	<u>0</u>	<u>2,189</u>	<u>292</u>	<u>2,189</u>
Total VIEs	<u>\$48,699</u>	<u>\$ 17,557</u>	<u>\$ 2,350</u>	<u>\$ 319</u>	<u>\$ 2,458</u>

⁽¹⁾ The carrying amount of assets of unconsolidated securitization-related VIEs consists of retained interests and letters of credit related to manufactured housing securitizations and are reported on our consolidated balance sheets under accounts receivable from securitizations. Mortgage servicing rights related to unconsolidated VIEs are reported on our consolidated balance sheets under other assets. See “Note 8—Goodwill and Other Intangible Assets” for additional information on our mortgage servicing rights.

⁽²⁾ The carrying amount of liabilities of securitization related VIEs is comprised of obligations to fund negative amortization bonds associated with the securitization of option arm mortgage loans (“option-ARMs”) and obligations on certain swap agreements associated with the securitization of manufactured housing loans.

⁽³⁾ The maximum exposure to loss represents the amount of loss we would incur in the unlikely event that all of our assets in the VIE become worthless and we were required to meet our maximum remaining funding obligations.

⁽⁴⁾ Represents the gross assets and liabilities owned by the VIE which included seller’s interest and retained and repurchased notes held by other related parties.

Securitization Related VIEs

We historically have securitized credit card loans, auto loans, home loans and installment loans. In a securitization transaction, assets from our balance sheet are transferred to a trust we establish, which typically meets the definition of a VIE. The trust then issues various forms of interests in those assets to investors. We typically receive cash proceeds and/or other interests in the securitization trust for the assets we transfer. If the transfer of the assets to an unconsolidated securitization trust qualifies as a sale, we remove the assets from our consolidated balance sheet and recognize a gain or loss on the transfer. Alternatively, if the transfer does not qualify as a sale but instead is considered a secured borrowing or the transfer of assets is to a consolidated VIE, the assets remain on our consolidated financial statements and we record an offsetting liability for the proceeds received.

Our continuing involvement in the majority of our securitization transactions consists primarily of holding certain retained interests and acting as the primary servicer. We also may be required to repurchase receivables from the trust if the outstanding balance of the receivables falls to a level where the cost exceeds the benefits of servicing such receivables. We also may have exposure associated with contractual obligations to repurchase previously transferred loans due to breaches of representations and warranties. See “Note 15—Commitments,

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Contingencies and Guarantees” for information related to reserves we have established for our potential mortgage representation and warranty exposure.

The table below presents the securitization-related VIEs in which we had continuing involvement as of June 30, 2012 and December 31, 2011:

(Dollars in millions)	Non-Mortgage			Mortgage		
	Credit Card	Auto Loan	Other Loan	Option Arm	GreenPoint HELOCs	GreenPoint Manufactured Housing
June 30, 2012:						
Securities held by third-party investors	\$13,595	\$ 0	\$ 13	\$2,913	\$ 181	\$ 1,181
Receivables in the trust	44,048	0	21	3,013	181	1,187
Cash balance of spread or reserve accounts	0	0	0	8	0	167
Retained interests	Yes	N/A	Yes	Yes	Yes	Yes
Servicing retained	Yes	N/A	Yes	Yes ⁽¹⁾	Yes ⁽¹⁾	No ⁽³⁾
Amortization event ⁽⁴⁾	No	N/A	No	No	Yes ⁽²⁾	No
December 31, 2011:						
Securities held by third-party investors	\$16,428	\$ 75	\$ 24	\$3,122	\$ 206	\$ 1,247
Receivables in the trust	47,537	77	36	3,228	206	1,254
Cash balance of spread or reserve accounts	17	12	0	8	0	172
Retained interests	Yes	Yes	Yes	Yes	Yes	Yes
Servicing retained	Yes	Yes	Yes	Yes ⁽¹⁾	Yes ⁽¹⁾	No ⁽³⁾
Amortization event ⁽⁴⁾	No	No	No	No	Yes ⁽²⁾	No

⁽¹⁾ We continue to service some of the outstanding balance of securitized mortgage receivables.

⁽²⁾ See information below regarding on-going involvement in the GreenPoint Home Equity Line of Credit (“HELOC”) securitizations.

⁽³⁾ The manufactured housing securitizations are serviced by a third party. For two of the deals, that third party works in the capacity of subservicer with Capital One being the Master Servicer.

⁽⁴⁾ Amortization events vary according to each specific trust agreement but generally are triggered by declines in performance or credit metrics such as charge-off rates or delinquency rates below certain predetermined thresholds. Generally, the occurrence of an amortization event changes the sequencing and amount of trust related cash flows to the benefit of senior noteholders.

Non-Mortgage Securitizations

As of June 30, 2012 and December 31, 2011, we were deemed to be the primary beneficiary of all of our non-mortgage securitization trusts. Accordingly, all of these trusts have been consolidated in our financial statements. For additional information on our principal involvement with non-mortgage securitization trusts and the impact of the consolidation of these trusts on our financial statements, see “Note 1—Summary of Significant Accounting Policies” and “Note 7—Variable Interest Entities and Securitizations” of our 2011 Form 10-K.

Mortgage Securitizations

Option-ARM Loans

We had previously securitized option-ARM mortgage loans by transferring the mortgage loans to securitization trusts that had issued mortgage-backed securities to investors. The outstanding balance of debt securities held by third-party investors related to our mortgage loan securitization trusts was \$2.9 billion as of June 30, 2012 and \$3.1 billion as of December 31, 2011.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

We continue to service some of the outstanding balance of securitized mortgage receivables. We also retain rights to future cash flows arising from the receivables, the most significant being certificated interest-only bonds issued by the trusts. We generally estimate the fair value of these retained interests based on the estimated present value of expected future cash flows from securitized and sold receivables, using our best estimates of the key assumptions which include credit losses, prepayment speeds and discount rates commensurate with the risks involved. We do not consolidate these trusts because we do not have the right to receive benefits that could potentially be significant nor the obligation to absorb losses that could potentially be significant to the trusts.

In connection with the securitization of certain option-ARM loans, a third party is obligated to advance a portion of any “negative amortization” resulting from monthly payments that are less than the interest accrued for that payment period. We have an agreement in place with the third party that mirrors this advance requirement. The amount advanced is tracked through mortgage-backed securities retained as part of the securitization transaction. As the borrowers make principal payments, these securities receive their net pro rata portion of those payments in cash, and advances of negative amortization are refunded accordingly. As advances occur, we record an asset in the form of negative amortization bonds, which are held at fair value in other assets. We have also entered into certain derivative contracts related to the securitization activities. These are classified as free standing derivatives, with fair value adjustments recorded in non-interest income. See “Note 10—Derivative Instruments and Hedging Activities” for further details on these derivatives.

GreenPoint Mortgage HELOCs

Our discontinued wholesale mortgage banking unit, GreenPoint, previously sold home equity lines of credit in whole loan sales and subsequently acquired a residual interest in certain trusts which securitized some of those loans. As the residual interest holder, GreenPoint is required to fund advances on the home equity lines of credit when certain performance triggers are met due to deterioration in asset performance. We had funded \$28 million in advances as of June 30, 2012, all of which was expensed as funded. Our unfunded commitment related to these residual interests was \$9 million as of June 30, 2012. We have not consolidated these trusts because the residual certificates did not provide the obligation to absorb losses or the right to receive benefits that could potentially be significant to the trusts.

GreenPoint Mortgage Manufactured Housing

We retain the primary obligation for certain provisions of corporate guarantees, recourse sales and clean-up calls related to the discontinued manufactured housing operations of GreenPoint Credit LLC (“GPC”) which was sold to a third party in 2004. Although we are the primary obligor, recourse obligations related to former GPC whole loan sales, commitments to exercise mandatory clean-up calls on certain GPC securitization transactions and servicing were transferred to a third party in the sale transaction. We do not consolidate the trusts used for the securitization of manufactured housing loans because we do not have the power to direct the activities that most significantly impact the economic performance of the trusts since we no longer service the loans.

We were required to fund letters of credit in 2004 to cover losses, and are obligated to fund future amounts under swap agreements for certain transactions. We have the right to receive any funds remaining in the letters of credit after the securities are released. The amount available under the letters of credit was \$167 million and \$172 million as of June 30, 2012 and December 31, 2011, respectively. The fair value of the expected residual balances on the funded letters of credit was \$51 million as of June 30, 2012 and December 31, 2011, and is included in other assets on the consolidated balance sheet. Our maximum exposure under the swap agreements was \$21 million and \$23 million as of June 30, 2012 and December 31, 2011, respectively. The value of our obligations under these swaps was \$13 million and \$12 million as of June 30, 2012 and December 31, 2011, respectively and is recorded in other liabilities on our consolidated balance sheet.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The unpaid principal balance of manufactured housing securitization transactions where we are the residual interest holder was \$1.2 billion and \$1.3 billion as of June 30, 2012 and December 31, 2011, respectively. In the event the third party does not fulfill on its obligations to exercise the clean-up calls on certain transactions, the obligation reverts to us and we would assume approximately \$420 million of loans receivable upon our execution of the clean-up call with the requirement to absorb any losses on the loans receivable. There have been no instances of non-performance to date by the third party.

We monitor the underlying assets for trends in delinquencies and related losses and review the purchaser's financial strength as well as servicing performance. These factors are considered in assessing the adequacy of the liabilities established for these obligations and the valuations of the assets.

Retained Interests in Unconsolidated Securitizations

Accounts Receivable from Securitizations

Retained interests in unconsolidated securitizations are included in accounts receivable from securitizations on our consolidated balance sheets. These retained interests consist of interest-only strips, retained tranches, cash collateral accounts, cash reserve accounts and unpaid interest and fees on the third-party investors' portion of the transferred principal receivables.

The following table provides details of accounts receivable from securitizations as of June 30, 2012 and December 31, 2011:

(Dollars in millions)	June 30, 2012	December 31, 2011
Interest-only strip classified as trading	\$ 63	\$ 63
Retained interests classified as trading:		
Retained notes	26	23
Cash collateral	8	8
Total retained interests classified as trading	34	31
Total accounts receivable from securitizations	\$ 97	\$ 94

We may retain tranches in certain of the securitization transactions which are considered to be higher investment grade securities and subject to lower risk of loss. Those retained tranches are classified as available-for-sale securities, and changes in the estimated fair value are recorded in other comprehensive income.

The components of the net gains (losses) recognized as a result of changes in the fair value of retained interests are presented below:

(Dollars in millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Interest only strip valuation changes	\$ (3)	\$ (4)	\$ (1)	\$ (7)
Fair value adjustments related to spread accounts	11	12	22	25
Fair value adjustments related to investors' accrued interest receivable	0	0	0	0
Fair value adjustments related to retained subordinated notes	0	(17)	(3)	1
Net gain recognized in earnings	\$ 8	\$ (9)	\$ 18	\$ 19

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The changes in the fair value of retained interests are primarily driven by rate assumption changes and volume fluctuations. All of these retained residual interests are subject to loss in the event assumptions used to determine the estimated fair value do not prevail, or if borrowers default on the related securitized receivables and our retained subordinated tranches are used to repay investors. See the table below for key assumptions and sensitivities for retained interest valuations.

Key Assumptions and Sensitivities for Retained Interest Valuations

The key assumptions used in determining the fair value of the interest-only strip and other retained residual interests include the weighted average ranges for principal payment rates, lives of receivables and discount rates, all of which are included in the following table. The principal repayment rate assumptions were determined using actual and forecast trust principal payment rates based on the collateral. The lives of receivables were determined as the number of months necessary to repay the investors given the principal payment rate assumptions. The discount rates were determined using primarily trust specific statistics and forward rate curves, and were reflective of what market participants would use in a similar valuation. Additionally, accrued interest receivable, cash reserve and spread accounts were discounted over the estimated life of the assets.

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

For the periods ending June 30, 2012 and December 31, 2011, the assumptions and sensitivities shown below include all off-balance sheet securitizations:

<u>(Dollars in millions)</u>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Interest-only strip retained interests	\$ 107 ⁽¹⁾	\$ 110 ⁽¹⁾
Weighted average life for receivables (months)	62	70
Principal repayment rate (weighted average rate)	11.4-12.7%	12.2-17.1%
Impact on fair value of 10% adverse change	\$ (2)	\$ 15
Impact on fair value of 20% adverse change	(5)	(5)
Discount rate (weighted average rate)	25.1-42.2%	25.0-42.2%
Impact on fair value of 10% adverse change	\$ (6)	\$ (7)
Impact on fair value of 20% adverse change	(11)	(13)

⁽¹⁾ Does not include liquidity swap related to the negative amortization bonds of \$(11) million and \$(16) million as of June 30, 2012 and December 31, 2011, respectively.

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

We act as a servicing agent and receive contractual servicing fees of between 0.375% and 1% of the investor principal outstanding, based upon the type of assets serviced. For off-balance sheet securitizations, we generally did not record material servicing assets or liabilities for these rights since the contractual servicing fee approximates market rates.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Cash Flows Related to the Unconsolidated Securitizations

The following provides the details of the cash flows related to securitization transactions that qualified as off-balance sheet for the three and six months ended June 30, 2012 and 2011:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Servicing fees received	\$ 7	\$ 7	\$ 14	\$ 15
Cash flows received on retained interests ⁽¹⁾	10	12	20	25

⁽¹⁾ Includes all cash receipts of excess spread and other payments (excluding servicing fees) from the program.

Supplemental Loan Information

The table below displays the unpaid principal balance of off-balance sheet single-family residential loans we serviced as of June 30, 2012 and December 31, 2011. We also display the unpaid principal balance of loans past due 90 days or more as of June 30, 2012 and December 31, 2011. Net credit losses associated with these loans totaled \$18 million and \$22 million for the six months ended June 30, 2012 and 2011, respectively.

(Dollars in millions)	June 30, 2012	December 31, 2011
Total principal amount of loans	\$ 1,146	\$ 1,220
Principal amount of loans past due 90 days or more	208	223

Other VIEs

Affordable Housing Entities

As part of our community reinvestment initiatives, we invest in private investment funds that make equity investments in multi-family affordable housing properties. We receive affordable housing tax credits for these investments. The activities of these entities are financed with a combination of invested equity capital and debt. For those investment funds considered to be VIEs, we are not required to consolidate if we do not have the power to direct the activities that most significantly impact the economic performance of those entities. We record our interests in these unconsolidated VIEs in loans held for investment, other assets and other liabilities. As of June 30, 2012 and December 31, 2011 our interests consisted of assets of approximately \$2.2 billion and \$2.0 billion, respectively. Our maximum exposure to these entities is limited to our variable interests in the entities and is \$2.2 billion as of June 30, 2012. The creditors of the VIEs have no recourse to our general credit and we do not provide additional financial or other support during the period that we were not previously contractually required to provide. The total assets of the unconsolidated investment funds that were VIEs at June 30, 2012 and December 31, 2011 were approximately \$9.5 billion and \$8.4 billion, respectively.

Entities that Provide Capital to Low-Income and Rural Communities

We hold variable interests in entities (“Investor Entities”) that invest in community development entities (“CDEs”) that provide debt financing to businesses and non-profit entities in low-income and rural communities. Variable interests in the CDEs held by the consolidated Investor Entities are also our variable interests. The activities of the Investor Entities are financed with a combination of invested equity capital and debt. The activities of the CDEs are financed solely with invested equity capital. We receive federal and state tax credits for these investments. We consolidate the VIEs in which we have the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses or right to receive

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

benefits that could be potentially significant to the VIE. We have also consolidated other investments and CDEs that we do not consider VIEs. The assets of the VIEs that we consolidated at June 30, 2012 and December 31, 2011 totaled approximately \$258 million. The assets of the consolidated VIEs are reflected on our consolidated balance sheets in cash, loans held for investment, interest receivable and other assets. The liabilities are reflected in other liabilities.

The total assets of the VIEs that we held an interest in, but were not required to consolidate as of June 30, 2012 and December 31, 2011 totaled approximately \$6 million. Our interests in these unconsolidated VIEs are reflected on our consolidated balance sheets in loans held for investment and other assets. Our maximum exposure to these entities is limited to our variable interest of \$6 million as of June 30, 2012. The creditors of the VIEs have no recourse to our general credit. We have not provided additional financial or other support during the period that we were not previously contractually required to provide.

Other

We have a variable interest in Capital One Financial Advisors, LLC which we consolidate as we have the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The assets of the VIE that we consolidated totaled approximately \$1 million as of June 30, 2012 and December 31, 2011, respectively. The assets are consolidated in our balance sheet in cash and other assets.

We also have a variable interest in a trust that has a royalty interest in certain oil and gas properties. The activities of the trust are financed solely with debt. The total assets of the trust were \$282 million and \$309 million as of June 30, 2012 and December 31, 2011, respectively. We were not required to consolidate the trust because we do not have the power to direct the activities of the trust that most significantly impact the trust's economic performance. Our retained interest in the trust, which totaled approximately \$126 million and \$139 million as of June 30, 2012 and December 31, 2011, respectively, is reflected on our consolidated balance sheets under loans held for investment. Our maximum exposure is limited to our variable interest of \$126 million as of June 30, 2012. The creditors of the trust have no recourse to our general credit. We have not provided additional financial or other support during the period that we were not previously contractually required to provide.

In April 2012, we purchased membership interests in three limited liability companies that each operates a refined coal production facility. The sale of this refined coal qualifies for tax credits pursuant to Section 45 of the Internal Revenue Code. In the aggregate, we paid \$1 million in cash at closing and agreed to a fixed note payable of \$86 million and additional quarterly variable payments based on the amount of tax credits to be generated by these entities from April 2012 to 2021. In addition, we have an ongoing commitment to fund a proportionate share of the operating expenses of each of these entities based on our ownership percentage. These limited liability companies were deemed to be VIEs and we determined that we were not the primary beneficiary as we do not have the power to direct the activities of these entities that most significantly impact their economic performance. Our membership interests in these entities are reflected on our consolidated balance sheet within other assets. As of June 30, 2012, the carrying value of our aggregate membership interest in these entities was \$87 million. Our future obligation to these entities is predicated upon the generation of tax credits and their operating performance in future periods. The parties involved with these entities have recourse to our general credit for the quarterly variable payment amounts and ongoing funding commitments that become payable to them. These payments will only be required if the refined coal production facilities are either currently generating tax credits or expect to generate them imminently. We have not provided additional financial or other support during the period that we were not contractually required to provide.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

NOTE 8—GOODWILL AND OTHER INTANGIBLE ASSETS

The table below displays the components of goodwill and other intangible assets, including mortgage servicing rights, as of June 30, 2012 and December 31, 2011:

(Dollars in millions)	June 30, 2012	December 31, 2011
Goodwill	\$13,864	\$ 13,592
Other intangible assets:		
Purchased credit card relationship intangibles ⁽¹⁾	2,090	52
Core deposit intangibles ⁽²⁾	591	479
Other	280	79
Total other intangible assets	2,961	610
Total goodwill and other intangible assets	\$16,825	\$ 14,202
Mortgage servicing rights	\$ 84	\$ 93

⁽¹⁾ Includes purchased credit card relationship intangibles with a net carrying value of \$2.0 billion related to the HSBC U.S. acquisition.

⁽²⁾ Includes core deposit intangibles with net carrying value of \$187 million related to the acquisition of ING Direct in the first quarter of 2012.

Goodwill

In accordance with accounting guidance, goodwill is not amortized but is tested for impairment at the reporting unit level, which is at the operating segment level or one level below an operating segment. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Goodwill is required to be tested for impairment annually and between annual tests if events or circumstances change, such as adverse changes in the business climate, that would more likely than not reduce the fair value of the reporting unit below its carrying value. Goodwill is assigned to one or more reporting units at the date of acquisition. Our reporting units are Domestic Credit Card, International Credit Card, Auto Finance, other Consumer Banking and Commercial Banking. As of June 30, 2012 and December 31, 2011, goodwill of \$13.9 billion and \$13.6 billion, respectively, was included in the accompanying consolidated balance sheets. There were no events requiring an interim impairment test and there has been no goodwill impairment recorded for the three and six months ended June 30, 2012. The goodwill impairment test, performed at October 1 of each year, is a two-step test. The first step identifies whether there is potential impairment by comparing the fair value of a reporting unit to the carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, the second step of the impairment test is required to measure the amount of any impairment loss.

During the second quarter of 2012, we acquired the assets and assumed the liabilities of the credit card and private label credit card business of HSBC. In connection with the acquisition, we recorded goodwill of \$272 million representing the amount by which the purchase price exceeded the fair value of the net assets acquired. The goodwill was assigned to the Credit Card segment. See “Note 2—Acquisitions” for information regarding the HSBC U.S. Card acquisition.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The following table presents a summary of changes in goodwill by segment, for the six months ended June 30, 2012.

(Dollars in millions)	Credit Card	Consumer	Commercial	Total
Total Company				
Balance as of December 31, 2011	\$ 4,691	\$ 4,583	\$ 4,318	\$13,592
Acquisitions	272	0	0	272
Balance as of June 30, 2012	<u>\$ 4,963</u>	<u>\$ 4,583</u>	<u>\$ 4,318</u>	<u>\$13,864</u>

Other Intangible Assets

In connection with our acquisitions, we recorded 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 estimated 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 and brokerage relationships.

In connection with the February 17, 2012 acquisition of ING Direct, we recognized core deposit intangibles of \$209 million and other intangibles of \$149 million at acquisition. In connection with the May 1, 2012 acquisition of the HSBC credit card portfolios, we recognized purchased credit card relationship intangibles of \$2.1 billion and other intangibles of \$82 million at acquisition.

The following table summarizes our intangible assets subject to amortization as of June 30, 2012 and December 31, 2011:

(Dollars in millions)	June 30, 2012				
	Carrying Amount of Assets	Accumulated Amortization	Currency valuation Adjustments	Net Carrying Amount	Remaining Amortization Period
Purchased credit card relationship intangibles ⁽¹⁾	\$ 2,209	\$ (119)	\$ 0	\$ 2,090	8.2 years
Core deposit intangibles ⁽²⁾	1,771	(1,180)	0	591	6.1 years
Other ⁽³⁾	389	(108)	(1)	280	10.2 years
Total	<u>\$ 4,369</u>	<u>\$ (1,407)</u>	<u>\$ (1)</u>	<u>\$ 2,961</u>	

(Dollars in millions)	December 31, 2011				
	Carrying Amount of Assets	Accumulated Amortization	Currency valuation Adjustments	Net Carrying Amount	Remaining Amortization Period
Purchased credit card relationship intangibles	\$ 77	\$ (25)	\$ 0	\$ 52	5.3 years
Core deposit intangibles	1,562	(1,083)	0	479	6.3 years
Other	160	(80)	(1)	79	11.7 years
Total	<u>\$ 1,799</u>	<u>\$ (1,188)</u>	<u>\$ (1)</u>	<u>\$ 610</u>	

⁽¹⁾ Includes purchased credit card relationship intangibles with a net carrying value of \$2.0 billion related to the HSBC U.S. Card acquisition.

⁽²⁾ Includes core deposit intangibles with a net carrying value of \$187 million related to the acquisition of ING Direct in the first quarter of 2012.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(3) Includes brokerage relations intangibles with a net carrying value of \$79 million, partnership contract intangibles with a net carrying value of \$79 million, contract intangibles with a net book value of \$43 million, trade mark/name intangibles with a net carrying value of \$39 million and other intangibles with a net book value of \$40 million.

Intangible assets, which are reported in other assets on our consolidated balance sheets, are amortized over their respective estimated useful lives on an accelerated basis using the sum of the year's digits methodology. Intangible amortization expense, which is included in non-interest expense on our consolidated statements of income, totaled \$157 million and \$57 million for the three months ended June 30, 2012 and 2011, respectively, and \$219 million and \$115 million for the six months ended June 30, 2012 and 2011, respectively. The weighted average amortization period for purchase accounting intangibles is 8.0 years as of June 30, 2012.

The following table summarizes the estimated future amortization expense for intangible assets as of June 30, 2012:

(Dollars in millions)	Estimated Future Amortization Amounts
2012 (remaining six months)	\$ 385
2013	678
2014	551
2015	443
2016	340
Thereafter	564
Total	\$ 2,961

Mortgage Servicing Rights

MSRs are recognized at fair value when mortgage loans are sold or securitized in the secondary market and the right to service these loans is retained for a fee. MSRs are recorded at fair value and changes in fair value are recorded as a component of mortgage servicing and other income. We may enter into derivatives to economically hedge changes in fair value of MSRs. We have no other loss exposure on MSRs in excess of the recorded fair value.

We continue to operate the mortgage servicing business and to report the changes in the fair value of MSRs in continuing operations. To evaluate and measure fair value, the underlying loans are stratified based on certain risk characteristics, including loan type, note rate and investor servicing requirements.

The following table sets forth the changes in the fair value of mortgage servicing rights during the three and six months ended June 30, 2012 and June 30, 2011:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Balance at beginning of period	\$ 95	\$ 144	\$ 93	\$ 141
Originations	4	2	8	6
Change in fair value, net	(15)	(16)	(17)	(17)
Balance at end of period	<u>\$ 84</u>	<u>\$ 130</u>	<u>\$ 84</u>	<u>\$ 130</u>
Ratio of mortgage servicing rights to related loans serviced for others	0.53%	0.69%	0.53%	0.71%
Weighted average service fee	0.28bps	0.28bps	0.28bps	0.28bps

CAPITAL ONE FINANCIAL CORPORATION**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)**

MSR fair value adjustments for the three and six months ended June 30, 2012 included decreases of \$3 million and \$6 million, respectively, due to run-off and cash collections, and a decrease of \$13 million and \$12 million, respectively, due to changes in the valuation inputs and assumptions.

MSR fair value adjustments for the three and six months ended June 30, 2011 included decreases of \$3 million and \$7 million, respectively, due to run-off and cash collections, and decrease of \$13 million and \$10 million, respectively, due to changes in the valuation inputs and assumptions

The significant assumptions used in estimating the fair value of the MSRs as of June 30, 2012 and 2011 were as follows:

	June 30,	
	2012	2011
Weighted average prepayment rate (includes default rate)	18.63%	14.51%
Weighted average life (in years)	5.05	5.99
Discount rate	13.34%	11.74%

The increase in the weighted average prepayment rate and the corresponding decrease in weighted average life were both driven by changes in interest rates.

At June 30, 2012, the sensitivities to immediate 10% and 20% increases in the weighted average prepayment rates would decrease the fair value of mortgage servicing rights by \$4 million and \$8 million, respectively.

At June 30, 2012, the sensitivities to immediate 10% and 20% adverse changes in servicing costs would decrease the fair value of mortgage servicing rights by \$7 million and \$15 million, respectively.

As of June 30, 2012, our mortgage loan servicing portfolio consisted of mortgage loans with an aggregate unpaid principal balance of \$63.2 billion, of which \$16.1 billion was serviced for other investors. As of June 30, 2011, our mortgage loan servicing portfolio consisted of mortgage loans with an aggregate unpaid principal balance of \$28.9 billion, of which \$19.2 billion was serviced for other investors.

NOTE 9—DEPOSITS AND BORROWINGS

Customer Deposits

Our customer deposits, which are our largest source of funding for our operations and asset growth, consist of non-interest bearing and interest-bearing deposits, including demand deposits, money market deposits, negotiable order of withdrawal (“NOW”) accounts, savings accounts and certificates of deposit.

As of June 30, 2012, we had \$193.9 billion in interest-bearing deposits of which \$5.0 billion represents large denomination certificates of \$100,000 or more. As of December 31, 2011, we had \$109.9 billion in interest-bearing deposits, of which \$4.6 billion represents large denomination certificates of \$100,000 or more.

Borrowings

We also access the capital markets to meet our funding needs through loan securitization transactions and the issuance of senior and subordinated debt. As of June 30, 2012, we had an effective shelf registration statement filed with the U.S. Securities & Exchange Commission (“SEC”) under which, from time to time, we may offer

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depository shares, common stock, purchase contracts, warrants, and units. There is no limit under this shelf registration statement to the amount or number of such securities that we may offer and sell. We filed a new effective shelf registration statement with the SEC on April 30, 2012. Under SEC rules, the shelf registration statement expires three years after filing.

In addition to issuance capacity under the shelf registration statement, we have access to other borrowing programs, including advances from the FHLB. Our FHLB membership is secured by our investment in FHLB stock, which totaled \$686 million and \$362 million, as of June 30, 2012 and December 31, 2011, respectively.

Securitized Debt Obligations

We had \$13.6 billion and \$16.5 billion of securitized debt obligations as of June 30, 2012 and December 31, 2011, respectively, all of which were held by third party investors.

Senior and Subordinated Debt

As of June 30, 2012, we had \$12.1 billion of senior and subordinated notes outstanding, which included \$900 million in fair value hedging losses. As of December 31, 2011, we had \$11.0 billion of senior and subordinated notes outstanding, including \$823 million in fair value hedging losses. One senior note for \$282 million matured during the six months ended June 30, 2012. During the first six months of 2012, we issued senior notes in the total amount of \$1.25 billion. The new senior notes are due in 2015.

See “Note 10—Derivative Instruments and Hedging Activities” for information about our fair value hedging activities.

Under a Senior and Subordinated Global Bank Note Program, COBNA has issued debt securities to both U.S. and non-U.S. lenders and raised funds in U.S. and foreign currencies. The Senior and Subordinated Global Bank Note Program had \$802 million and \$810 million outstanding at June 30, 2012 and December 31, 2011, respectively.

Junior Subordinated Debentures

We had \$3.6 billion of outstanding junior subordinated debentures as of both June 30, 2012 and December 31, 2011. There were no junior subordinated borrowings that were called or matured during the six months ended June 30, 2012.

FHLB Advances

We had outstanding FHLB advances, which are secured by our investment securities, residential home loan portfolio, multifamily loans, commercial real-estate loans and home equity lines of credit, totaling \$5.4 billion and \$6.9 billion as of June 30, 2012 and December 31, 2011, respectively.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Composition of Customer Deposits, Short-term Borrowings and Long-term Debt

The table below summarizes the components of our deposits, short-term borrowings and long-term debt as of June 30, 2012 and December 31, 2011. Our total short-term borrowings consist of federal funds purchased and securities loaned under agreements to repurchase and other short-term borrowings with an original contractual maturity of one year or less. Our long-term debt consists of borrowings with an original contractual maturity of greater than one year. The amounts presented for outstanding borrowings include unamortized debt premiums and discounts, net of fair value hedge accounting adjustments.

(Dollars in millions)	June 30, 2012	December 31, 2011
Deposits:		
Non-interest bearing deposits	\$ 20,072	\$ 18,281
Interest-bearing deposits	193,859	109,945
Total deposits	<u>\$213,931</u>	<u>\$ 128,226</u>
Short-term borrowings:		
Federal Funds purchased and securities loaned or sold under agreements to repurchase	\$ 1,101	\$ 1,464
FHLB Advances	4,400	5,835
Total short-term borrowings	<u>\$ 5,501</u>	<u>\$ 7,299</u>

(Dollars in millions)	June 30, 2012			December 31, 2011	
	Maturity Date	Interest Rate	Weighted Average Interest Rate		
Long-term debt:					
Securitized debt obligations	2012 - 2025	0.27% - 6.40%	1.76%	\$13,608	\$ 16,527
Senior and subordinated notes:					
Fixed unsecured senior debt	2013 - 2021	2.13% - 7.38%	4.72%	7,887	6,850
Floating unsecured senior debt	2014	1.62%	1.62%	250	250
Total unsecured senior debt			4.62%	8,137	7,100
Fixed unsecured subordinated debt	2012 - 2019	5.35% - 8.80%	7.30%	3,942	3,934
Total senior and subordinated notes				12,079	11,034
Other long-term borrowings:					
Fixed junior subordinated debt	2027 - 2066	3.63% - 10.25%	8.60%	3,642	3,642
FHLB advances	2012 - 2023	0.54% - 6.88%	0.41%	1,044	1,059
Total other long-term borrowings				4,686	4,701
Total long-term debt				<u>\$30,373</u>	<u>\$ 32,262</u>
Total short-term borrowings and long-term debt				<u>\$35,874</u>	<u>\$ 39,561</u>

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Components of Interest Expense

The following table displays interest expense attributable to short-term borrowings and long-term debt for the three and six months ended June 30, 2012 and 2011:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Short-term borrowings:				
Federal funds purchased and securities loaned or sold under agreements to repurchase	\$ 0	\$ 2	\$ 1	\$ 3
FHLB advances	3	1	4	1
Total short-term borrowings	<u>3</u>	<u>3</u>	<u>5</u>	<u>4</u>
Long-term debt:				
Securitized debt obligations	69	113	149	253
Senior and subordinated notes:				
Unsecured senior debt	56	34	114	69
Unsecured subordinated debt	31	29	61	58
Total senior and subordinated notes	<u>87</u>	<u>63</u>	<u>175</u>	<u>127</u>
Other long-term borrowings:				
Junior subordinated debt	78	72	157	152
FHLB advances	3	3	6	6
Other	2	2	4	4
Total long-term debt	<u>239</u>	<u>253</u>	<u>491</u>	<u>542</u>
Total short-term borrowings and long-term debt	<u>\$ 242</u>	<u>\$ 256</u>	<u>\$ 496</u>	<u>\$ 546</u>

NOTE 10—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**Use of Derivatives**

We manage our asset/liability position and market risk exposure in accordance with prescribed risk management policies and limits established by our Asset Liability Management Committee and approved by our Board of Directors. Our primary market risk stems from the impact on our earnings and economic value of equity from changes in interest rates, and to a lesser extent, changes in foreign exchange rates. We manage our interest rate sensitivity through several approaches, which include, but are not limited to, changing the maturity and re-pricing characteristics of various balance sheet categories and by entering into interest rate derivatives. Derivatives are also utilized to manage our exposure to changes in foreign exchange rates. Derivative instruments may be privately negotiated contracts, which are often referred to as over-the-counter (“OTC”) derivatives, or they may be listed and traded on an exchange. We execute our derivative contracts in both the OTC and exchange-traded derivative markets. In addition to interest rate swaps, we use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage our interest rate and foreign currency risk. On a regular basis, we enter into customer-accommodation derivative transactions. We engage in these transactions as a service to our commercial banking customers to facilitate their risk management objectives. We typically offset the market risk exposure to our customer-accommodation derivatives through derivative transactions with other counterparties.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Accounting for Derivatives

We account for derivatives pursuant to the accounting standards for derivatives and hedging. The outstanding notional amount of our derivative contracts totaled \$55.3 billion as of June 30, 2012, compared with \$73.2 billion as of December 31, 2011, primarily due to the termination of the ING Direct acquisition hedges. The notional amount provides an indication of the volume of our derivatives activity and is used as the basis on which interest and other payments are determined; however, it is generally not the amount exchanged. Derivatives are recorded at fair value in our consolidated balance sheets. The fair value of a derivative represents our estimate of the amount at which a derivative could be exchanged in an orderly transaction between market participants. We report derivatives in a gain position, or derivative assets, in our consolidated balance sheets as a component of other assets. We report derivatives in a loss position, or derivative liabilities, in our consolidated balance sheets as a component of other liabilities. We report derivative asset and liability amounts on a gross basis based on individual contracts, which does not take into consideration the effects of master counterparty netting agreements or collateral netting. The fair value of derivative assets and derivative liabilities reported in our consolidated balance sheets was \$1.9 billion and \$442 million, respectively, as of June 30, 2012, compared with \$1.9 billion and \$987 million, respectively, as of December 31, 2011.

Our derivatives are designated as either qualifying accounting hedges or free-standing derivatives. Free-standing derivatives consist of customer-accommodation derivatives and economic hedges that we enter into for risk management purposes that are not linked to specific assets or liabilities or to forecasted transactions and, therefore, do not qualify for hedge accounting. Qualifying accounting hedges are designated as fair value hedges, cash flow hedges or net investment hedges.

- **Fair Value Hedges:** We designate derivatives as fair value hedges to manage our exposure to changes in the fair value of certain financial assets and liabilities, which fluctuate in value as a result of movements in interest rates. Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings together with offsetting changes in the fair value of the hedged item and any resulting ineffectiveness. Our fair value hedges consist of interest rate swaps that are intended to modify our exposure to interest rate risk on various fixed rate senior notes, subordinated notes, securitization debt, brokered certificates of deposits and U.S. agency investments. These hedges have maturities through 2021 and have the effect of converting some of our fixed rate debt, deposits and investments to variable rate.
- **Cash Flow Hedges:** We designate derivatives as cash flow hedges to manage our exposure to variability in cash flows related to forecasted transactions. Changes in the fair value of derivatives designated as cash flow hedges are recorded as a component of AOCI, to the extent that the hedge relationships are effective, and amounts are reclassified from AOCI to earnings as the forecasted transactions occur. To the extent that any ineffectiveness exists in the hedge relationships, the amounts are recorded in current period earnings. Our cash flow hedges consist of interest rate swaps that are intended to hedge the variability in interest payments on some of our variable rate debt issuances and assets through 2017. These hedges have the effect of converting some of our variable rate debt and assets to a fixed rate. We also have entered into forward foreign currency derivative contracts to hedge our exposure to variability in cash flows related to foreign currency denominated debt.
- **Net Investment Hedges:** We use net investment hedges, primarily forward foreign exchange contracts, to manage the exposure related to our net investments in consolidated foreign operations that have functional currencies other than the U.S. dollar. Changes in the fair value of net investment hedges are recorded in the translation adjustment component of AOCI. During the third quarter of 2011, we discontinued hedge accounting on our only net investment hedge. Therefore, we did not have any net investment hedges outstanding as of June 30, 2012.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

- **Free-Standing Derivatives:** We use free-standing derivatives, or economic hedges, to hedge the risk of changes in the fair value of residential MSRs, mortgage loan origination and purchase commitments and other interests held. We also categorize our customer-accommodation derivatives and the related offsetting contracts as free-standing derivatives. Changes in the fair value of free-standing derivatives are recorded in earnings as a component of other non-interest income.

Balance Sheet Presentation

The following table summarizes the fair value and related outstanding notional amounts of derivative instruments reported in our consolidated balance sheets as of June 30, 2012 and December 31, 2011. The fair value amounts are segregated by derivatives that are designated as accounting hedges and those that are not, and are further segregated by type of contract within those two categories.

(Dollars in millions)	June 30, 2012			December 31, 2011		
	Notional or Contractual Amount	Derivatives at Fair Value		Notional or Contractual Amount	Derivatives at Fair Value	
		Assets ⁽¹⁾	Liabilities ⁽¹⁾		Assets ⁽¹⁾	Liabilities ⁽¹⁾
Derivatives designated as accounting hedges:						
Interest rate contracts:						
Fair value interest rate contracts	\$ 16,858	\$ 1,097	\$ 0	\$ 14,425	\$ 1,019	\$ 1
Cash flow interest rate contracts	9,025	47	0	6,325	71	130
Total interest rate contracts	25,883	1,144	0	20,750	1,090	131
Foreign exchange contracts:						
Cash flow foreign exchange contracts	5,127	63	14	4,577	93	16
Net investment foreign exchange contracts	0	0	0	0	0	0
Total foreign exchange contracts	5,127	63	14	4,577	93	16
Total derivatives designated as accounting hedges	31,010	1,207	14	25,327	1,183	147
Derivatives not designated as accounting hedges:⁽¹⁾						
Interest rate contracts covering:						
MSRs	292	21	9	383	18	12
Customer accommodation ⁽²⁾	18,036	502	328	16,147	453	395
Other interest rate exposures	3,630	49	25	29,027	85	362
Total interest rate contracts	21,958	572	362	45,557	556	769
Foreign exchange contracts	1,327	147	59	1,348	193	65
Other contracts	1,028	3	7	932	4	6
Total derivatives not designated as accounting hedges	24,313	722	428	47,837	753	840
Total derivatives	\$ 55,323	\$ 1,929	\$ 442	\$ 73,164	\$ 1,936	\$ 987

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

- (1) Derivative asset and liability amounts are presented on a gross basis based on individual contracts and do not reflect the impact of legally enforceable master counterparty netting agreements, collateral received/posted or net credit risk valuation adjustments. We recorded a net cumulative credit risk valuation adjustment related to our derivative positions of \$16 million and \$23 million as of June 30, 2012 and December 31, 2011, respectively. See “Derivative Counterparty Credit Risk” below for additional information.
- (2) Customer accommodation derivatives include those entered into with our commercial banking customers and those entered into with other counterparties to offset the market risk.

Upon the completion of the ING Direct acquisition in February 2012, we terminated the portfolio of interest-rate swaps we entered into in anticipation of the acquisition. These interest-rate swaps consisted of an initial notional amount of \$23.8 billion and an additional notional amount of \$1.0 billion resulting from subsequent rebalancing actions. The total cash payment at termination was \$355 million. We recognized a mark-to-market loss of \$78 million in earnings in the first quarter of 2012 related to these swaps.

Income Statement Presentation and AOCI

The following tables summarize the impact of derivatives and related hedged items on our consolidated statements of income and AOCI.

Fair Value Hedges and Free-Standing Derivatives

The net gains (losses) recognized in earnings related to derivatives in fair value hedging relationships and free-standing derivatives are presented below for the three and six months ended June 30, 2012 and 2011:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Derivatives designated as accounting hedges:				
Fair value interest rate contracts:				
Loss recognized in earnings on derivatives ⁽¹⁾	\$ 147	\$ 190	\$ 79	\$ 41
Gain recognized in earnings on hedged items ⁽¹⁾	(146)	(192)	(87)	(37)
Net fair value hedge ineffectiveness gain (loss)	1	(2)	(8)	4
Derivatives not designated as accounting hedges:				
Interest rate contracts covering:				
MSRs ⁽¹⁾	5	(3)	3	(4)
Customer accommodation ⁽¹⁾	7	3	18	10
Other interest rate exposures ⁽¹⁾	24	0	(57)	6
Total	36	0	(36)	12
Foreign exchange contracts ⁽¹⁾	4	1	(9)	(2)
Other contracts ⁽¹⁾	(2)	12	(3)	9
Total gain (loss) on derivatives not designated as accounting hedges	38	13	(48)	19
Net derivatives gain (loss) recognized in earnings	\$ 39	\$ 11	\$ (56)	\$ 23

(1) Amounts are recorded in our consolidated statements of income in other non-interest income.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)
Cash Flow and Net Investment Hedges

The table below shows the net gains (losses) related to derivatives designated as cash flow hedges and net investment hedges for the three and six months ended June 30, 2012 and 2011:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Gain (loss) recorded in AOCI:⁽¹⁾				
Cash flow hedges:				
Interest rate contracts	\$ 50	\$ 15	\$ 56	\$ 22
Foreign exchange contracts	(5)	(10)	(11)	(10)
Subtotal	45	5	45	12
Net investment hedges:				
Foreign exchange contracts	0	0	0	(1)
Net derivatives gain recognized in AOCI	\$ 45	\$ 5	\$ 45	\$ 11
Gain (loss) recorded in earnings:				
Cash flow hedges:				
Gain (loss) reclassified from AOCI into earnings:				
Interest rate contracts ⁽²⁾	\$ 11	\$ 14	\$ 20	\$ 2
Foreign exchange contracts ⁽³⁾	(5)	(7)	(11)	(9)
Subtotal	6	7	9	(7)
Gain (loss) recognized in earnings due to ineffectiveness:				
Interest rate contracts ⁽³⁾	0	0	0	0
Foreign exchange contracts ⁽³⁾	0	0	0	0
Subtotal	0	0	0	0
Net derivatives gain (loss) recognized in earnings	\$ 6	\$ 7	\$ 9	\$ (7)

⁽¹⁾ Amounts represent the effective portion.

⁽²⁾ Amounts reclassified are recorded in our consolidated statements of income in interest income or interest expense.

⁽³⁾ Amounts reclassified are recorded in our consolidated statements of income in other non-interest income.

We expect to reclassify net after-tax gains of \$33 million recorded in AOCI as of June 30, 2012, related to derivatives designated as cash flow hedges to earnings over the next 12 months, which we expect to offset against the cash flows associated with the hedged forecasted transactions. The maximum length of time over which forecasted transactions were hedged was five years as of June 30, 2012. The amount we expect to reclassify into earnings may change as a result of changes in market conditions and ongoing actions taken as part of our overall risk management strategy.

Credit Default Swaps

We have credit exposure on credit default swap agreements that we entered into to manage our risk of loss on certain manufactured housing securitizations issued by GreenPoint Credit LLC in 2000. Our maximum credit exposure related to these swap agreements totaled \$21 million and \$23 million as of June 30, 2012 and December 31, 2011, respectively.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

These agreements are recorded in our consolidated balance sheets as a component of other liabilities. The value of our obligations under these swaps was \$13 million and \$12 million as of June 30, 2012 and December 31, 2011, respectively. See “Note 7—Variable Interest Entities and Securitizations” for additional information about our manufactured housing securitization transactions.

Credit Risk-Related Contingency Features

Certain of our derivative contracts include provisions requiring that our debt maintain a credit rating of investment grade or above by each of the major credit rating agencies. In the event of a downgrade of our debt credit rating below investment grade, some of our derivative counterparties would have the right to terminate the derivative contract and close-out the existing positions. Other derivative contracts include provisions that would, in the event of a downgrade of our debt credit rating below investment grade, allow our derivative counterparties to demand immediate and ongoing full overnight collateralization on derivative instruments in a net liability position. Certain of our derivative contracts may allow, in the event of a downgrade of our debt credit rating of any kind, our derivative counterparties to demand additional collateralization on such derivative instruments in a net liability position. The fair value of derivative instruments with credit-risk-related contingent features in a net liability position was \$40 million and \$141 million as of June 30, 2012 and December 31, 2011, respectively. We were required to post collateral, consisting of a combination of cash and securities, totaling \$225 million and \$353 million as of June 30, 2012 and December 31, 2011, respectively. If our debt credit rating had fallen below investment grade, we would have been required to post additional collateral of \$22 million and \$39 million as of June 30, 2012 and December 31, 2011, respectively.

Derivative Counterparty Credit Risk

Derivative instruments contain an element of credit risk that arises from the potential failure of a counterparty to perform according to the contractual terms of the contract. Our exposure to derivative counterparty credit risk at any point in time is represented by the fair value of derivatives in a gain position, or derivative assets, assuming no recoveries of underlying collateral. To mitigate the risk of counterparty default, we maintain collateral agreements with certain derivative counterparties. These agreements typically require both parties to maintain collateral in the event the fair values of derivative financial instruments exceed established thresholds. We received cash collateral from derivatives counterparties totaling \$1.1 billion and \$894 million as of June 30, 2012 and December 31, 2011, respectively. We also received securities from derivatives counterparties totaling \$251 million as of June 30, 2012, which we have the ability to repledge. We posted cash collateral in accounts maintained by derivatives counterparties totaling \$225 million and \$353 million as of June 30, 2012 and December 31, 2011, respectively.

We record counterparty credit risk valuation adjustments on our derivative assets to properly reflect the credit quality of the counterparty. We consider collateral and legally enforceable master netting agreements that mitigate our credit exposure to each counterparty in determining the counterparty credit risk valuation adjustment, which may be adjusted in future periods due to changes in the fair value of the derivative contract, collateral and creditworthiness of the counterparty. The cumulative counterparty credit risk valuation adjustment recorded on our consolidated balance sheets as a reduction in the derivative asset balance was \$17 million and \$25 million as of June 30, 2012 and December 31, 2011, respectively. We also adjust the fair value of our derivative liabilities to reflect the impact of our credit quality. We calculate this adjustment by comparing the spreads on our credit default swaps to the discount benchmark curve. The cumulative credit risk valuation adjustment related to our credit quality recorded on our consolidated balance sheets as a reduction in the derivative liability balance was \$1 million and \$2 million as of June 30, 2012 and December 31, 2011, respectively.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

NOTE 11—STOCKHOLDERS' EQUITY**Accumulated Other Comprehensive Income ("AOCI")**

The following table presents the cumulative balances of accumulated other comprehensive income, net of deferred tax of \$245 million and \$142 million as of June 30, 2012 and December 31, 2011, respectively:

(Dollars in millions)	June 30, 2012	December 31, 2011
Net unrealized gains on securities ⁽¹⁾	\$ 393	\$ 294
Net unrecognized elements of defined benefit plans	(46)	(43)
Foreign currency translation adjustments	(38)	(49)
Unrealized gains (losses) on cash flow hedging instruments	14	(26)
Other-than-temporary impairment not recognized in earnings on securities	44	10
Initial application of measurement date provisions for postretirement benefits other than pensions	(1)	(1)
Initial application from adoption of consolidation standards	(16)	(16)
Total accumulated other comprehensive income	<u>\$ 350</u>	<u>\$ 169</u>

⁽¹⁾ Includes net unrealized gains (losses) on securities available for sale and retained subordinated notes. Unrealized losses not related to credit on other-than-temporarily impaired securities of \$116 million (net of income tax of \$74 million) and \$170 million (net of income tax of \$109 million) were reported in other comprehensive income as of June 30, 2012 and December 31, 2011, respectively.

NOTE 12—EARNINGS PER COMMON SHARE

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

(Dollars and Shares in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Basic earnings per share				
Income from continuing operations, net of tax	\$ 193	\$ 945	\$ 1,698	\$ 1,977
Loss from discontinued operations, net of tax	(100)	(34)	(202)	(50)
Net income applicable to common equity	93	911	1,496	1,927
Dividends and undistributed earnings allocated to participating securities ⁽¹⁾	(1)	0	(8)	0
Net income available to common stockholders	<u>\$ 92</u>	<u>\$ 911</u>	<u>\$ 1,488</u>	<u>\$ 1,927</u>
Total weighted-average basic shares outstanding	<u>578</u>	<u>456</u>	<u>543</u>	<u>455</u>
Net income per share	<u>\$ 0.16</u>	<u>\$ 2.00</u>	<u>\$ 2.74</u>	<u>\$ 4.24</u>

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars and Shares in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Diluted earnings per share⁽²⁾				
Net income available to common stockholders	\$ 92	\$ 911	\$ 1,488	\$ 1,927
Total weighted-average basic shares outstanding	578	456	543	455
Stock options, warrants, contingently issuable shares, and other	5	6	5	6
Total weighted-average diluted shares outstanding	583	462	548	461
Net income per share	\$ 0.16	\$ 1.97	\$ 2.72	\$ 4.18

⁽¹⁾ Includes undistributed earnings allocated to participating securities using the two-class method under the accounting guidance for computing earnings per share.

⁽²⁾ Excluded from the computation of diluted earnings per share was 7 million and 8 million of awards, options or warrants for the three months ended June 30, 2012 and 2011, respectively, and 8 million and 9 million of awards, options or warrants for the six months ended June 30, 2012 and 2011, respectively, because their inclusion would be anti-dilutive.

On February 16, 2012, we settled forward sale agreements that we entered into with certain counterparties acting as forward purchasers in connection with a public offering of shares of our common stock on July 19, 2011. Pursuant to the forward sale agreements, we issued 40 million shares of our common stock at settlement.

On February 17, 2012, as part of the consideration for the acquisition of ING Direct, we issued 54,028,086 shares of our common stock to the ING Sellers.

On March 20, 2012 we closed a public offering of 24,442,706 shares of our common stock which we sold to the underwriters at a per share price of \$51.14 for net proceeds of approximately \$1.25 billion.

NOTE 13—FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date (also referred to as an exit price). The fair value accounting guidance provides a three-level fair value hierarchy for classifying financial instruments. This hierarchy is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Fair value measurement of a financial asset or liability is assigned to a level based on the lowest level of any input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are described below:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities.
- Level 3: Unobservable inputs.

The accounting guidance for fair value requires that we maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value. Accounting guidance provides for the irrevocable option to elect, on a contract-by-contract basis, to measure certain financial assets and liabilities at fair value at inception of the contract and record any subsequent changes in fair value into earnings. We had not made any material fair value option elections as of June 30, 2012 and December 31, 2011.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)
Level 1, 2 and 3 Valuation Techniques

Financial instruments are considered Level 1 when the valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

The following table displays our assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis as of June 30, 2012 and December 31, 2011:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

(Dollars in millions)	June 30, 2012			Total
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Assets				
Securities available for sale:				
U.S. Treasury debt obligations	\$ 1,562	\$ 0	\$ 0	\$ 1,562
U.S. Agency debt obligations	0	324	64	388
Residential mortgage-backed securities	0	33,117	1,170	34,287
Commercial mortgage-backed securities	0	5,842	267	6,109
Asset-backed securities	0	11,396	293	11,689
Other	283	961	10	1,254
Total securities available for sale	<u>1,845</u>	<u>51,640</u>	<u>1,804</u>	<u>55,289</u>
Other assets:				
Mortgage servicing rights	0	0	84	84
Derivative receivables ⁽¹⁾⁽²⁾	3	1,823	103	1,929
Retained interests in securitizations and other	0	0	140	140
Total assets	<u>\$ 1,848</u>	<u>\$53,463</u>	<u>\$ 2,131</u>	<u>\$57,442</u>
Liabilities				
Other liabilities:				
Derivative payables ⁽¹⁾⁽²⁾	\$ (4)	\$ (404)	\$ (34)	\$ (442)
Other ⁽³⁾	0	0	(13)	(13)
Total liabilities	<u>\$ (4)</u>	<u>\$ (404)</u>	<u>\$ (47)</u>	<u>\$ (455)</u>

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	December 31, 2011			Total
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Assets				
Securities available for sale:				
U.S. Treasury debt obligations	\$ 124	\$ 0	\$ 0	\$ 124
U.S. Agency debt obligations	0	138	0	138
Residential mortgage-backed securities	0	26,455	195	26,650
Commercial mortgage-backed securities	0	913	274	1,187
Asset-backed securities	0	10,118	32	10,150
Other	279	219	12	510
Total securities available for sale	403	37,843	513	38,759
Other assets:				
Mortgage servicing rights	0	0	93	93
Derivative receivables ⁽¹⁾⁽²⁾	5	1,828	103	1,936
Retained interests in securitizations and other	0	0	145	145
Total assets	\$ 408	\$39,671	\$ 854	\$40,933
Liabilities				
Other liabilities:				
Derivative payables ⁽¹⁾⁽²⁾	\$ (6)	\$ (702)	\$ (279)	\$ (987)
Other ⁽³⁾	0	0	(12)	(12)
Total liabilities	\$ (6)	\$ (702)	\$ (291)	\$ (999)

⁽¹⁾ We do not offset the fair value of derivative contracts in a loss position against the fair value of contracts in a gain position. We also do not offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

⁽²⁾ Does not reflect \$16 million and \$23 million recognized as a net valuation allowance on derivative assets and liabilities for non-performance risk as of June 30, 2012 and December 31, 2011, respectively. Non-performance risk is reflected in other assets/liabilities on the balance sheet and offset through the income statement in other income.

⁽³⁾ Includes manufactured housing, swap and other transactions. See "Note 7—Variable Interest Entities and Securitizations" for additional information.

The determination of the classification of financial instruments in Level 2 or Level 3 of the fair value hierarchy is performed at the end of each reporting period. We consider all available information, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the Level 3 inputs to the instruments' fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions. During the second quarter and first six months of 2012, we had minimal movements between Levels 1 and 2.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Level 3 Instruments Only

Financial instruments are considered Level 3 when their values are determined using pricing models, which include comparison of prices from multiple sources, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable or there is significant variability among pricing sources. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The tables below present reconciliation for all assets and liabilities measured and recognized at fair value on a recurring basis using significant unobservable inputs (Level 3). When assets and liabilities are transferred between levels, we recognize the transfer as of the end of the period.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Three Months Ended June 30, 2012

(Dollars in millions)	Balance, March 31, 2012	Total Gains or (Losses) (Realized/Unrealized)		Purchases	Sales	Issuances	Settlements	Transfers Into Level 3 ⁽²⁾	Transfers Out of Level 3 ⁽²⁾	Balance, June 30, 2012	Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of June 30, 2012 ⁽³⁾
		Included in Net Income ⁽¹⁾	Included in Other Comprehensive Income								
Assets:											
Securities available -for-sale:											
U.S. Agency Debt Obligations	\$ 0	\$ 0	\$ 1	\$ 50	\$ 0	\$ 0	\$ (1)	\$ 14	\$ 0	\$ 64	\$ 0
Residential mortgage-backed securities	1,821	9	13	4	0	0	(134)	130	(673)	1,170	9
Commercial mortgage-backed securities	387	0	8	173	0	0	(16)	0	(285)	267	0
Asset-backed securities	241	0	8	50	0	0	(1)	0	(5)	293	0
Other	7	0	0	0	0	0	0	3	0	10	0
Total securities available -for-sale	2,456	9	30	277	0	0	(152)	147	(963)	1,804	9
Other Assets:											
Mortgage servicing rights	95	(12)	0	0	0	4	(3)	0	0	84	(12)
Derivative receivables	65	47	0	0	0	3	(12)	0	0	103	47
Retained interest in securitization and other	140	0	0	0	0	0	0	0	0	140	0
Liabilities:											
Other Liabilities											
Derivative Payables	(36)	(8)	0	0	0	0	10	0	0	(34)	(8)
Other	(14)	1	0	0	0	0	0	0	0	(13)	1

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
 Three Months Ended June 30, 2011

(Dollars in millions)	Balance, March 31, 2011	Total Gains or (Losses) (Realized/Unrealized)		Purchases	Sales	Issuances	Settlements	Transfers Into Level 3 ⁽²⁾	Transfers Out of Level 3 ⁽²⁾	Balance, June 30, 2011	Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of June 30, 2011 ⁽³⁾
		Included in Net Income ⁽¹⁾	Included in Other Comprehensive Income								
Assets:											
Securities available-for-sale:											
Residential mortgage-backed securities	\$ 519	\$ 0	\$ 3	\$ 34	\$ 0	\$ 0	\$ (22)	\$ 26	\$ (203)	\$ 357	\$ 0
Asset-backed securities	13	0	(1)	0	0	0	0	0	(3)	9	0
Other	7	0	0	0	0	0	0	5	0	12	0
Total securities available -for-sale	539	0	2	34	0	0	(22)	31	(206)	378	0
Other Assets:											
Mortgage servicing rights	144	(13)	0	0	0	2	(3)	0	0	130	(13)
Derivative receivables	41	9	0	0	0	2	(7)	0	(1)	44	9
Retained interest in securitization and other	112	(6)	0	0	0	0	0	0	0	106	(6)
Liabilities:											
Other Liabilities											
Derivative Payables	(39)	(5)	0	0	0	(2)	4	0	0	(42)	(5)

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Six Months Ended June 30, 2012

(Dollars in millions)	Balance, January 1, 2012	Total Gains or (Losses) (Realized/Unrealized)	Included in Other Comprehensive Income	Purchases	Sales	Issuances	Settlements	Transfers Into Level 3 ⁽²⁾	Transfers Out of Level 3 ⁽²⁾	Balance, June 30, 2012	Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of June 30, 2012 ⁽³⁾
Assets:											
Securities available -for-sale:											
U.S. Agency Debt Obligations	\$ 0	\$ 0	\$ 1	\$ 50	\$ 0	\$ 0	\$ (1)	\$ 14	\$ 0	\$ 64	\$ 0
Residential mortgage-backed securities	195	(1)	(13)	2,283	(640)	0	(150)	228	(732)	1,170	(1)
Commercial mortgage-backed securities	274	5	10	470	(76)	0	(19)	13	(410)	267	5
Asset-backed securities	32	0	13	155	0	0	(3)	132	(36)	293	0
Other	12	0	0	0	0	0	(5)	9	(6)	10	0
Total securities available -for-sale	513	4	11	2,958	(716)	0	(178)	396	(1,184)	1,804	4
Other Assets:											
Mortgage servicing rights	93	(12)	0	0	0	8	(5)	0	0	84	(12)
Derivative receivables	103	45	0	0	0	4	(61)	13	(1)	103	45
Retained interest in securitization and other	145	(5)	0	0	0	0	0	0	0	140	(5)
Liabilities:											
Other Liabilities											
Derivative Payables	(279)	(3)	0	0	0	(32)	269	8	3	(34)	(3)
Other	(12)	(1)	0	0	0	0	0	0	0	(13)	(1)

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Six Months Ended June 30, 2011

(Dollars in millions)	Balance, January 1, 2011	Total Gains or (Losses) (Realized/Unrealized)		Purchases	Sales	Issuances	Settlements	Transfers Into Level 3 ⁽²⁾	Transfers Out of Level 3 ⁽²⁾	Balance, June 30, 2011	Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of June 30, 2011 ⁽³⁾
		Included in Net Income ⁽¹⁾	Included in Other Comprehensive Income								
Assets:											
Securities available-for-sale:											
Residential mortgage-backed securities	\$ 578	\$ 0	\$ (4)	\$ 34	\$ 0	\$ (15)	\$ (59)	\$ 26	\$ (203)	\$ 357	\$ 0
Asset-backed securities	13	0	(1)	0	0	0	0	0	(3)	9	0
Other	7	0	0	0	0	0	0	5	0	12	0
Total securities available -for-sale	598	0	(5)	34	0	(15)	(59)	31	(206)	378	0
Other Assets:											
Mortgage servicing rights	141	(10)	0	0	0	6	(7)	0	0	130	(10)
Derivative receivables	46	11	0	0	0	3	(15)	0	(1)	44	11
Retained interest in securitization and other	117	(11)	0	0	0	0	0	0	0	106	(11)
Liabilities:											
Other Liabilities											
Derivative Payables	(43)	(4)	0	0	0	(2)	7	0	0	(42)	(4)

- (1) Gains (losses) related to Level 3 mortgage servicing rights are reported in other non-interest income, which is a component of non-interest income. Gains (losses) related to Level 3 derivative receivables and derivative payables are reported in other non-interest income, which is a component of non-interest income. Gains (losses) related to Level 3 retained interests in securitizations are reported in servicing and securitizations income, which is a component of non-interest income.
- (2) The transfers out of Level 3 for the second quarter and first six months of June 30, 2012 and 2011 were primarily driven by greater consistency amongst multiple pricing sources. The transfers into Level 3 was primarily driven by less consistency amongst vendor pricing on individual securities for non-agency MBS.
- (3) The amount presented for unrealized gains (loss) for assets still held as of the reporting date primarily represents impairments for available-for-sale securities, accretion on certain fixed maturity securities, and change in fair value of derivative instruments. The impairments are reported in total other-than-temporary losses as a component of non-interest income.

Significant Level 3 Fair Value Asset and Liability Input Sensitivity

Changes in unobservable inputs may have a significant impact on fair value. Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. In general, an increase in the discount rate, default rates, loss severity and credit spreads, in isolation, would result in a

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

decrease in the fair value measurement. In addition, an increase in default rates would generally be accompanied by a decrease in recovery rates, slower prepayment rates and an increase in liquidity spreads.

Fair Value Governance and Control

We have a governance framework and a number of key controls that are intended to ensure that our fair value measurements are appropriate and reliable. Our governance framework provides for independent oversight and segregation of duties. Our control processes include review and approval of new transaction types, price verification and review of valuation judgments, methods, models, process controls and results. Groups independent from our trading and investing functions, including our Valuations Group and Valuations Advisory Committee, participate in the review and validation process.

Our Valuations Group performs periodic independent verification of fair value measurements by using independent analytics and other available market data to determine if assigned fair values are reasonable. For example, in cases where we rely on third party pricing services to obtain fair value measures, we analyze pricing variances among different pricing sources and validate the pricing used by comparing the information to additional sources, including dealer pricing indications in transaction results and other internal sources. Additional validation procedures performed by the Valuations Group include reviewing valuation inputs and assumptions, monitoring limits and acceptable variance thresholds between different pricing sources, and evaluating alternative methodologies and recommend improvements to valuation techniques. We perform due diligence reviews of the third party pricing services, including reviewing their pricing methodology and other control documentation. Additionally, on an on-going basis we may select a sample of securities and test their valuation by obtaining more detailed information about the pricing methodology, sources of information, and assumptions used to value the securities.

The Valuation Advisory Committee delegates the day-to-day valuation oversight to the Fair Value Committee. The Valuation Advisory Committee includes senior representation from business areas, our Enterprise Risk Oversight division and our Finance division. The purpose of the Valuations Advisory Committee is to inform the Chief Financial Officer on the reasonableness of fair valuations and to raise material risks or concerns, if any, concerning fair valuations. The Fair Value Committee regularly reviews and approves our valuation methodologies to ensure that our methodologies and practices are consistent with industry standards and adhere to regulatory and accounting guidance. The Chief Financial Officer determines when material issues or concerns regarding valuations shall be raised to the Audit and Risk Committee or other delegated committee of the Board of Directors.

The following presents the significant unobservable inputs relied upon to determine the fair values of our recurring Level 3 financial instruments. We utilize multiple third party pricing services to obtain fair value measures for our securities. Several of our third party pricing services are only able to provide unobservable input information for a limited number of securities due to software licensing restrictions. Other third party pricing services are able to provide unobservable input information for all securities for which they provide a valuation. As a result, the unobservable input information for the Available for Sale Securities presented below represents a composite summary of all information we are able to obtain for a majority of our securities. The unobservable input information for all other Level 3 financial instruments is based on the assumptions used in our internal valuation models.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

(Dollars in millions)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at June 30, 2012	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Assets:				
Securities available-for-sale:				
Residential mortgage-backed securities	1,170	Discounted cash flows (3 rd party pricing)	Yield	0-25% (7%)
			Constant prepayment rate	0-27% (7%)
			Default rate	1-23% (8%)
			Loss severity	4-75% (51%)
Commercial mortgage-backed securities	267		Discounted cash flows (3 rd party pricing)	Yield
			Constant prepayment rate	0-0% (0%)
Asset-backed securities	293	Discounted cash flows (3 rd party pricing)	Yield	2-24% (4%)
			Constant prepayment rate	0-13% (3%)
			Default rate	2-23% (15%)
			Loss severity	41-86% (74%)
Other	74	Discounted cash flows	Yield	N/A
			Constant prepayment rate	N/A
Other assets:				
Mortgage servicing rights	84	Discounted cash flows	Constant prepayment rate	9.53-33.59% (18.63%)
			Discount rate	9.94-23.00% (13.34%)
			Servicing cost (\$ per loan)	\$67.17-\$558.00 (\$195.47)
Derivative receivables	103	Discounted cash flows	Swap rates	1.77-2.36% (2.26%)
			Constant prepayment rate	2.03-3.31% (2.55%)
			Default rate	3.33-4.55% (3.91%)
			Loss severity	68.63-85.79% (80.57%)
Retained interests in securitization and other	140	Discounted cash flows	Life of receivables (months)	26-83 (68)
			Constant prepayment rate	0.10-16.17% (7.84%)
			Discount rate	1.88-42.70% (24.52%)
Liabilities:				
Other liabilities:				
Derivative payables	(34)	Discounted cash flows Black model	Swap rates	1.77-2.36% (2.26%)
			Constant prepayment rate	2.03-3.31% (2.55%)
			Default rate	3.33-4.55% (3.91%)
			Loss severity	68.63-85.79% (80.57%)
			Flat volatility	27.63-28.07% (27.69%)
Other (Manufactured housing swap obligations)	(13)	Discounted cash flows	Constant prepayment rate	0.19-0.26% (0.23%)
			Default rate	0.30-0.36% (0.33%)
			Illiquidity risk	1.21

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We are required to measure and recognize certain other financial assets at fair value on a nonrecurring basis in the consolidated balance sheet. These financial assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when we evaluate impairment).

Loans Held For Sale

Loans held for sale are carried at the lower of aggregate cost, net of deferred fees, deferred origination costs and effects of hedge accounting, or fair value. The fair value of loans held for sale is determined using a discounted cash flow model or fair value of the underlying collateral, less the estimated cost to sell. Held for sale loans that are valued using a discounted cash flow are classified as Level 2. Loans that are valued using fair value less the estimated cost to sell have significant unobservable inputs and are classified as Level 3 under the fair value hierarchy. Fair value adjustments for loans held for sale are recorded in other non-interest expense in our consolidated statement of income.

Loans Held For Investment, Net

Loans held for investment are carried at the fair value of the underlying collateral, less the estimated cost to sell. Due to the use of unobservable inputs, loans held for investment are classified as Level 3 under the fair value hierarchy. Fair value adjustments for loans held for investment are recorded in provision for credit losses in the consolidated statement of income.

Foreclosed assets

Foreclosed assets are carried at the lower of its carrying amount or fair value less costs to sell. Due to the use of significant unobservable inputs, foreclosed assets are classified as Level 3 under the fair value hierarchy. Fair value adjustments for foreclosed assets are recorded in other non-interest expense in the consolidated statement of income.

Other Assets

Nonrecurring other assets measured at fair value consist of long-lived assets held for sale. These assets are recorded in other assets in our consolidated balance sheets. These assets are carried at the lower of their carrying amount or fair value less costs to sell. Due to the use of unobservable inputs, long-lived assets held for sale are classified as Level 3 under the fair value hierarchy. Fair value adjustments for other assets are recorded in other non-interest expense in the consolidated statement of income.

For assets measured at fair value on a nonrecurring basis and still held on the consolidated balance sheet, the following table provides the fair value measures by level of valuation assumptions used and the gains or losses recognized for these assets as a result of fair value measurements.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	June 30, 2012						
	Fair Value Measurements Using			Assets at Fair Value	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
	Level 1	Level 2	Level 3	Value			
Assets							
Loans held for sale	\$ 0	\$ 1,047	\$ 0	\$ 1,047	N/A Appraisal	N/A	N/A 10-38%
Loans held for investment	0	0	61	61	Value Appraisal	Non-recoverable rate	(14%) 10-14%
Foreclosed assets ⁽¹⁾	0	0	65	65	Value Appraisal	Cost to Sell Bias Factor	0-11% 6-6%
Other ⁽²⁾	0	0	23	23	Value	Cost to Sell	(6%)
Total	\$ 0	\$ 1,047	\$ 149	\$ 1,196			

(Dollars in millions)	December 31, 2011			
	Fair Value Measurements Using			Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets				
Loans held for sale	\$ 0	\$ 201	\$ 0	\$ 201
Loans held for investment	0	0	113	113
Foreclosed assets ⁽¹⁾	0	0	169	169
Other ⁽²⁾	0	0	21	21
Total	\$ 0	\$ 201	\$ 303	\$ 504

(Dollars in millions)	Total Gains (Losses) Three Months Ended June 30,	
	2012	2011
	Assets	
Loans held for sale	\$ 13	\$ (0)
Loans held for investment	(6)	(28)
Foreclosed assets ⁽¹⁾	(6)	(13)
Other ⁽²⁾	(2)	(12)
Total	\$ (1)	\$ (53)

(Dollars in millions)	Total Gains (Losses) Six Months Ended June 30,	
	2012	2011
	Assets	
Loans held for sale	\$ 29	\$ (0)
Loans held for investment	(31)	(50)
Foreclosed assets ⁽¹⁾	(14)	(24)
Other ⁽²⁾	(4)	(13)
Total	\$ (20)	\$ (87)

⁽¹⁾ Represents the fair value and related losses of foreclosed properties that were written down subsequent to their initial classification as foreclosed properties.

⁽²⁾ Consists of long lived assets held for sale.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Fair Value of Financial Instruments

The following reflects the fair value of financial instruments, whether or not recognized on the consolidated balance sheet, at fair value as of June 30, 2012 and December 31, 2011:

(Dollars in millions)	June 30, 2012		Fair Value Measurements Using		
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$ 5,979	\$ 5,979	\$ 5,979	\$ 0	\$ 0
Restricted cash for securitization investors	370	370	370	0	0
Securities available for sale	55,289	55,289	1,845	51,640	1,804
Loans held for sale	1,047	1,047	0	1,047	0
Net loans held for investment	197,751	200,141	0	0	200,141
Interest receivable	1,623	1,623	0	1,623	0
Accounts receivable from securitization	96	96	0	0	96
Derivatives	1,929	1,929	3	1,823	103
Mortgage servicing rights	84	84	0	0	84
Financial liabilities					
Non-interest bearing deposits	\$ 20,072	\$ 20,072	\$20,072	\$ 0	\$ 0
Interest-bearing deposits	193,859	194,344	0	26,035	168,309
Senior and subordinated notes	12,079	12,328	0	12,328	0
Securitized debt obligations	13,608	13,788	0	11,760	2,028
Federal funds purchased and securities loaned or sold under agreements to repurchase	1,101	1,101	1,101	0	0
Other borrowings	9,086	9,151	351	8,746	54
Interest payable	462	462	0	462	0
Derivatives	442	442	4	404	34

(Dollars in millions)	December 31, 2011	
	Carrying Amount	Estimated Fair Value
Financial assets		
Cash and cash equivalents	\$ 5,838	\$ 5,838
Restricted cash for securitization investors	791	791
Securities available for sale	38,759	38,759
Loans held for sale	201	201
Net loans held for investment	131,642	133,710
Interest receivable	1,029	1,029
Accounts receivable from securitization	94	94
Derivatives	1,936	1,936
Mortgage servicing rights	93	93
Financial liabilities		
Non-interest bearing deposits	\$ 18,281	\$ 18,281
Interest-bearing deposits	109,945	110,002
Senior and subordinated notes	11,034	10,870
Securitized debt obligations	16,527	16,632
Federal funds purchased and securities loaned or sold under agreements to repurchase	1,464	1,464
Other borrowings	10,536	10,607
Interest payable	466	466
Derivatives	987	987

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The following describes the valuation techniques used in estimating the fair value of our financial instruments as of June 30, 2012 and December 31, 2011. We applied the fair value provisions, to the financial instruments not recognized on the consolidated balance sheet at fair value, which include loans held for investment, interest receivable, non-interest bearing and interest bearing deposits, other borrowings, senior and subordinated notes, and interest payable. The provisions requiring us to maximize the use of observable inputs and to measure fair value using a notion of exit price were factored into our selection of inputs of our established valuation techniques.

Financial Assets

Cash and Cash Equivalents

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

Restricted Cash or Securitization Investors

The carrying amounts of restricted cash for securitization investors approximate their fair value due to their relatively short-term nature.

Securities Available For Sale

Quoted prices in active markets are used to measure the fair value of U.S. Treasury securities. For other investment categories, we utilize multiple third party pricing services to obtain fair value measures for the large majority of our securities. A pricing service may be considered as the primary pricing provider for certain types of securities, and the designation of the primary pricing provider may vary depending on the type of securities. The determination of the primary pricing provider is based on our experience and validation benchmark of the pricing service's performance in terms of providing fair value measurement for the various types of securities.

Certain securities available for sale are classified as Level 2 and 3, the majority of which are collateralized mortgage obligations and mortgage-backed securities. Classification indicates that significant valuation assumptions are not consistently observable in the market. When significant assumptions are not consistently observable, fair values are derived using the best available data. Such data may include quotes provided by a dealer, the use of external pricing services, independent pricing models, or other model-based valuation techniques such as calculation of the present values of future cash flows incorporating assumptions such as benchmark yields, spreads, prepayment speeds, credit ratings, and losses. The techniques used by the pricing services utilize observable market data to the extent available. Pricing models may be used, which can vary by asset class and may incorporate available trade, bid and other market information. Across asset classes, information such as trader/dealer input, credit spreads, forward curves, and prepayment speeds are used to help determine appropriate valuations. Because many fixed income securities do not trade on a daily basis, the evaluated pricing applications may apply available information through processes such as benchmarking curves, like securities, sector groupings, and matrix pricing to prepare valuations. In addition, model processes are used by the pricing services to develop prepayment and interest rate scenarios.

We validate the pricing obtained from the primary pricing providers through comparison of pricing to additional sources, including other pricing services, dealer pricing indications in transaction results, and other internal sources. Pricing variances among different pricing sources are analyzed and validated. Additionally, on an on-going basis we may select a sample of securities and test the third party valuation by obtaining more detailed information about the pricing methodology, sources of information, and assumptions used to value the securities.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The significant unobservable inputs used in the fair value measurement of our residential, asset-backed and commercial securities include yield, prepayment rate, default rate and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation or combination would result in a significant change in fair value measurement. Generally, an increase in the yield assumption will result in a decrease in fair value measurement, however, an increase or decrease in prepayment rate, default rate or loss severity may have a different impact on the fair value given various characteristics of the security including the capital structure of the deal, credit enhancement for the security or other factors.

As of June 30, 2012, we saw further improvements in the market value of our portfolio holdings driven by lower interest rates and reduced risk premiums as compared to 2011. The increase in the amount of Level 3 securities was primarily driven by the increase in non-agency MBS securities due to acquisition of ING Direct securities portfolio.

Loans Held For Sale

Loans held for sale are carried at the lower of aggregate cost, net of deferred fees, deferred origination costs and effects of hedge accounting, or fair value. The fair value of loans held for sale is determined using current secondary market prices for portfolios with similar characteristics. The carrying amounts as of June 30, 2012 and December 31, 2011 approximate fair value.

Loans Held For Investment, Net

The fair values of credit card loans, installment loans, auto loans, home loans and commercial loans were estimated using a discounted cash flow method, a form of the income approach. Discount rates were determined considering rates at which similar portfolios of loans would be made under current conditions and considering liquidity spreads applicable to each loan portfolio based on the secondary market. The fair value of credit card loans excluded any value related to customer account relationships. The increase in fair value above carrying amount at June 30, 2012 was primarily due to a tightening of liquidity spreads and improved credit performance noted in our credit card, auto and commercial loan portfolios.

Interest Receivable

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

Accounts Receivable from Securitizations

Accounts receivable from securitizations include the interest-only strip, retained notes accrued interest receivable, cash reserve accounts and cash spread accounts for those securitization structures achieving off-balance sheet treatment. Refer to “Note 7—Variable Interest Entities and Securitizations” for discussion regarding the adoption of the new accounting consolidation standards on January 1, 2010. We use a valuation model that calculates the present value of estimated future cash flows. The model incorporates our estimate of assumptions market participants use in determining fair value, including estimates of payment rates, defaults, and discount rates including adjustments for liquidity, and contractual interest and fees. Other retained interests related to securitizations are carried at cost, which approximates fair value. The valuation technique for these securities is discussed in more detail in “Note 7—Variable Interest Entities and Securitizations.”

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Derivative Assets

Most of our derivatives are not exchange traded, but instead traded in over the counter markets where quoted market prices are not readily available. The fair value derived for those derivatives using models that use primarily market observable inputs, such as interest rate yield curves, credit curves, option volatility and currency rates are classified as Level 2. Any derivative fair value measurements using significant assumptions that are unobservable are classified as Level 3, which include interest rate swaps whose remaining terms do not correlate with market observable interest rate yield curves. The impact of counterparty non-performance risk is considered when measuring the fair value of derivative assets. These derivatives are included in other assets on the balance sheet.

We validate the pricing obtained from the internal models through comparison of pricing to additional sources, including external valuation agents and other internal sources. Pricing variances among different pricing sources are analyzed and validated.

Mortgage Servicing Rights

MSRs do not trade in an active market with readily observable prices. Accordingly, we determine the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment spreads, discount rate, cost to service, contractual servicing fee income, ancillary income and late fees. We record MSRs at fair value on a recurring basis. Fair value measurements of MSRs use significant unobservable inputs and, accordingly, are classified as Level 3. The valuation technique for these securities is discussed in more detail in “Note 8—Goodwill and Other Intangible Assets.”

Financial liabilities

Interest Bearing Deposits

The fair value of other interest-bearing deposits was determined based on discounted expected cash flows using discount rates consistent with current market rates for similar products with similar remaining terms.

Non-Interest Bearing Deposits

The carrying amount of non-interest bearing deposits approximates fair value.

Senior and Subordinated Notes

We engage multiple third party pricing services in order to estimate the fair value of senior and subordinated notes. The pricing service utilizes a pricing model that incorporates available trade, bid and other market information. It also incorporates spread assumptions, volatility assumptions and relevant credit information into the pricing models.

Securitized Debt Obligations

We utilized multiple third party pricing services to obtain fair value measures for the large majority of our securitized debt obligations. The techniques used by the pricing services utilize observable market data to the extent available; and pricing models may be used which incorporate available trade, bid and other market information as described in the above section. We used internal pricing models, discounted cash flow models or similar techniques to estimate the fair value of certain securitization trusts where third party pricing was not available.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Other Borrowings

The carrying amount of federal funds purchased and repurchase agreements, FHLB advances, and other short-term borrowings approximates fair value. The fair value of junior subordinated borrowings was estimated using the same methodology as described for senior and subordinated notes. The fair value of other borrowings was determined based on trade information for bonds with similar duration and credit quality, adjusted to incorporate any relevant credit information of the issuer. The increase in fair value of other borrowings above carrying values at June 30, 2012 was primarily due to interest rate spreads across the industry.

Interest Payable

The carrying amount of interest payable approximates the fair value of this liability due to its relatively short-term nature.

Derivative Liabilities

Most of our derivatives are not exchange traded, but instead traded in over the counter markets where quoted market prices are not readily available. The fair value of those derivatives, derived using models that use primarily market observable inputs, such as interest rate yield curves, credit curves, option volatility and currency rates, are classified as Level 2. Any derivative fair value measurements using significant assumptions that are unobservable are classified as Level 3, which include interest rate swaps whose remaining terms do not correlate with market observable interest rate yield curves. The impact of counterparty non-performance risk is considered when measuring the fair value of derivative assets. These derivatives are included in other liabilities on the consolidated balance sheets.

We validate the pricing obtained from the internal models through comparison of pricing to additional sources, including external valuation agents and other internal sources. Pricing variances among different pricing sources are analyzed and validated.

Commitments to extend credit and letters of credit

These financial instruments are generally not sold or traded. The fair value of the financial guarantees outstanding included in other liabilities as of June 30, 2012 and December 31, 2011 that have been issued since January 1, 2003 was \$5 million and \$4 million, respectively. The estimated fair values of extensions of credit and letters of credit are not readily available. However, the fair value of commitments to extend credit and letters of credit is based on fees currently charged to enter into similar agreements with comparable credit risks and the current creditworthiness of the counterparties. Commitments to extend credit issued by us are generally short-term in nature and, if drawn upon, are issued under current market terms and conditions for credits with comparable risks. At June 30, 2012 and December 31, 2011, there was no material unrealized appreciation or depreciation on these financial instruments.

NOTE 14—BUSINESS SEGMENTS

Our principal operations are currently organized into three major business segments, which are defined based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments. Certain activities that are not part of a segment, such as management of our corporate investment portfolio and asset/liability management by our centralized Corporate Treasury group are included in the “Other” category.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. Our business segment results are intended to reflect each segment as if it were a stand-alone business. We use an internal management and reporting process to derive our business segment results. Our internal management and reporting process employs various allocation methodologies, including funds transfer pricing, to assign certain balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment. Total interest income and net fees are directly attributable to the segment in which they are reported. The net interest income of each segment reflects the results of our funds transfer pricing process, which is primarily based on a matched maturity method that takes into consideration market rates. Our funds transfer pricing process provides a funds credit for sources of funds, such as deposits generated by our Consumer Banking and Commercial Banking businesses, and a funds charge for the use of funds by each segment. The allocation process is unique to each business segment and acquired businesses and considers the interest rate risk, liquidity risk and regulatory requirements of that segment as if it were operating independently.

We may periodically change our business segments or reclassify business segment results based on modifications to our management reporting methodologies and changes in organizational alignment. In the first quarter of 2012, we re-aligned the reporting of our Commercial Banking business to reflect the operations on a product basis rather than by customer type. As a result of this re-alignment, we now report three product categories: commercial and multifamily real estate, commercial and industrial loans and small-ticket commercial real estate, which is a run-off portfolio. We previously reported four categories within our Commercial Banking business: commercial and multifamily real estate, middle market, specialty lending and small-ticket commercial real estate. Middle market and specialty lending related products are included in commercial and industrial loans. All tax-related commercial real estate investments, some of which were previously included in the "Other" segment, are now included in the commercial and multifamily real estate category of our Commercial Banking business. Prior period amounts have been recast to conform to the current period presentation.

Segment Results and Reconciliation

The following tables provide a summary of our business segment results for the three and six months ended June 30, 2012 and 2011 and selected balance sheet data as of June 30, 2012 and December 31, 2011.

(Dollars in millions)	Three Months Ended June 30, 2012				
	Credit Card	Consumer Banking	Commercial Banking	Other	Total
Net interest income (expense)	\$2,350	\$ 1,496	\$ 427	\$(272)	\$4,001
Non-interest income (expense)	771	185	82	16	1,054
Total net revenue	3,121	1,681	509	(256)	5,055
Provision for credit losses	1,711	44	(94)	16	1,677
Non-interest expense:					
Core deposit intangible amortization	0	42	9	0	51
Other non-interest expense	1,863	917	242	69	3,091
Total non-interest expense	1,863	959	251	69	3,142
Income from continuing operations before income taxes	(453)	678	352	(341)	236
Income (loss) tax provision (benefit)	(156)	240	124	(165)	43
Income (loss) from continuing operations, net of tax	\$ (297)	\$ 438	\$ 228	\$(176)	\$ 193

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

(Dollars in millions)	Three Months Ended June 30, 2011				
	Credit Card	Consumer Banking	Commercial Banking	Other	Total
Net interest income (expense)	\$ 1,890	\$ 1,051	\$ 388	\$(193)	\$ 3,136
Non-interest income (expense)	619	194	62	(18)	857
Total net revenue	2,509	1,245	450	(211)	3,993
Provision for credit losses	309	41	(19)	12	343
Non-interest expense:					
Core deposit intangible amortization	0	34	10	0	44
Other non-interest expense	1,238	724	212	37	2,211
Total non-interest expense	1,238	758	222	37	2,255
Income (loss) from continuing operations before income taxes	962	446	247	(260)	1,395
Income tax provision (benefit)	344	159	88	(141)	450
Income (loss) from continuing operations, net of tax	<u>\$ 618</u>	<u>\$ 287</u>	<u>\$ 159</u>	<u>\$(119)</u>	<u>\$ 945</u>

(Dollars in millions)	Six Months Ended June 30, 2012				
	Credit Card	Consumer Banking	Commercial Banking	Other	Total
Net interest income (expense)	\$ 4,342	\$ 2,784	\$ 858	\$(569)	\$ 7,415
Non-interest income (expense)	1,369	361	167	678	2,575
Total net revenue	5,711	3,145	1,025	109	9,990
Provision for credit losses	2,169	218	(163)	26	2,250
Non-interest expense:					
Core deposit intangible amortization	0	79	18	0	97
Other non-interest expense	3,131	1,823	494	101	5,549
Total non-interest expense	3,131	1,902	512	101	5,646
Income (loss) from continuing operations before income taxes	411	1,025	676	(18)	2,094
Income tax provision (benefit)	142	363	238	(347)	396
Income from continuing operations, net of tax	<u>\$ 269</u>	<u>\$ 662</u>	<u>\$ 438</u>	<u>\$ 329</u>	<u>\$ 1,698</u>

(Dollars in millions)	Six Months Ended June 30, 2011				
	Credit Card	Consumer Banking	Commercial Banking	Other	Total
Net interest income (expense)	\$ 3,831	\$ 2,034	\$ 764	\$(353)	\$ 6,276
Non-interest income (expense)	1,293	380	133	(7)	1,799
Total net revenue	5,124	2,414	897	(360)	8,075
Provision for credit losses	759	136	(35)	17	877
Non-interest expense:					
Core deposit intangible amortization	0	68	21	0	89
Other non-interest expense	2,416	1,430	413	69	4,328
Total non-interest expense	2,416	1,498	434	69	4,417
Income (loss) from continuing operations before income taxes	1,949	780	498	(446)	2,781
Income tax provision (benefit)	688	278	177	(339)	804
Income (loss) from continuing operations, net of tax	<u>\$ 1,261</u>	<u>\$ 502</u>	<u>\$ 321</u>	<u>\$(107)</u>	<u>\$ 1,977</u>

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Business Segment Loans and Deposits

The total loan and deposit amounts attributable to each of our reportable business segments as of June 30, 2012 and December 31, 2011 are presented in the following tables:

(Dollars in millions)	June 30, 2012				Total Reported
	Credit Card	Consumer Banking	Commercial Banking	Other	
Loans held for investment	\$88,914	\$ 77,615	\$ 36,056	\$ 164	\$202,749
Total deposits	0	173,966	27,784	12,181	213,931

(Dollars in millions)	December 31, 2011				Total Reported
	Credit Card	Consumer Banking	Commercial Banking	Other	
Loans held for investment	\$65,075	\$ 36,315	\$ 34,327	\$ 175	\$135,892
Total deposits	0	88,540	26,683	13,003	128,226

NOTE 15—COMMITMENTS, CONTINGENCIES AND GUARANTEES**Letters of Credit**

We had contractual amounts of standby letters of credit and commercial letters of credit of \$1.8 billion and \$1.9 billion as of June 30, 2012 and December 31, 2011. As of June 30, 2012, financial guarantees had expiration dates ranging from 2012 to 2023. The fair value of the guarantees outstanding, which are included in our condensed consolidated balance sheets, other liabilities was \$5 million as of June 30, 2012.

Contingent Payments Related to Acquisitions and Partnership Agreements

Certain of our acquisition and partnership agreements include contingent payment provisions in which we agree to provide future payments, up to a maximum amount, based on certain performance criteria. Our contingent payment arrangements are generally based on the difference between the expected credit performance of specified loan portfolios as of the date of the applicable agreement and the actual future performance. To the extent that actual losses associated with these portfolios are less than the expected level, we agree to share a portion of the benefit with the seller. The maximum contingent payment amount related to our acquisitions totaled \$330 million as of June 30, 2012. The actual payment amount related to \$30 million of this balance will be determined as of September 30, 2013. The actual payment amount related to the remaining \$300 million of this balance will be determined as of December 31, 2013. We recognized expense related to contingent payment arrangements of \$25 million during the second quarter of 2012. As such, we had a liability for contingent payments related to these arrangements of \$125 million and \$88 million as of June 30, 2012 and December 31, 2011, respectively.

Potential Mortgage Representation & Warranty Liabilities

In recent years, we acquired three subsidiaries that originated residential mortgage loans and sold them to various purchasers, including purchasers who created securitization trusts. These subsidiaries are Capital One Home Loans, which was acquired in February 2005; GreenPoint Mortgage Funding, Inc. ("GreenPoint"), which was acquired in December 2006 as part of the North Fork acquisition; and Chevy Chase Bank, which was acquired in February 2009 and subsequently merged into CONA.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

In connection with their sales of mortgage loans, the subsidiaries entered into agreements containing varying representations and warranties about, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with any applicable loan criteria established by the purchaser, including underwriting guidelines and the ongoing existence of mortgage insurance, and the loan's compliance with applicable federal, state and local laws. The representations and warranties do not address the credit performance of the mortgage loans, but mortgage loan performance often influences whether a claim for breach of representation and warranty will be asserted and has an effect on the amount of any loss in the event of a breach of a representation or warranty.

Each of these subsidiaries may be required to repurchase mortgage loans in the event of certain breaches of these representations and warranties. In the event of a repurchase, the subsidiary is typically required to pay the then unpaid principal balance of the loan together with interest and certain expenses (including, in certain cases, legal costs incurred by the purchaser and/or others). The subsidiary then recovers the loan or, if the loan has been foreclosed, the underlying collateral. The subsidiary is exposed to any losses on the repurchased loans after giving effect to any recoveries on the collateral. In some instances, rather than repurchase the loans, a subsidiary may agree to make a cash payment to make an investor whole on losses or to settle repurchase claims. In addition, our subsidiaries may be required to indemnify certain purchasers and others against losses they incur as a result of certain breaches of representations and warranties. In some cases, the amount of such losses could exceed the repurchase amount of the related loans.

These subsidiaries, in total, originated and sold to non-affiliates approximately \$111 billion original principal balance of mortgage loans between 2005 and 2008, which are the years (or "vintages") with respect to which our subsidiaries have received the vast majority of the repurchase requests and other related claims.

The following table presents the original principal balance of mortgage loan originations, by vintage, for 2005 through 2008, for the three general categories of purchasers of mortgage loans and the outstanding principal balance as of June 30, 2012 and December 31, 2011:

Unpaid Principal Balance of Mortgage Loans Originated and Sold to Third Parties Based on Category of Purchaser

(Dollars in billions)	Unpaid Principal Balance		Original Unpaid Principal Balance				
	June 30, 2012	December 31, 2011	Total	2008	2007	2006	2005
Government sponsored enterprises ("GSEs") ⁽¹⁾	\$ 5	\$ 5	\$ 11	\$ 1	\$ 4	\$ 3	\$ 3
Insured Securitizations	5	6	19	0	2	8	9
Uninsured Securitizations and Other	26	30	81	3	15	30	33
Total	<u>\$ 36</u>	<u>\$ 41</u>	<u>\$111</u>	<u>\$ 4</u>	<u>\$21</u>	<u>\$41</u>	<u>\$45</u>

⁽¹⁾ GSEs include Fannie Mae and Freddie Mac.

Between 2005 and 2008, our subsidiaries sold an aggregate amount of \$11 billion in original principal balance mortgage loans to the GSEs.

Of the \$19 billion in original principal balance of mortgage loans sold directly by our subsidiaries to private-label purchasers who placed the loans into securitizations supported by bond insurance ("Insured Securitizations"), approximately \$16 billion original principal balance was placed in securitizations as to which the monoline bond insurers have made repurchase requests or loan file requests to one of our subsidiaries ("Active Insured

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Securitizations”), and the remaining approximately \$3 billion original principal balance was placed in securitizations as to which the monoline bond insurers have not made repurchase requests or loan file requests to one of our subsidiaries (“Inactive Insured Securitizations”). Insured Securitizations often allow the monoline bond insurer to act independently of the investors. Bond insurers typically have indemnity agreements directly with both the mortgage originators and the securitizers, and they often have super-majority rights within the trust documentation that allow them to direct trustees to pursue mortgage repurchase requests without coordination with other investors.

Because we do not service most of the loans our subsidiaries sold to others, we do not have complete information about the current ownership of the \$81 billion in original principal balance of mortgage loans not sold directly to GSEs or placed in Insured Securitizations. We have determined based on information obtained from third-party databases that about \$50 billion original principal balance of these mortgage loans are currently held by private-label publicly issued securitizations not supported by bond insurance (“Uninsured Securitizations”). In contrast with the bond insurers in Insured Securitizations, investors in Uninsured Securitizations often face a number of legal and logistical hurdles before they can direct a securitization trustee to pursue mortgage repurchases, including the need to coordinate with a certain percentage of investors holding the securities and to indemnify the trustee for any litigation it undertakes. Despite these legal and logistical hurdles, there is a risk that securitization trustees will pursue mortgage repurchases unilaterally. An additional approximately \$21 billion original principal balance of mortgage loans were initially sold to private investors as whole loans. Of this amount, we believe approximately \$10 billion original principal balance of mortgage loans were ultimately purchased by GSEs. For purposes of our reserves-setting process, we consider these loans to be private-label loans rather than GSE loans. Various known and unknown investors purchased the remaining \$10 billion original principal balance of mortgage loans in this category.

With respect to the \$111 billion in original principal balance of mortgage loans originated and sold to others between 2005 and 2008, we estimate that approximately \$36 billion in unpaid principal balance remains outstanding as of June 30, 2012, approximately \$16 billion in losses have been realized and approximately \$10 billion in unpaid principal balance is at least 90 days delinquent. Because we do not service most of the loans we sold to others, we do not have complete information about the underlying credit performance levels for some of these mortgage loans. These amounts reflect our best estimates, including extrapolations where necessary. These extrapolations occur on the approximately \$10 billion original principal balance of mortgage loans for which we do not have complete information about the current holders or the underlying credit performance. These estimates could change as we receive additional data or refine our analysis.

The subsidiaries had open repurchase requests relating to approximately \$2.5 billion original principal balance of mortgage loans as of June 30, 2012, compared with \$2.3 billion as of March 31, 2012 and compared with \$2.1 billion as of December 31, 2011. As of June 30, 2012, the majority of new repurchase demands received over the last year and, as discussed below, the majority of our \$1.0 billion reserve relates to the \$27 billion of original principal balance of mortgage loans originally sold to the GSEs or to Active Insured Securitizations. Currently, repurchase demands predominantly relate to the 2006 and 2007 vintages. We have received relatively few repurchase demands from the 2008 and 2009 vintages. We believe this is because GreenPoint ceased originating mortgages in August 2007.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

The following table presents information on pending repurchase requests by counterparty category and timing of initial repurchase request. The amounts presented are based on original loan principal balances.

Open Pipeline All Vintages (all entities)⁽¹⁾

(Dollars in millions) (All amounts are Original Principal Balance)	GSEs	Insured Securitized	Uninsured Securitized and Other	Total
Open claims as of December 31, 2010	\$ 126	\$ 832	\$ 665	\$1,623
Gross new demands received	196	359	131	686
Loans repurchased/made whole	(67)	(14)	(16)	(97)
Demands rescinded	(85)	(6)	(30)	(121)
Reclassifications ⁽²⁾	6	72	(78)	0
Open claims as of December 31, 2011	<u>\$ 176</u>	<u>\$ 1,243</u>	<u>\$ 672</u>	<u>\$2,091</u>
Gross new demands received	151	336	184	671
Loans repurchased/made whole	(215)	0	(26)	(241)
Demands rescinded	(46)	0	(22)	(68)
Reclassifications ⁽²⁾	(2)	0	3	1
Open claims as of June 30, 2012	<u>\$ 64</u>	<u>\$ 1,579</u>	<u>\$ 811</u>	<u>\$2,454</u>

⁽¹⁾ The open pipeline includes all repurchase requests ever received by our subsidiaries where either the requesting party has not formally rescinded the repurchase request and where our subsidiary has not agreed to either repurchase the loan at issue or make the requesting party whole with respect to its losses. Accordingly, repurchase requests denied by our subsidiaries and not pursued by the counterparty remain in the open pipeline. Moreover, repurchase requests submitted by parties without contractual standing to pursue repurchase requests are included within the open pipeline unless the requesting party has formally rescinded its repurchase request. Finally, the amounts reflected in this chart are the original principal balance amounts of the mortgage loans at issue and do not correspond to the losses our subsidiary would incur upon the repurchase of these loans.

⁽²⁾ Represents adjustments to correct the counterparty category as of June 30 2012 and December 31, 2011 for amounts that were misclassified. The reclassification had no impact on the total pending repurchase requests.

We have established representation and warranty reserves for losses associated with the mortgage loans sold by each subsidiary that we consider to be both probable and reasonably estimable, including both litigation and non-litigation liabilities. These reserves are reported in our consolidated balance sheets as a component of other liabilities. The reserve setting process relies heavily on estimates, which are inherently uncertain, and requires the application of judgment. We evaluate these estimates on a quarterly basis. We build our representation and warranty reserves through the provision for repurchase losses, which we report in our consolidated statements of income as a component of non-interest income for loans originated and sold by Chevy Chase Bank and Capital One Home Loans and as a component of discontinued operations for loans originated and sold by GreenPoint. In establishing the representation and warranty reserves, we consider a variety of factors depending on the category of purchaser.

In establishing reserves for the \$11 billion original principal balance of GSE loans, we rely on the historical relationship between GSE loan losses and repurchase outcomes for each GSE, adjusted for any bulk settlements, to estimate: (1) the percentage of current and future GSE loan defaults that we anticipate will result in repurchase requests from the GSEs over the lifetime of the GSE loans; and (2) the percentage of those repurchase requests that we anticipate will result in actual repurchases. We also rely on estimated collateral valuations and loss forecast models to estimate our lifetime liability on GSE loans. This reserving approach to the GSE loans reflects the historical interaction with the GSEs around repurchase requests, and also includes anticipated repurchases resulting from mortgage insurance rescissions. The GSEs typically have stronger contractual rights than

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

non-GSE counterparties because GSE contracts typically do not contain prompt notice requirements for repurchase requests or materiality qualifications to the representations and warranties.

Moreover, for the potential GSE repurchase liability remaining after bulk settlements, we have established a negotiation pattern whereby the GSEs and our subsidiaries continually negotiate around individual repurchase requests, leading to the GSEs rescinding some repurchase requests and our subsidiaries agreeing in some cases to repurchase some loans or make the GSEs whole with respect to losses. Our lifetime representation and warranty reserves with respect to GSE repurchase liability remaining after bulk settlements is grounded in this history. One of our subsidiaries entered into a bulk settlement with a GSE to resolve present and future repurchase claims in the first quarter of 2012, and our reserves allocated to the GSE segment reflect the amount of that settlement.

For the \$16 billion original principal balance in Active Insured Securitizations, our reserving approach also reflects our historical interaction with monoline bond insurers around repurchase requests. Typically, monoline bond insurers allege a very high repurchase rate with respect to the mortgage loans in the Active Insured Securitization category. In response to these repurchase requests, our subsidiaries typically request information from the monoline bond insurers demonstrating that the contractual requirements around a valid repurchase request have been satisfied. In response to these requests for supporting documentation, monoline bond insurers typically initiate litigation. Accordingly, our reserves within the Active Insured Securitization segment are not based upon the historical repurchase rate with monoline bond insurers, but rather upon the expected resolution of litigation with the monoline bond insurers. Every bond insurer within this category is pursuing a substantially similar litigation strategy either through active or probable litigation. Accordingly, our representation and warranty reserves for this category are litigation reserves. In establishing litigation reserves for this category each quarter, we consider current and future losses inherent within the securitization and apply legal judgment to the actual and anticipated factual and legal record to estimate the lifetime legal liability for each securitization. Our estimated legal liability for each securitization within this category assumes that we will be responsible for only a portion of the losses inherent in each securitization. Our litigation reserves with respect to both the U.S. Bank Litigation and the DBSP Litigation, in each case as referenced below, are contained within the Active Insured Securitization reserve category. Further, our litigation reserves with respect to indemnification risks from certain representation and warranty lawsuits brought by monoline bond insurers against third-party securitizations sponsors, where one of our subsidiaries provided some or all of the mortgage collateral within the securitization but is not a defendant in the litigation, are also contained within this category.

For the \$3 billion original principal balance of mortgage loans in the Inactive Insured Securitizations category and the \$81 billion original principal balance of mortgage loans in the Uninsured Securitizations and other whole loan sales categories, we establish reserves by relying on our historical activity and repurchase rates to estimate repurchase liabilities over the next twelve (12) months. We do not believe we can estimate repurchase liability for these categories for a period longer than twelve (12) months because of the relatively irregular nature of repurchase activity within these categories. Some Uninsured Securitization investors from this category who have not made repurchase requests or filed representation and warranty lawsuits are currently suing investment banks and securitization sponsors under federal and/or state securities laws. Although we face some direct and indirect indemnity risks from these litigations, we generally have not established reserves with respect to these indemnity risks because we do not consider them to be both probable and reasonably estimable liabilities.

The aggregate reserves for all three subsidiaries were \$1.0 billion as of June 30, 2012, as compared with \$1.1 billion as of March 31, 2012, and \$943 million as of December 31, 2011. We recorded a total provision for repurchase losses for our representation and warranty repurchase exposure of \$180 million and \$349 million for the three and six months ended June 30, 2012, respectively, driven by updated estimates of anticipated outcomes from various litigation and threatened litigation in the insured securitization segment based on relevant factual

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

and legal developments and an increased reserve associated with a first quarter settlement between a subsidiary and a GSE to resolve present and future repurchase claims.

During the three and six months ended June 30, 2012, we had settlements of repurchase requests totaling \$279 million and \$290 million, respectively, that were charged against the reserve. The table below summarizes changes in our representation and warranty reserves for the three and six months ended June 30, 2012 and 2011, and for full year 2011:

Changes in Representation and Warranty Reserves

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,		Full Year
	2012	2011	2012	2011	2011
Representation and warranty repurchase reserve, beginning of period ⁽¹⁾	\$ 1,101	\$ 846	\$ 943	\$ 816	\$ 816
Provision for repurchase losses ⁽²⁾	180	37	349	81	212
Net realized losses	(279)	(14)	(290)	(28)	(85)
Representation and warranty repurchase reserve, end of period ⁽¹⁾	<u>\$ 1,002</u>	<u>\$ 869</u>	<u>\$ 1,002</u>	<u>\$ 869</u>	<u>\$ 943</u>

⁽¹⁾ Reported in our consolidated balance sheets as a component of other liabilities.

⁽²⁾ The pre-tax portion of the provision for mortgage repurchase claims recognized in our consolidated statements of income as a component of non-interest income totaled \$26 million and \$42 million for the three and six months ended June 30, 2012, respectively, and \$4 million and \$9 million for the three and six months ended June 30, 2011, respectively. The pre-tax portion of the provision for mortgage repurchase claims recognized in our consolidated statements of income as a component of discontinued operations totaled \$154 million and \$307 million for the three and six months ended June 30, 2012, respectively, and \$33 million and \$72 million for the three and six months ended June 30, 2011, respectively.

As indicated in the table below, most of the reserves relate to the mortgage loans sold directly to the GSEs and to the mortgage loans sold to purchasers who placed them into Active Insured Securitizations.

Allocation of Representation and Warranty Reserves

(Dollars in millions, except for loans sold)	Reserve Liability		Loans Sold 2005 to 2008 ⁽¹⁾
	June 30, 2012	December 31, 2011	
GSEs and Active Insured Securitizations	\$ 821	\$ 778	\$ 27
Inactive Insured Securitizations and Others	181	165	84
Total	<u>\$ 1,002</u>	<u>\$ 943</u>	<u>\$ 111</u>

⁽¹⁾ Reflects, in billions, the total original principal balance of mortgage loans originated by our subsidiaries and sold to third party investors between 2005 and 2008.

The adequacy of the reserves and the ultimate amount of losses incurred by our subsidiaries will depend on, among other things, actual future mortgage loan performance, the actual level of future repurchase and indemnification requests (including the extent, if any, to which Inactive Insured Securitizations and other currently inactive investors ultimately assert claims), the actual success rates of claimants, developments in litigation, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices).

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

As part of our business planning processes, we have considered various outcomes relating to the potential future representation and warranty liabilities of our subsidiaries that are reasonably possible but do not rise to the level of being both probable and reasonably estimable outcomes justifying an incremental accrual under applicable accounting standards. As of June 30, 2012, our best estimate of reasonably possible future losses from representation and warranty claims beyond what is in our reserve is \$1.7 billion. The high end of our estimate as of March 31, 2012 and as of December 31, 2011 was \$1.5 billion. This estimate covers all reasonably possible losses relating to representation and warranty claim activity including those relating to the US Bank Litigation, DBSP Litigation, the FHFA Litigation, and the FHLB of Boston Litigation. Notwithstanding our ongoing attempts to estimate a reasonably possible amount of future loss beyond our current accrual levels based on current information, it is possible that actual future losses will exceed both the current accrual level and our current estimate of the amount of reasonably possible losses. This estimate involves considerable judgment, and reflects that there is still significant uncertainty regarding the numerous factors that may impact the ultimate loss levels, including, but not limited to, anticipated litigation outcomes, future repurchase and indemnification claim levels, ultimate repurchase and indemnification rates, future mortgage loan performance levels, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices). In light of the significant uncertainty as to the ultimate liability our subsidiaries may incur from these matters, an adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any particular reporting period.

Litigation

In accordance with the current accounting standards for loss contingencies, we establish reserves for litigation related matters when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss can be reasonably estimated. Litigation claims and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. Below we provide a description of material legal proceedings and claims. For some of the matters disclosed below, we are able to determine estimates of potential future outcomes that are not probable and reasonably estimable outcomes justifying either the establishment of a reserve or an incremental reserve build, but which are reasonably possible outcomes. For other disclosed matters, such an estimate is not possible at this time. For those matters where an estimate is possible, excluding the reasonably possible future losses relating to the U.S. Bank Litigation, the DBSP Litigation, the FHFA Litigation, and the FHLB of Boston Litigation because reasonably possible losses with respect to those litigations are included within the reasonably possible representation and warranty liabilities discussed above, management currently estimates the reasonably possible future losses could be approximately \$150 million. Given the inherent uncertainties involved in estimating reasonably possible exposure above reserves and the very large and indeterminate damages sought in some of these matters, the highest loss that is reasonably possible is not precisely estimable at this time. Notwithstanding our attempt to estimate a reasonably possible range of loss beyond our current accrual levels for some litigation matters based on current information, it is possible that actual future losses will exceed both the current accrual level and the range of reasonably possible losses disclosed here. Given the inherent uncertainties involved in these matters, and the very large or indeterminate damages sought in some of these matters, there is significant uncertainty as to the ultimate liability we may incur from these litigation matters and an adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any particular reporting period.

CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Interchange Litigation

In 2005, a number of entities, each purporting to represent a class of retail merchants, filed antitrust lawsuits (the “Interchange Lawsuits”) against MasterCard and Visa and several member banks, including our subsidiaries and us, alleging among other things, that the defendants conspired to fix the level of interchange fees. The complaints seek injunctive relief and civil monetary damages, which could be trebled. Separately, a number of large merchants have asserted similar claims against Visa and MasterCard only. In October 2005, the class and merchant Interchange Lawsuits were consolidated before the U.S. District Court for the Eastern District of New York for certain purposes, including discovery. On July 13, 2012, the parties executed and filed with the court a Memorandum of Understanding agreeing to resolve the litigation on certain terms set forth in a settlement agreement attached to the Memorandum. This agreement is contingent on preliminary and final court approval of the class settlement.

The defendant banks are members of Visa U.S.A., Inc. (“Visa”). As members, our subsidiary banks have indemnification obligations to Visa with respect to final judgments and settlements of certain litigation against Visa. In the first quarter of 2008, Visa completed an IPO of its stock. With IPO proceeds, Visa established an escrow account for the benefit of member banks to fund certain litigation settlements and claims, including the Interchange Lawsuits. As a result, in the first quarter of 2008, we reduced our Visa-related indemnification liabilities of \$91 million recorded in other liabilities with a corresponding reduction of other non-interest expense. We made an election in accordance with the accounting guidance for fair value option for financial assets and liabilities on the indemnification guarantee to Visa, and the fair value of the guarantee at December 31, 2011 and June 30, 2012 was zero. In January 2011, we entered into a MasterCard Settlement and Judgment Sharing Agreement, along with other defendant banks, which apportions between MasterCard and its member banks any costs and liabilities of any judgment or settlement arising from the Interchange Lawsuits.

In March 2011, a furniture store owner, on behalf of himself and other merchants who accept Visa and MasterCard branded credit cards, filed a class action in the Supreme Court of British Columbia (Vancouver Registry) against the Visa and MasterCard membership associations related to credit card interchange fees. In May 2011, another merchant, on behalf of himself and other merchants who accept Visa and MasterCard branded credit cards, filed a class action in the Ontario Superior Court of Justice (Toronto Region) asserting the same alleged violations of law related to credit card interchange fees and network rules. In April, 2012, Capital One Financial Corporation was included as a defendant, along with several other member banks, to an existing class action against Visa and MasterCard that is pending in the Superior Court of Quebec (District of Montreal) and brought by a merchant corporation on behalf of itself and other merchants that accept Visa and MasterCard branded credit cards. In July 2012, another merchant corporation brought a class action lawsuit on the same alleged violations of law, filed in the Queen’s Bench Judicial Centre of Regina (Province of Saskatchewan). All four class actions name Visa and MasterCard and a number of member banks, including Capital One Financial Corporation. Capital One Bank (Canada Branch), which was not named as a defendant, issues only MasterCard branded credit cards in Canada. The class action complaints allege that the associations and member banks are liable for civil conspiracy, unjust enrichment, constructive trust and unlawful interference with economic interests and violated Canadian anti-competition laws by (a) conspiring to fix supra-competitive interchange fees and merchant discounts, and (b) requiring participation in the respective networks and adherence to Visa and MasterCard Rules to acceptance of payment guarantee services. The parties have engaged in the preliminary stage of discovery.

Late Fees Litigation

In 2007, a number of individual plaintiffs, each purporting to represent a class of cardholders, filed antitrust lawsuits in the U.S. District Court for the Northern District of California against several issuing banks, including us. These lawsuits allege, among other things, that the defendants conspired to fix the level of late fees and over-

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

limit fees charged to cardholders, and that these fees are excessive. In May 2007, the cases were consolidated for all purposes, and a consolidated amended complaint was filed alleging violations of federal statutes and state law. The amended complaint requests civil monetary damages, which could be trebled, and injunctive relief. In November 2007, the court dismissed the amended complaint. Plaintiffs appealed that order to the Ninth Circuit Court of Appeals. The plaintiffs' appeal challenges the dismissal of their claims under the National Bank Act, the Depository Institutions Deregulation Act of 1980 and the California Unfair Competition Law (the "UCL"), but not their antitrust conspiracy claims. In June 2009, the Ninth Circuit Court of Appeals stayed the matter pending the bankruptcy proceedings of one of the defendant financial institutions. On June 4, 2012, the Ninth Circuit Court of Appeals entered an additional order continuing the stay of the matter pending the bankruptcy proceedings.

Credit Card Interest Rate Litigation

In July 2010, the U.S. Court of Appeals for the Ninth Circuit reversed a dismissal entered in favor of COBNA in *Rubio v. Capital One Bank*, which was filed in the U.S. District Court for the Central District of California in 2007. The plaintiff in *Rubio* alleges in a putative class action that COBNA breached its contractual obligations and violated the Truth In Lending Act (the "TILA") and the California Unfair Competition Law ("UCL") when it raised interest rates on certain credit card accounts. In May, 2012, the parties agreed to a California-only settlement for a non-material amount, and the Court stayed the case for all purposes except for approval of the settlement. We expect plaintiffs will file a motion for preliminary court approval of the class settlement in the third quarter of 2012.

The Capital One Bank Credit Card Interest Rate Multi-district Litigation matter was created as a result of a June 2010 transfer order issued by the United States Judicial Panel on Multi-district Litigation ("MDL"), which consolidated for pretrial proceedings in the U.S. District Court for the Northern District of Georgia two pending putative class actions against COBNA—*Nancy Mancuso, et al. v. Capital One Bank (USA), N.A., et al.*, (E.D. Virginia); and *Kevin S. Barker, et al. v. Capital One Bank (USA), N.A.*, (N.D. Georgia). A third action, *Jennifer L. Kolkowski v. Capital One Bank (USA), N.A.*, (C.D. California) was subsequently transferred into the MDL. On August 2, 2010, the plaintiffs in the MDL filed a Consolidated Amended Complaint. The Consolidated Amended Complaint alleges in a putative class action that COBNA breached its contractual obligations, and violated the TILA, the California Consumers Legal Remedies Act, the UCL, the California False Advertising Act, the New Jersey Consumer Fraud Act, and the Kansas Consumer Protection Act when it raised interest rates on certain credit card accounts. The MDL plaintiffs seek statutory damages, restitution, attorney's fees and an injunction against future rate increases. Fact discovery is now closed. On August 8, 2011, Capital One filed a motion for summary judgment, which remains pending with the court.

Mortgage Repurchase Litigation

On February 5, 2009, GreenPoint was named as a defendant in a lawsuit commenced in the New York County Supreme Court, by U.S. Bank, N. A., Syncora Guarantee Inc. (formerly known as XL Capital Assurance Inc.) and CIG Assurance North America, Inc. (the "U.S. Bank Litigation"). Plaintiffs allege, among other things, that GreenPoint breached certain representations and warranties in two contracts pursuant to which GreenPoint sold approximately 30,000 mortgage loans having an aggregate original principal balance of approximately \$1.8 billion to a purchaser that ultimately transferred most of these mortgage loans to a securitization trust. Some of the securities issued by the trust were insured by two of the plaintiffs. Plaintiffs seek unspecified damages and an order compelling GreenPoint to repurchase the entire portfolio of 30,000 mortgage loans based on alleged breaches of representations and warranties relating to a limited sampling of loans in the portfolio, or, alternatively, the repurchase of specific mortgage loans to which the alleged breaches of representations and warranties relate. On March 3, 2010, the Court granted GreenPoint's motion to dismiss with respect to plaintiffs

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

Syncora and CIFG and denied the motion with respect to U.S. Bank. GreenPoint subsequently answered the complaint with respect to U.S. Bank, denying the allegations, and filed a counterclaim against U.S. Bank alleging breach of covenant of good faith and fair dealing. On February 28, 2012, the Court denied plaintiffs' motion for leave to file an amended complaint and dismissed Syncora and CIFG from the case. Syncora and CIFG have appealed. Discovery between U.S. Bank and GreenPoint has been ongoing since January, 2011. As noted above, GreenPoint has established reserves with respect to its probable and reasonably estimable legal liability from the U.S. Bank Lawsuit, which reserves are included within the overall representation and warranty reserve. Also as noted above, GreenPoint has exposure to loss in excess of the amount established within the overall representation and warranty reserve because our reserve assumes that we will be responsible for only a portion of the losses inherent in the securitizations. With respect to the mortgage loan portfolio at issue in the U.S. Bank Litigation, we believe approximately \$881 million of losses have been realized and approximately \$254 million in mortgage loans are still outstanding, of which approximately \$21 million are more than 90 days delinquent, including foreclosures and REO.

In September, 2010, DB Structured Products, Inc. ("DBSP") named GreenPoint in a third-party complaint, filed in the New York County Supreme Court, alleging breach of contract and seeking indemnification (the "DBSP Litigation"). In the underlying suit, Assured Guaranty Municipal Corp. ("AGM") sued DBSP for alleged breaches of representations and warranties made by DBSP with respect to certain residential mortgage loans that collateralize a securitization insured by AGM and sponsored by DBSP (the "Underlying Lawsuit"). DBSP purchased the HELOC loans from GreenPoint in 2006. The entire securitization is comprised of about 6,200 mortgage loans with an aggregate original principal balance of approximately \$353 million. DBSP asserts that any liability it faces lies with GreenPoint, alleging that DBSP's representations and warranties to AGM are substantially similar to the representations and warranties made by GreenPoint to DBSP. GreenPoint filed a motion to dismiss the complaint in October 2010, which the court denied on July 25, 2011. The parties are currently engaged in discovery. As noted above, GreenPoint has established reserves with respect to its estimated probable and reasonable estimable legal liability from the DBSP Litigation, which reserves are included within the overall representation and warranty reserve. Also as noted above, GreenPoint has exposure to loss in excess of the amount established within the overall representation and warranty reserve because our reserve assumes that we will be responsible for only a portion of the losses inherent in the securitizations. With respect to the mortgage loan portfolio at issue in the DBSP Litigation, we believe approximately \$152 million of losses have been realized and approximately \$40 million in mortgage loans are still outstanding, of which approximately \$2 million are more than 90 days delinquent, including foreclosures and REO.

On May 30, June 29, and July 30, 2012, FHFA (acting as conservator for Freddie Mac) filed three summons with notice in the New York state court against GreenPoint, on behalf of the trustees for three MBS trusts backed by loans originated by GreenPoint (the "FHFA Litigation"). Plaintiff alleges breaches of contractual representations and warranties by GreenPoint and seeks unspecified damages and specific performance of contractual repurchase obligations. To date, none of the summons has been served on GreenPoint and full complaints have not been filed.

In addition to the mortgage repurchase litigations referenced above, in which one of the Company's subsidiaries is a defendant, the Company's subsidiaries face indemnification risks from certain lawsuits brought by monoline bond insurers and investors against third-party securitizations sponsors, where one of our subsidiaries provided some or all of the mortgage collateral within the securitization but is not a defendant in the litigation. In those matters where the Company has determined that losses from these matters are probable and reasonably estimable, the Company has established reserves for these cases, which are included within the overall representation and warranty reserve.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

FHLB Securities Litigation

On April 20, 2011, the Federal Home Loan Bank of Boston (the “FHLB of Boston”) filed suit against dozens of mortgage industry participants in Massachusetts Superior Court, alleging, among other things, violations of Massachusetts state securities laws in the sale and marketing of certain residential mortgage-backed securities (the “FHLB of Boston Litigation”). Capital One Financial Corporation and Capital One, National Association are named in the complaint as alleged successors in interest to Chevy Chase Bank, which allegedly marketed some of the mortgage-backed securities at issue in the litigation. The FHLB of Boston seeks rescission, unspecified damages, attorneys’ fees, and other unspecified relief. The case was removed to the United States District Court for the District of Massachusetts in May 2011, and plaintiff subsequently filed a motion to remand the matter to state court. On March 9, 2012, the court denied plaintiff’s motion to remand. FHLB of Boston filed an Amended Complaint on June 29, 2012, to which responsive pleadings are due in September, 2012.

SEC Investigation

Since July 2009, we have been providing documents and information in response to an inquiry by the Staff of the SEC. In the first quarter of 2010, the SEC issued a formal order of investigation with respect to this inquiry. Although the order, as is generally customary, authorizes a broader inquiry by the Staff, we believe that the investigation is focused largely on the loan loss reserves for our auto finance business for certain quarterly periods in 2007. We are cooperating fully with the Staff’s investigation.

Checking Account Overdraft Litigation

In May 2010, Capital One Financial Corporation and COBNA were named as defendants in a putative class action named *Steen v. Capital One Financial Corporation, et al.*, filed in the U.S. District Court for the Eastern District of Louisiana. Plaintiff challenges our practices relating to fees for overdraft and non-sufficient funds fees on consumer checking accounts. Plaintiff alleges that our methodology for posting transactions to customer accounts is designed to maximize the generation of overdraft fees, supporting claims for breach of contract, breach of the covenant of good faith and fair dealing, unconscionability, conversion, unjust enrichment and violations of state unfair trade practices laws. Plaintiff seeks a range of remedies, including restitution, disgorgement, injunctive relief, punitive damages and attorneys’ fees. In May 2010, the case was transferred to the Southern District of Florida for coordinated pre-trial proceedings as part of a multi-district litigation (MDL) involving numerous defendant banks, *In re Checking Account Overdraft Litigation*. In January 2011, plaintiffs filed a second amended complaint against CONA in the MDL court. In February 2011, CONA filed a motion to dismiss the second amended complaint. On March 21, 2011, the MDL court granted CONA’s motion to dismiss claims of breach of the covenant of good faith and fair dealing under Texas law, but denied the motion to dismiss in all other respects. The parties have been engaged in discovery since May, 2011. On June 21, 2012, the MDL court granted plaintiff’s motion for class certification. The scheduling order entered by the MDL court on June 25, 2012, contemplates the conclusion of discovery in the fourth quarter 2012 and remand to the Eastern District of Louisiana by first quarter 2013.

Patent Litigation

On February 23, 2011, Capital One Financial Corporation, Capital One, N.A., and Capital One Bank (USA), N.A. (collectively, “Capital One”), were named as defendants, along with several other banks, in a patent infringement lawsuit filed by DataTreasury Corporation (“DataTreasury”) in the United States District Court for the Eastern District of Texas. DataTreasury alleges that Capital One and the other banks willfully infringed certain patents relating to remote image capture with centralized processing and storage. Capital One was served with the complaint on April 5, 2011, and filed an answer on May 26, 2011. On August 30, 2011, Capital One

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)—(Continued)

joined other defendants in filing a Motion to Transfer Venue from the U.S. District Court for the Eastern District of Texas, Tyler Division to the Southern District of Texas, Houston Division. That motion was denied by the trial court on January 30, 2012. All of the defendants have sought an appeal to the United States Court of Appeals for the Federal Circuit on the venue issue, which is currently in the briefing stage. The parties are also engaged in discovery.

State Attorney General Payment Protection Matters

On April 12, 2012, the Attorney General of Hawaii filed a lawsuit in First Circuit Court in Hawaii against Capital One Bank (USA) N.A., and Capital One Services, LLC. The case is one of several similar lawsuits filed against various banks challenging the marketing and sale of payment protection and credit monitoring products. On June 28, 2012, the Attorney General of Mississippi filed substantially similar suits against Capital One and several other banks. The state attorney general complaints allege that Capital One enrolls customers in such programs without their consent and that Capital One enrolls customers in such programs even in circumstances in which the customer is not eligible to receive benefits for the product in question. Both suits allege violations of its state Unfair and Deceptive Practices Act and unjust enrichment. The remedies sought in the lawsuits include an injunction prohibiting the Company from engaging in the alleged violations, restitution for all persons allegedly injured by the complained of practices, civil penalties and costs. On May 18, 2012, Capital One removed the Hawaii AG case to U.S. District Court, District of Hawaii. Capital One is in the process of responding to the Mississippi AG matter. Relatedly, Capital One has provided information to the Attorney General of Missouri as part of an industry-wide informal inquiry initiated in August, 2011, relating to the marketing of payment protection products.

Other Pending and Threatened Litigation

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For a discussion of the quantitative and qualitative disclosures about market risk, see “Part I—Item 2. MD&A—Market Risk Management.”

Item 4. Controls and Procedures

Overview

We are required under applicable laws and regulations to maintain controls and procedures, which include disclosure controls and procedures as well as internal control over financial reporting, as further described below.

(a) Disclosure Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures refer to controls and other procedures designed to provide reasonable assurance that information required to be disclosed in our financial reports is recorded, processed, summarized and reported within the time periods specified by SEC rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we must apply judgment in evaluating and implementing possible controls and procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 of the Securities Exchange Act of 1934 (the “Exchange Act”), our management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2012, the end of the period covered by this Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2012, at a reasonable level of assurance, in recording, processing, summarizing and reporting information required to be disclosed within the time periods specified by the SEC rules and forms.

(b) Changes in Internal Control Over Financial Reporting

We regularly review our disclosure controls and procedures and make changes intended to ensure the quality of our financial reporting. On May 1, 2012, we completed the acquisition of HSBC’s U.S. card business, and as a result, we extended our oversight and monitoring processes that support our internal control over financial reporting during the second quarter of 2012, to include HSBC’s U.S. card operations. Otherwise, there were no changes in our internal control over financial reporting during the second quarter of 2012 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION**Item 1. Legal Proceedings**

The information required by Item 1 is included in “Note 15—Commitments, Contingencies and Guarantees.”

Item 1A. Risk Factors

We are not aware of any material changes from the risk factors set forth under “Part I—Item 1A. Risk Factors” in our 2011 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table shows shares of our common stock we repurchased during the second quarter of 2012:

(Dollars in millions, except per share information)	Total Number of Shares Purchased⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Amount That May Yet be Purchased Under the Plan or Program
April 1-30, 2012	2,850	\$ 55.27	—	\$ —
May 1-31, 2012	—	—	—	—
June 1-30, 2012	3,511	51.06	—	—
Total	<u>6,361</u>	\$ 52.94	—	—

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

Item 3. Defaults upon Senior Securities

None.

Item 5. Other Information

None.

Item 6. Exhibits

An index to exhibits has been filed as part of this report beginning on page E-1 and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 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

Date: August 09, 2012

By: /s/ GARY L. PERLIN
Gary L. Perlin
Chief Financial Officer

EXHIBIT INDEX
CAPITAL ONE FINANCIAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
DATED JUNE 30, 2012
Commission File No. 1-13300

The following exhibits are incorporated by reference or filed herewith. References to (i) the “2003 Form 10-K” are to the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 5, 2004; (ii) the “2004 Form 10-K” are to the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2004, filed on March 9, 2005; (iii) the “2008 Form 10-K” are to the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2008, filed on February 26, 2009; and (iv) the “2011 Form 10-K” are to the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2011, filed on February 29, 2012.

<u>Exhibit No.</u>	<u>Description</u>
2.1	Stock Purchase Agreement, dated as of December 3, 2008, by and among Capital One Financial Corporation, B.F. Saul Real Estate Investment Trust, Derwood Investment Corporation, and B.F. Saul Company Employee’s Profit Sharing and Retirement Trust (incorporated by reference to Exhibit 2.4 of the Corporation’s 2008 Form 10-K).
2.2.1	Purchase and Sale Agreement, dated as of June 16, 2011, by and among Capital One Financial Corporation, ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp (incorporated by reference to Exhibit 2.1 of the Corporation’s Current Report on Form-8-K, filed on June 22, 2011).
2.2.2	First Amendment to the Purchase and Sale Agreement by and among Capital One Financial Corporation, ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp, dated as of February 17, 2012 (incorporated by reference to Exhibit 2.2.2 of the Corporation’s 2011 Form 10-K).
2.3	Purchase and Assumption Agreement, dated as of August 10, 2011, by and among Capital One Financial Corporation, HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc. (incorporated by reference to Exhibit 2.1 of the Corporation’s Current Report on Form-8-K, filed on August 12, 2011).
3.1	Restated Certificate of Incorporation of Capital One Financial Corporation, (as amended and restated May 16, 2011) (incorporated by reference to Exhibit 3.4 of the Corporation’s Current Report on Form 8-K, filed on May 17, 2011).
3.2	Amended and Restated Bylaws of Capital One Financial Corporation (incorporated by reference to Exhibit 3.2 of the Corporation’s Current Report on Form 8-K, filed on May 17, 2011).
4.1.1	Specimen certificate representing the common stock of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation’s 2003 Form 10-K).
4.1.2	Warrant Agreement, dated December 3, 2009, between Capital One Financial Corporation and Computershare Trust Company, N.A. (incorporated herein by reference to the Exhibit 4.1 of the Corporation’s Form 8-A filed on December 4, 2009).
4.2.1	Senior Indenture dated as of November 1, 1996 between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A. (as successor to Harris Trust and Savings Bank), as trustee (incorporated by reference to Exhibit 4.1 of the Corporation’s Current Report on Form 8-K, filed on November 13, 1996).

Table of Contents

<u>Exhibit No.</u>	<u>Description</u>
4.2.2	Copy of 6.25% Notes, due 2013, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.5 of the 2003 Form 10-K).
4.2.3	Copy of 5.25% Notes, due 2017, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.6 of the 2004 Form 10-K).
4.2.4	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).
4.2.5	Specimen of 6.750% Senior Note, due 2017, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation's Current Report on Form 8-K, filed on September 5, 2007).
4.2.6	Specimen of 7.375% Senior Note, due 2014, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation's Current Report on Form 8-K, filed on May 22, 2009).
4.2.7	Specimen of Floating Rate Senior Note due 2014, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.3 of the Corporation's Current Report on Form 8-K, filed on July 19, 2011).
4.2.8	Specimen of 2.125% Senior Note due 2014, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.4 of the Corporation's Current Report on Form 8-K, filed on July 19, 2011).
4.2.9	Specimen of 3.150% Senior Note due 2016, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5 of the Corporation's Current Report on Form 8-K, filed on July 19, 2011).
4.2.10	Specimen of 4.750% Senior Note due 2021, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.6 of the Corporation's Current Report on Form 8-K, filed on July 19, 2011).
4.2.11	Specimen of 2.150% Senior Note due 2015, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K, filed on March 23, 2012).
4.3	Indenture (providing for the issuance of Junior Subordinated Debt Securities), dated as of June 6, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.1 of the Corporation's Current Report on Form 8-K, filed on June 12, 2006).
4.4.1	First Supplemental Indenture, dated as of June 6, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K, filed on June 12, 2006).
4.4.2	Amended and Restated Declaration of Trust of Capital One Capital II, dated as of June 6, 2006, between Capital One Financial Corporation as Sponsor, The Bank of New York Mellon, as institutional trustee, BNY Mellon Trust of Delaware, as Delaware Trustee and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.3 of the Corporation's Current Report on Form 8-K, filed on June 12, 2006).

Table of Contents

<u>Exhibit No.</u>	<u>Description</u>
4.4.3	Guarantee Agreement, dated as of June 6, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Corporation's Current Report on Form 8-K, filed on June 12, 2006).
4.4.4	Specimen certificate representing the Enhanced TRUPS (incorporated by reference to Exhibit 4.5 of the Corporation's Current Report on Form 8-K, filed on June 12, 2006).
4.4.5	Specimen certificate representing the Junior Subordinated Debt Security (incorporated by reference to Exhibit 4.6 of the Corporation's Current Report on Form 8-K, filed on June 12, 2006).
4.5.1	Second Supplemental Indenture, dated as of August 1, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K, filed on August 4, 2006).
4.5.2	Copy of Junior Subordinated Debt Security Certificate (incorporated by reference to Exhibit 4.6 of the Corporation's Current Report on Form 8-K, filed on August 4, 2006).
4.5.3	Amended and Restated Declaration of Trust of Capital One Capital III, dated as of August 1, 2006, between Capital One Financial Corporation, as Sponsor, The Bank of New York Mellon, as institutional trustee, BNY Mellon Trust of Delaware, as Delaware trustee and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.3 of the Corporation's Current Report on Form 8-K, filed on August 4, 2006).
4.5.4	Guarantee Agreement, dated as of August 1, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Corporation's Current Report on Form 8-K, filed on August 4, 2006).
4.5.5	Copy of Capital Security Certificate (incorporated by reference to Exhibit 4.5 of the Corporation's Current Report on Form 8-K, filed on August 4, 2006).
4.6.1	Third Supplemental Indenture, dated as of February 5, 2007, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K, filed on February 8, 2007).
4.6.2	Amended and Restated Declaration of Trust of Capital One Capital IV, dated as of February 5, 2007, between Capital One Financial Corporation as Sponsor, The Bank of New York Mellon, as institutional trustee, BNY Mellon Trust of Delaware, as Delaware Trustee and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.3 of the Corporation's Current Report on Form 8-K, filed on February 8, 2007).
4.6.3	Guarantee Agreement, dated as of February 5, 2007, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Corporation's Current Report on Form 8-K, filed on February 8, 2007).
4.6.4	Specimen certificate representing the Capital Security (incorporated by reference to Exhibit 4.5 of the Corporation's Current Report on Form 8-K, filed on February 8, 2007).
4.6.5	Specimen certificate representing the Capital Efficient Note (incorporated by reference to Exhibit 4.6 of the Corporation's Current Report on Form 8-K, filed on February 8, 2007).

Table of Contents

<u>Exhibit No.</u>	<u>Description</u>
4.7.1	Fourth Supplemental Indenture, dated as of August 5, 2009, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K, filed on August 6, 2009).
4.7.2	Amended and Restated Declaration of Trust of Capital One Capital V, dated as of August 5, 2009, between Capital One Financial Corporation as Sponsor, The Bank of New York Mellon Trust Company, N.A., as institutional trustee, BNY Mellon Trust of Delaware, as Delaware Trustee and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.3 of the Corporation's Current Report on Form 8-K, filed on August 6, 2009).
4.7.3	Guarantee Agreement, dated as of August 5, 2009, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Corporation's Current Report on Form 8-K, filed on August 6, 2009).
4.7.4	Specimen Trust Preferred Security Certificate (incorporated by reference to Exhibit 4.5 of the Corporation's Current Report on Form 8-K, filed on August 6, 2009).
4.7.5	Specimen Junior Subordinated Debt Security (incorporated by reference to Exhibit 4.6 of the Corporation's Current Report on Form 8-K, filed on August 6, 2009).
4.8.1	Fifth Supplemental Indenture, dated as of November 13, 2009, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K, filed on November 13, 2009).
4.8.2	Amended and Restated Declaration of Trust of Capital One Capital VI, dated as of November 13, 2009, between Capital One Financial Corporation as Sponsor, The Bank of New York Mellon Trust Company, N.A., as institutional trustee, BNY Mellon Trust of Delaware, as Delaware Trustee and the Administrative Trustees named therein (incorporated by reference to Exhibit 4.3 of the Corporation's Current Report on Form 8-K, filed on November 13, 2009).
4.8.3	Guarantee Agreement, dated as of November 13, 2009, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as guarantee trustee (incorporated by reference to Exhibit 4.4 of the Corporation's Current Report on Form 8-K, filed on November 13, 2009).
4.8.4	Specimen Trust Preferred Security Certificate (incorporated by reference to Exhibit 4.5 of the Corporation's Current Report on Form 8-K, filed on November 13, 2009).
4.8.5	Specimen Junior Subordinated Debt Security (incorporated by reference to Exhibit 4.6 of the Corporation's Current Report on Form 8-K, filed on November 13, 2009).
4.9.1	Indenture, dated as of August 29, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.1 of the Corporation's Current Report on Form 8-K, filed on August 31, 2006).
4.9.2	Copy of Subordinated Note Certificate (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K, filed on August 31, 2006).
10.1*	Purchaser Transition Services Agreement between HSBC Technology and Services (USA) Inc. and Capital One Services, LLC, dated as of May 1, 2012.
12.1*	Computation of Ratio of Earnings to Combined Fixed Charges.
12.2*	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

Table of Contents

<u>Exhibit No.</u>	<u>Description</u>
31.1*	Certification of Richard D. Fairbank
31.2*	Certification of Gary L. Perlin
32.1*	Certification** of Richard D. Fairbank
32.2*	Certification** of Gary L. Perlin
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Indicates a document being filed with this Form 10-Q.

** Information in this Form 10-Q 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.

PURCHASER TRANSITION SERVICES AGREEMENT

between

HSBC TECHNOLOGY & SERVICES (USA) INC.

and

CAPITAL ONE SERVICES, LLC

DATED AS OF MAY 1, 2012

TABLE OF CONTENTS

		<u>Page</u>
ARTICLE I		
DEFINITIONS		
Section 1.1	Definitions of Certain Terms	1
Section 1.2	Interpretation	7
ARTICLE II		
SERVICES AND PROCEDURES		
Section 2.1	Provision of Services	8
Section 2.2	Additional Services	8
Section 2.3	Replacement Services	9
Section 2.4	Standard of Performance; Scope of Service	9
Section 2.5	Steering Committee and Operating Committee; Integrated Transition Plan	11
Section 2.6	Third-Party Providers	12
Section 2.7	Service Provider's Employees	13
Section 2.8	Availability of Information; Access to Books and Records; Audit	13
Section 2.9	Limited Warranty	14
Section 2.10	Transition Support	14
Section 2.11	Certain Transferred Business Employees	15
Section 2.12	Offshore Facilities	15
Section 2.13	Operating Guide for IT Operations	16
Section 2.14	Operational Control Report	16
Section 2.15	Responsibilities	17
Section 2.16	Material Changes	17
ARTICLE III		
FEES AND PAYMENTS		
Section 3.1	Fees for Services	18
Section 3.2	Payments	19
Section 3.3	No Set Off; Netting	19
Section 3.4	Taxes	19
ARTICLE IV		
TERM AND TERMINATION		
Section 4.1	Term	21
Section 4.2	Termination	22
Section 4.3	Effect of Termination	22
ARTICLE V		
INDEMNIFICATION		
Section 5.1	Indemnification by Seller	23
Section 5.2	Indemnification by Purchaser	23
Section 5.3	Procedures	24
ARTICLE VI		
INTELLECTUAL PROPERTY		
Section 6.1	Ownership and Licensing of Intellectual Property	24

ARTICLE VII
CONFIDENTIALITY; DATA SECURITY

Section 7.1	Confidentiality	25
Section 7.2	Data Protection	27
Section 7.3	Correction of Errors	27
Section 7.4	Use of Information	28
Section 7.5	Network Access	29
Section 7.6	Notices	29
Section 7.7	Injunctive Relief	30

ARTICLE VIII
ANTI-BRIBERY AND CORRUPT PRACTICES

Section 8.1	Bribery and FCPA	30
-------------	------------------	----

ARTICLE IX
SETTLEMENT; DISPUTE RESOLUTION

Section 9.1	Resolution Procedure	31
Section 9.2	Exchange Of Written Statements	31
Section 9.3	Good-Faith Negotiations	31
Section 9.4	Determination of Resolution Panel	31
Section 9.5	Injunctive Relief	32
Section 9.6	Continuity of Services	32
Section 9.7	Limitation on Damages	32

ARTICLE X
MISCELLANEOUS

Section 10.1	Notices	33
Section 10.2	Binding Effect; Assignment; No Third-Party Beneficiaries	35
Section 10.3	Severability	35
Section 10.4	Entire Agreement; Amendment	35
Section 10.5	Waiver	35
Section 10.6	Governing Law; Consent to Jurisdiction	35
Section 10.7	Waiver of Jury Trial	35
Section 10.8	Counterparts	36
Section 10.9	Relationship of the Parties	36
Section 10.10	Force Majeure	36
Section 10.11	Further Assurances	36

Exhibits

Exhibit A	Transition Services and Service Level Standards/Addenda
Exhibit B	Offshore Service Level Standards/Addenda
Exhibit C	Steering Committee and Operating Committee Representatives
Exhibit D	Remote Transferred Business Employees
Exhibit E	Permitted Subcontractors
Exhibit F	Control Procedures
Exhibit G	Seller Reporting Policy
Exhibit H	Operating Guide for IT Operations
Exhibit I	PLO Escalation Levels

PURCHASER TRANSITION SERVICES AGREEMENT

Purchaser Transition Services Agreement, dated as of May 1, 2012 (this "Agreement"), between HSBC Technology and Services (USA) Inc., a Delaware corporation ("Seller") and Capital One Services, LLC ("Purchaser").

RECITALS

A. Seller together with certain of its Affiliates) and Capital One Financial Corporation ("Capital One") are parties to that certain Purchase and Assumption Agreement, dated as of August 10, 2011 (the "Purchase Agreement"), pursuant to which Seller and certain of its Affiliates will sell and assign various assets and liabilities associated with the CRS Business to Capital One or its permitted assigns.

B. For a period following the Closing, Purchaser desires to continue to receive certain services currently provided to the CRS Business by Seller and its Affiliates.

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein, Seller and Purchaser agree as follows:

ARTICLE I DEFINITIONS

Section 1.1 Definitions of Certain Terms. In this Agreement, the following terms shall have the meanings assigned below:

"Acquired Contract" has the meaning set forth in the Purchase Agreement.

"Additional Service" has the meaning set forth in Section 2.2.

"Affiliate" means, with respect to any Person, any other Person that directly, or through one or more intermediaries, Controls, is Controlled by or is under common Control with such Person.

"Agreement" has the meaning set forth in the Preamble.

"Alabang Facility" has the meaning set forth in Section 2.12(d).

"Ancillary Agreements" has the meaning set forth in the Purchase Agreement.

"Applicable Law" has the meaning set forth in the Purchase Agreement.

"Assigned Partner Agreements" means the Contracts listed on Schedule 1.1(b) of Sellers' Disclosure Schedules to the Purchase Agreement, as such schedule may be amended or supplemented.

"Auditor" has the meaning set forth in Section 2.8(c).

"Bring-down Certification" has the meaning set forth in Section 2.14.

"Business Day" means any day excluding Saturday, Sunday and any day on which banking institutions located in New York, New York are authorized or required by Applicable Law or other governmental action to be closed.

"Capital One" has the meaning set forth in the Recitals.

"Card Association" means Visa U.S.A., Inc., Visa International, Inc., MasterCard International, Inc., American Express and Discover.

"Closing Date" means the date on which the closing of the transactions contemplated by the Purchase Agreement occurs.

"Code" has the meaning set forth in Section 3.4(h).

“Confidential Information” means all, or any part of (whether originals or copies of) any information, in whatever form embodied (e.g., oral, written, electronic) that any Party has identified, in writing, as confidential at the time of disclosure, all information concerning past, current, and planned products, services, fees, account numbers, names, addresses, and phone numbers of consumers, concepts, methodologies, research, services, business activities, marketing plans, other proprietary information and the like of such Party or its Affiliates, all information shared by the Parties or their Affiliates pursuant to the escalation procedures set forth in Section 2.4 or pursuant to Section 2.16 (and all communications and correspondence related thereto), the Seller Reporting Policy and all proceedings of the Steering Committee and the Operating Committee, including all materials provided or produced in connection with any such proceedings and all communications and correspondence related thereto, any list of borrowers, all information contained on such lists, and individually identifiable statistics or details related to spending or other transactional activity of borrowers and all Service Recipient Customer Data. For the avoidance of doubt, none of the Acquired Assets (as defined in the Purchase Agreement) shall be the Confidential Information of Seller or any of its Affiliates.

“Control,” and the correlative terms “Controlling” and “Controlled,” mean, as used with respect to any Person, possession of the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

“Control Procedures” has the meaning set forth in Section 2.14.

“Control Report” has the meaning set forth in Section 2.14.

“Contract” has the meaning set forth in the Purchase Agreement.

“Cost Basis” means, with respect to any Service, an amount no greater than the cost generally billed by the Service Providers with respect to such Service to other Affiliates of Seller for providing such Service, which costs in certain cases may include a markup that is consistent with what other Affiliates of Seller currently pay; provided that such cost is commercially reasonable and consistent with the Service Provider’s standard billing methodology.

“CRS Accounts” has the meaning set forth in the Purchase Agreement.

“CRS Business” has the meaning set forth in the Purchase Agreement.

“CRS Contract List” has the meaning set forth in the Purchase Agreement.

“Customer Facing Services” has the meaning set forth in Section 2.1(b).

“Effective Time” means 12:00:01 a.m. Eastern time on the Closing Date.

“Event of Default” means, with respect to any Person, the occurrence of any of the following:

(i) If such Person is a Service Provider and if membership or an agreement with a Card Association is required by such Service Provider in connection with the provision of any Service by such Service Provider pursuant to this Agreement, the termination of such membership or agreement with the applicable Card Association or the occurrence of an event which, under the terms of such membership or agreement, would constitute, or upon the passage of time or the giving of notice or both would constitute, an event of default under the agreement with the applicable Card Association;

(ii) Such Person commences any proceeding under any bankruptcy, reorganization, dissolution or liquidation law or statute of any jurisdiction whether now or hereafter in effect or such Person has had any such petition or application filed or any such proceeding commenced against it after the date of this Agreement in which an order for relief is entered or an adjudication or appointment is made and which remains undismissed for a period of 60 days or more; or

(iii) Such Person breaches, in any material respect, any of its material obligations, representations or warranties contained in this Agreement.

“Executive in Charge” has the meaning set forth in Section 2.4(d).

“FCPA” has the meaning set forth in Section 8.1.

“First Party Collections Agreement” means the First Party Collection Services Agreement between HSBC Electronic Data Processing (Philippines) Inc. and Purchaser dated May 1, 2012.

“GLBA” has the meaning set forth in Section 7.4(a).

“Governmental Entity” means any federal, state, local, domestic or foreign agency, court, tribunal, administrative body or board, arbitration panel, department or other legislative, judicial, governmental, quasi-governmental entity or self-regulatory organization with competent jurisdiction.

“HNAH” has the meaning set forth in Section 2.4(d).

“HSBC Holdings” has the meaning set forth in Section 7.1(d).

“Integrated Transition Plan” has the meaning set forth in Section 2.5(a).

“Intellectual Property” means (i) all intellectual property, industrial property, proprietary and similar rights in any jurisdiction owned or held for use under license, whether or not subject to statutory registration or protection, and whether now known or hereafter recognized in any jurisdiction, including such rights in and to: (A) Trademarks; (B) inventions and discoveries (whether or not patentable or reduced to practice), all improvements thereto, all patents (including utility and design patents, industrial designs and utility models), registrations, invention disclosures and applications therefor, including divisions, revisions, supplementary protection certificates, continuations, continuations-in-part and renewal applications, and including renewals, extensions, reissues and re-examinations thereof; (C) trade secrets, confidential business and technical information and any other confidential information (including ideas, research and development, know-how, formulae, drawings, prototypes, models, designs, technology, compositions, manufacturing, production and other processes and techniques, schematics, technical data, engineering, production and other designs, drawings, engineering notebooks, industrial models, software and specifications, business methods, customer lists, representative lists and supplier lists, and any other information meeting the definition of a trade secret under the Uniform Trade Secrets Act or similar laws); (D) published and unpublished works of authorship, whether copyrightable or not (including databases and other compilations of information, computer and electronic data processing programs, software, both source code and object code, flow charts, diagrams, descriptive texts and similar items), copyrights therein and thereto, registrations and applications therefor, and all renewals, extensions, restorations and reversions thereof; and (E) moral rights, design rights, mask works and rights of privacy and publicity; and (ii) in the case of (i)(A) through (E), all benefits, privileges, causes of action and remedies relating to any of the foregoing, whether before or hereafter accrued (including the rights to sue for all past, present or future infringements or other violations of any of the foregoing and to settle and retain proceeds from any such actions).

“Losses” means, collectively, any damages, losses, charges, liabilities, claims, demands, actions, suits, proceedings, payments, judgments, settlements, assessments, deficiencies, interest, penalties, and costs and expenses (including removal costs, remediation costs, closure costs, fines, penalties and expenses of investigation and ongoing monitoring, reasonable attorneys’ fees, and reasonable out of pocket disbursements).

“Material Change” has the meaning set forth in Section 2.16.

“NPPI” has the meaning given to “nonpublic personal information” in Title V of the GLBA.

“Offshore Facilities” has the meaning set forth in Section 2.12.

“Operating Committee” has the meaning set forth in Section 2.5.

“Operating Guide” has the meaning set forth in Section 2.13.

“Party” means either of Seller or Purchaser.

“Payment Due Date” has the meaning set forth in Section 3.2(a).

“Permitted Subcontractor” means (i) those third parties providing Customer Facing Services to the CRS Business immediately prior to the Closing Date, (ii) any additional third parties set forth on Exhibit E and (iii) any additional third parties approved by Purchaser (which approval may not be unreasonably withheld). Purchaser may revoke its approval of any subcontractor approved by Purchaser pursuant to clause (iii) of the preceding sentence as required by Applicable Law or due to material non-performance by such subcontractor by delivering written notice to Seller. As soon as reasonably practicable after such revocation, Seller must cease utilizing such revoked subcontractor to provide Services under this Agreement.

“Person” means an individual, a corporation, a partnership, an association, a limited liability company, a Governmental Entity, a trust or other entity or organization.

“Personal Information” has the meaning given to “personal information” in PIPEDA.

“Personnel” means, with respect to any Service Provider, the employees and agents of such Service Provider who are assigned to perform any Service provided by such Service Provider pursuant to this Agreement.

“PIPEDA” means the *Personal Information Protection and Electronic Documents Act* (Canada).

“PLO” has the meaning set forth in Section 2.4(c).

“Purchase Agreement” has the meaning set forth in the Recitals.

“Purchaser” has the meaning set forth in the Preamble.

“Purchaser Indemnified Parties” has the meaning set forth in Section 5.1.

“Replacement Service” has the meaning set forth in Section 2.3.

“Seller” has the meanings set forth in the Preamble.

“Seller Indemnified Parties” has the meaning set forth in Section 5.2.

“Seller Transition Services Agreement” means the Seller Transition Services Agreement, dated as of the date of this Agreement, among Seller and Capital One, National Association.

“Service Provider” means, with respect to any Service, Seller or any of its Affiliates responsible for providing such Service.

“Service Recipient” means, with respect to any Service, Purchaser or any of its Affiliates receiving such Service.

“Service Recipient Customer Data” shall mean data or information in any form relating to any customer, former customer or customer prospect of Service Recipient or its Affiliates that is accessed, received or processed by a Service Provider, including without limitation all NPPI regarding such customers and all Personal Information.

“Service Records” means, with respect to any Service, all records, data, files and other information received or generated for the benefit of the applicable Service Recipient in connection with the provision of such Service.

“Services” means the services and support set forth on Exhibit A, as amended from time to time, provided by one or more Service Providers, in each case (i) in accordance with the terms and conditions set forth in this Agreement and (ii) other than any portion of any Service which is terminated pursuant to this Agreement.

“SLA” has the meaning set forth in Section 2.4(a).

“Steering Committee” has the meaning set forth in Section 2.5.

“Subsidiary” has the meaning set forth in the Purchase Agreement.

“**Tax**” shall mean any tax of any kind, including any federal, state, local and foreign income, profits, license, severance, occupation, windfall profits, capital gains, capital stock, transfer, registration, social security (or similar), production, franchise, gross receipts, payroll, sales, employment, use, property, excise, value added, estimated, stamp, alternative or add-on minimum, environmental, withholding and any other tax or like assessment, together with all interest, penalties and additions imposed with respect to such amounts and including any obligation to indemnify or otherwise assume or succeed to the tax liability of any other Person.

“**Technology**” means tangible embodiments, whether in electronic, written or other media, of technology, including inventions, ideas, designs, documentation (such as bill of materials, build instructions, test reports and invention disclosure forms), schematics, layouts, reports, algorithms, routines, software (including source code and object code), data, databases, lab notebooks, equipment, processes, prototypes and devices.

“**Third-Party IP**” has the meaning set forth in Section 6.1(b).

“**Third-Party Provider**” has the meaning set forth in Section 2.6(a).

“**Trademarks**” means trademarks, service marks, brand names, certification marks, collective marks, d/b/a’s, Internet domain names, e-mail addresses, source-identifying phone numbers, logos, product names and slogans, symbols, trade dress, assumed names, fictitious names, trade names, business names, corporate names and any and every other form of trade identity and other indicia of origin, whether registered or unregistered, all applications and registrations for the foregoing, including all renewals of same, and all goodwill associated therewith and symbolized thereby.

“**Transferred Business Employees**” has the meaning set forth in the Purchase Agreement.

“**TSA Scorecard**” has the meaning set forth in Section 2.4(c).

“**Vizag Facility**” has the meaning set forth in Section 2.12(b).

Section 1.2 Interpretation.

(a) Unless the context otherwise requires:

(i) References contained in this Agreement to specific Articles, Sections, Subsections or Exhibits shall refer, respectively, to Articles, Sections, Subsections or Exhibits of this Agreement;

(ii) References to any agreement or other document are to such agreement or document as amended, modified, supplemented or replaced from time to time;

(iii) References to any Governmental Entity include any successor to such Governmental Entity;

(iv) Terms defined in the singular have a comparable meaning when used in the plural, and vice versa;

(v) The words “hereof,” “herein,” and “hereunder” and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement;

(vi) The terms “Dollars” and “\$” mean U.S. Dollars;

(vii) Wherever the word “include,” “includes” or “including” is used in this Agreement, it shall be deemed to be followed by the words “without limitation”; and

(viii) References contained in this Agreement to any gender include each other gender.

(b) The table of contents and headings contained in this Agreement are for reference purposes only and do not limit or otherwise affect any of the provisions of this Agreement.

(c) The Parties have participated jointly in the negotiation and drafting of this Agreement. In the event of an ambiguity or a question of intent or interpretation, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Agreement.

ARTICLE II
SERVICES AND PROCEDURES

Section 2.1 Provision of Services.

(a) Upon the terms and subject to the conditions contained in this Agreement and in Exhibit A, Seller shall provide, or shall cause the applicable Service Providers to provide, the Services to the applicable Service Recipients. The Affiliate of Seller (or Seller itself) acting as Service Provider with respect to a particular Service shall be that entity specified in Exhibit A for the applicable Service, except as may be changed by Seller in its sole discretion. The Affiliate of Purchaser (or Purchaser itself) acting as Service Recipient with respect to a particular Service shall be that entity specified in Exhibit A for the applicable Service, except as may be changed by Purchaser in its sole discretion, after giving at least sixty days' prior written notice to Seller. At Purchaser's request and upon the terms and subject to the conditions contained in this Agreement, Seller shall, or shall cause the applicable Service Provider to, (i) utilize commercially reasonable efforts to facilitate Purchaser operating independently of or otherwise replacing or migrating away from any particular Service and (ii) utilize commercially reasonable efforts to minimize (A) any service disruption in connection with obtaining the Services (B) any quality degradation in connection with the Services and (C) cost to the applicable Service Recipient, in each case, associated with facilitating such Service Recipient's independent operation or replacement or migration away from such Service; provided, that, in each case, neither Seller nor any Service Provider shall be obligated to incur any out-of-pocket cost or expense in connection with any of the actions taken pursuant to clauses (i) or (ii).

(b) Notwithstanding anything in this Agreement to the contrary, a Service Provider may not use subcontractors to provide any Service that includes communications by such subcontractor to any customers of Service Recipient ("Customer Facing Services"), other than Permitted Subcontractors. Seller shall notify Purchaser of the identity of all third parties providing Customer Facing Services, prior to subcontracting, delegating or assigning any of its obligations to any such Permitted Subcontractors under this Agreement, provided that Seller shall not be required to provide notice regarding any supplier or other third party that provides materials, personnel or other services used by a Service Provider to provide the Customer Facing Services. Seller shall remain responsible for all obligations, services and functions performed by a Service Provider or subcontractor pursuant to this Agreement to the same extent as if these obligations, services and functions were performed by Seller.

Section 2.2 Additional Services. To the extent Purchaser or Seller becomes aware of any additional service not described in Exhibit A (other than any Service (i) previously provided and terminated pursuant to the terms of this Agreement or (ii) constituting part of any relationship listed on the CRS Contract List that is not an Acquired Contract or a Service) that was provided by Seller or its Affiliates in connection with the CRS Business prior to the Closing and is reasonably required after the Closing to continue the operation of the CRS Business as operated prior to the Closing, (such service, an "Additional Service") such Party shall promptly inform the other Party of such service. If Purchaser desires to receive such Additional Service, it shall provide Seller with written notice requesting the provision of such Additional Service, and Seller shall determine in good faith whether it or any of the Service Providers are capable of providing such Additional Service, and, if reasonably able, Seller shall provide, or cause the applicable Service Providers to provide, the Additional Service to the applicable Service Recipient consistent with the terms and conditions of this Agreement. Any Additional Service provided pursuant to this Section 2.2 shall be considered a Service for purposes of this Agreement, and Purchaser and Seller shall amend Exhibit A to include the terms of such Additional Service.

Section 2.3 Replacement Services. If (i) Seller or its Affiliates are unable to provide any Service that is otherwise required to be provided to the applicable Service Recipient pursuant to the terms of this Agreement for any reason outside Seller's control or (ii) Seller or its Affiliates are excused from providing any Service by reason of Section 2.4(b), Seller shall, or shall cause its Affiliates to, use its reasonable best efforts to provide to the applicable Service Recipient substantially equivalent services and support in accordance with the terms of this Agreement (such service and support, a "Replacement Service"), which such services and support shall be considered a Service for the purposes of this Agreement. Purchaser and Seller shall amend Exhibit A to include the terms of any such Replacement Service.

Section 2.4 Standard of Performance; Scope of Service.

(a) Seller shall provide, or shall cause the applicable Service Providers to provide, all Services in compliance with Applicable Law, at the same level of service at which such Services were provided to the CRS Business immediately prior to the Effective Time and in a manner consistent with the service level standards included in Exhibits A and B and in no event less than the applicable service levels required by any Assigned Partner Agreement as of the date hereof to the extent such Service is provided in satisfaction of the Service Recipient's obligations under such Assigned Partner Agreement (each such service level standard, an "SLA"). The Parties will discuss in good faith Seller's adherence to any altered SLAs resulting from any amendment or other modification of any of the Assigned Partner Agreements after the date hereof; provided that Purchaser shall bear any additional cost or expense incurred by Seller or its Affiliates as a result of Seller's adherence to such altered SLAs, with such additional cost and expense, if any, determined in accordance with Seller's standard internal cost methodology, consistently applied and provided that such cost and expense is commercially reasonable. In performing any Service, Seller shall, and shall cause the applicable Service Providers to, employ methods and procedures of a quality at least equal to those employed by Seller with respect to its business and affairs. Seller and Purchaser shall, and shall cause each of their Affiliates to, use their respective commercially reasonable efforts to cooperate with each other in all matters necessary to the provision of Services under this Agreement, including coordinating the performance of the Services with designated Purchaser employees and contractors to minimize the business impact to the Purchaser to the extent reasonably practicable.

(b) Notwithstanding anything to the contrary contained in this Agreement, Seller shall not be obligated to provide any Service to the extent the provision of such Service would violate (i) any agreement or license with a third party to which Seller or any of its Affiliates are subject as of the date of this Agreement and extensions and renewals of those agreements or licenses or (ii) any Applicable Law. Purchaser and Seller shall use their respective commercially reasonable efforts to make or obtain any approvals, agreements, permits, consents, waivers and licenses from any third parties that are necessary to permit each Service Provider to provide the applicable Services under this Agreement; provided that Seller shall not be obligated to incur any cost or expense in connection with obtaining any such approvals, agreements, permits, consents, waivers and licenses.

(c) Seller shall, on a monthly basis, provide Purchaser with a scorecard detailing the performance of all SLAs and PLOs (as defined below) along with an indication of whether each such SLA and PLO has been satisfied (the "TSA Scorecard") (it being understood that the TSA Scorecard will detail SLA and PLO performance without respect to identifying the root cause of any incidents or outages). With respect to Services described in Exhibit A, Seller shall provide a TSA Scorecard to Purchaser no later than the fifteenth (15th) calendar day of the month following the reporting month except that for those Services identified in the "TSA Schedule: Offshore" section of Exhibit A, Seller shall provide a TSA Scorecard to Purchaser no later than the twenty-fifth (25th) calendar day of the month following the reporting month. The form and content of the TSA Scorecard may be changed from time to time upon the mutual consent of the Parties but will include, at a minimum, a review of SLA and performance level objectives ("PLO") performance results and trends, details of specific performance issues or incidents, remediation activity as well as actions to be taken to complete remediation or prevent future occurrences as appropriate. This reporting will be reviewed jointly within both the Operating Committee as well as the Steering Committee on a monthly basis. The parties agree that, in addition to the formal reporting requirements set forth herein, their respective representatives will consult regularly regarding any SLA or PLO performance issues or anticipated issues, and will develop remediation strategies in respect thereof and take reasonable preventative measures to address or mitigate such issues or anticipated issues. In furtherance thereof, Seller agrees to use reasonable best efforts to promptly remediate any failure by any Service Provider to comply with an SLA or PLO and Purchaser agrees to reasonably cooperate in good faith with Seller in Seller's efforts to remediate any such failure.

(d) For the critical nine information technology PLOs listed on Exhibit I, an escalation process will take place whenever any of the PLOs are below the PLO Escalation Target Level identified on Exhibit I for any month. As soon as Seller becomes aware that such an event has occurred, Seller shall, as promptly as reasonably practical, notify the "Executive in Charge of Transition" for each Party as provided in Exhibit C ("Executive in Charge") and within 2 weeks of such notification, the Steering Committee will meet and conduct a formal review of the issue summarizing the cause of the performance issue that resulted in the PLO Escalation Target Level not being met and any remediation efforts necessary to ensure future performance at or above the PLO Escalation

Target Level. The Steering Committee's findings will be provided to the President of Cards of Capital One, the Chief Executive Officer of HSBC Finance Corporation and the Chief Executive Officer of HSBC North America Holdings Inc. ("HNAH") for their review and awareness within three Business Days of the Steering Committee review. If any of the PLOs are below the PLO Escalation Grace Level identified on Exhibit I for any month, in addition to the process described above for falling below the PLO Escalation Target Level: the President of Cards of Capital One, the Chief Executive Officer of HSBC Finance Corporation and the Chief Executive Officer of HNAH will, as promptly as reasonably practical, be notified by Seller, the issue will be escalated within Seller in a manner consistent with a \$100,000 operational loss event under the Seller Reporting Policy (regardless of whether such issue would otherwise meet the applicable dollar or other thresholds requiring escalation). Additionally, the issue will be escalated within Purchaser as a "Severity 3" event, and, a formal joint review meeting of the type described under Section 2.4(e) shall be conducted as promptly as practicable within two weeks of the Steering Committee meeting. For the avoidance of doubt, the escalation process described in this Section 2.4(d) shall be in addition to and not in limitation of any of Purchaser's or Seller's other rights and remedies set forth in this Agreement.

(e) A joint quarterly meeting will be held to review overall performance under this Agreement between HNAH and Capital One with the attendees being the Chief Executive Officer of HNAH, President of Cards of Capital One, Chief Executive Officer of HSBC Finance Corporation and the Executive in Charge for each Party.

(f) In addition to the reporting and escalation procedures discussed in Sections 2.4(c), 2.4(d) and 2.4(e), Seller will continue to utilize the standard operational loss incident reporting policy as used by Seller and its Affiliates in North America, a copy of which is attached hereto as Exhibit G (the "Seller Reporting Policy"), and will report any incident relating to the Services that is escalated under the Seller Reporting Policy to the Steering Committee within five (5) Business Days as part of the overall governance structure under this Agreement. Purchaser or Seller will raise with the Steering Committee any incidents, as they arise, under this Agreement that they reasonably believe will adversely affect a Party's reputation or regulatory standing.

Section 2.5 Steering Committee and Operating Committee; Integrated Transition Plan.

(a) In order to monitor, coordinate and facilitate implementation of the terms and conditions of this Agreement, Purchaser and Seller shall establish (i) a "Steering Committee" consisting of at least two representatives with appropriate decision-making authority from Purchaser, on the one hand, and from Seller, on the other hand and (ii) an "Operating Committee" consisting of at least one representative of Purchaser, on the one hand, and of Seller, on the other hand, responsible for each functional area that is the subject of Exhibit A. Any action shall be considered approved or taken by the Steering Committee or the Operating Committee, as applicable, if such action is approved by a majority of the Steering Committee or the Operating Committee, as applicable; provided, however, that at least one representative of each Party must concur in approving such action. A quorum for the Steering Committee or Operating Committee, as applicable, will consist of two representatives from each Party. The Steering Committee shall provide general oversight of the terms and conditions of this Agreement and shall work in good faith to (A) resolve any disputes arising under this Agreement as set forth under Article IX and (B) develop and periodically adjust, as needed, a written transition plan (the "Integrated Transition Plan") as described in Section 2.5(b). The Operating Committee shall be responsible for (1) the day-to-day operations related to the implementation of the terms and conditions of this Agreement (which may include agreeing on additional detail and specifications for the Services set forth in Exhibit A) and (2) monitoring progress and compliance with the Integrated Transition Plan. The initial Steering Committee and Operating Committee representatives are set forth on Exhibit C. The initial Steering Committee and Operating Committee representatives shall not be changed by either Party on less than ten days' prior written notice to the other Party. In addition, each Party shall designate a representative to serve as the Executive in Charge of Transition for the Steering Committee, which representative shall not be changed without the prior approval of the Steering Committee. The Steering Committee and Operating Committee representatives shall meet at least monthly (or more frequently if needed) during the term of this Agreement. The Steering Committee and Operating Committee shall meet jointly with the steering committee and operating committee formed to oversee the provision of services under the Seller Transition Services Agreement. The Steering Committee and Operating Committee representatives for each Party shall stay reasonably apprised of the activities of the employees, agents and contractors of such Party who are providing or receiving any Service in order to maximize

efficiency in the provision and receipt of such Service. If any member of the Operating Committee or Steering Committee (including the Executive in Charge of Transition) ceases to be employed by Purchaser or Seller or any of their respective affiliates, as the case may be, such employee will be automatically removed from the Operating Committee or Steering Committee and such Party may elect a replacement by providing written notice to the other Party.

(b) The Integrated Transition Plan will, at a minimum, (i) be designed to facilitate Purchaser and its Affiliates operating independently of or otherwise replacing or migrating away from the Services as soon as reasonably practicable, (ii) reflect the priorities of both Purchaser and Seller and minimize risk and business disruption and (iii) establish timelines and milestones for the conclusion of separation activities by Seller and set termination dates for the migration or replacement by Purchaser and its Affiliates of the Services (subject to the last sentence of this Section 2.5(b)). The written transition plan developed and approved pursuant to the Seller Transition Services Agreement will form a part of the Integrated Transition Plan. The Parties shall use their reasonable best efforts to cause the Steering Committee to finalize and adopt the Integrated Transition Plan within ninety days after the date hereof. Seller and Purchaser will provide bi-weekly status updates on the development of the Integrated Transition Plan to the Steering Committee through completion of the Integrated Transition Plan. Once adopted, the Integrated Transition Plan may be amended at any time through an action validly taken by the Steering Committee. Each Party shall use its respective commercially reasonable efforts to meet and shall reasonably cooperate with the other Party in meeting all timelines and milestones set forth in the Integrated Transition Plan. If it appears to either Party that a particular Service will terminate pursuant to Section 4.1 prior to the time that Purchaser is able to operate independently of such Service, the Steering Committee shall promptly meet and discuss in good faith an appropriate solution.

Section 2.6 Third-Party Providers.

(a) With respect to any Service that is outsourced to third parties as of the date of this Agreement, Seller shall use its commercially reasonable efforts to secure the provision of such services by such third parties (each, a "Third-Party Provider") to the applicable Service Recipient, but in each case, only in accordance with the terms and conditions of this Agreement; provided that Seller shall not be obligated to incur any cost or expense in connection with securing the provision of services by any Third-Party Provider. If, during the term of this Agreement, any agreement between Seller or any of its Affiliates and a Third-Party Provider pursuant to which Services are provided to a Service Recipient under this Agreement is terminated or not renewed, Purchaser shall use its commercially reasonable efforts to secure an agreement with such Third-Party Provider for the provision of such Service independent of this Agreement and in the event Purchaser is not able to secure an agreement with such Third-Party Provider to provide such Services to the applicable Service Recipient, Purchaser and Seller will reasonably cooperate, and Purchaser shall use its commercially reasonable efforts, to obtain substantially similar services from another source; provided that if Purchaser determines in good faith that it would have an adverse impact on the quality or continuous availability of such Service or other Services if Purchaser were to secure such an agreement at the time of the termination or non-renewal, Purchaser and Seller shall reasonably cooperate to identify an alternative solution. In any of the scenarios described in the immediately preceding sentence, Seller will utilize commercially reasonable efforts to (A) minimize any service disruption in connection with obtaining such services, (B) assist Purchaser or the applicable Service Recipient in obtaining a quality of service reasonably requested by Purchaser or the applicable Service Recipient and (C) minimize the cost to Purchaser of obtaining such services, provided, that Seller shall not be obligated to incur any cost or expense in connection with any of clauses (A), (B) or (C). If Purchaser or any of its Affiliates enters into an agreement with a Third-Party Provider for the provision of any Service as a result of this Section 2.6(a), the provision of such Service under this Agreement shall be immediately terminated upon the commencement of the provision of the relevant services under such agreement with a Third-Party Provider.

(b) Seller shall continue to manage its relationships with any Third-Party Provider with the same standard of care as if the Third-Party Provider were supporting Seller's own business.

Section 2.7 Service Provider's Employees. Subject to Section 2.5 of this Agreement, (i) each Service Provider shall be responsible for selecting and supervising in good faith the Personnel who will perform any particular Service and performing all administrative support with respect to such Personnel, including

maintaining and adjusting the compensation structure and the workload balancing of such Personnel and (ii) Seller shall cause each Service Provider to utilize Personnel as reasonably necessary to comply with the requirements of any contract for which such Service Provider is providing Services in satisfaction of or to assist in the satisfaction of the obligations of a Service Recipient.

Section 2.8 Availability of Information; Access to Books and Records; Audit.

(a) Purchaser shall, or shall cause its Affiliates to, (i) make available, subject to Applicable Law and on a timely basis, to each Service Provider all information reasonably requested by such Service Provider to enable such Service Provider to provide any of the applicable Services and (ii) provide such Service Provider with reasonable access to the applicable Service Recipient's premises to the extent necessary for purposes of providing the applicable Services, provided that such access will be subject to the applicable Service Provider's compliance with the applicable Service Recipient's reasonable physical security and facility access requirements.

(b) During the term of this Agreement with respect to any particular Service, so long as the applicable Service Provider is required to maintain Service Records under Applicable Law, it shall maintain such Service Records in compliance with Applicable Law in respect of the Service provided. Seller shall, or shall cause its Affiliates to, make available, subject to Applicable Law and within 30 days of receipt of a Service Recipient's request or such shorter period as may be required by Applicable Law, access to all such Service Records in connection with the applicable Service Recipient's tax, regulatory, litigation, contractual or other reasonable purpose.

(c) Service Provider shall maintain an effective internal control environment allowing it to monitor compliance with its obligations under this Agreement. Service Provider shall maintain complete and accurate records in English in accordance with generally accepted accounting standards in order to maintain an audit trail of all financial and non-financial transactions resulting from the Services and this Agreement. During the term of this Agreement and for a period of five years thereafter, or longer if required under Applicable Law, Service Provider shall provide to Service Recipient's representatives, designees, internal auditors (provided such firm or individual is bound by a confidentiality agreement with Seller) and Governmental Entities with jurisdiction over Service Recipient as Service Recipient may from time to time designate (each, an "Auditor"), access, upon request and reasonable prior notice (taking into account the specific circumstances under which any request is made) to (i) any facility or part of a facility at which Services are provided (including, for the avoidance of doubt, any facility of a subcontractor of Service Provider to the extent permitted by Service Provider's contract with the subcontractor), and (ii) data and records relating to the Services for the purpose of performing audits and inspections of Service Provider and any of its subcontractors (to the extent permitted by Service Provider's contract with the applicable subcontractor) in order to (a) verify compliance with this Agreement or (b) enable Purchaser or Service Recipient to comply with Applicable Law, provided that, except for audits by Government Authorities or in response to a material breach of this Agreement, (A) audits may be conducted no more than once during any 12-month period, (B) no more than three individuals from all Auditors may access Service Provider's (or, if applicable, a subcontractor's) facilities during a single audit and (C) such access to the facilities of Service Provider (or, if applicable, a subcontractor) shall be for no more than ten (10) business days per audit. Service Provider shall cooperate with and provide (and use reasonable best efforts to cause its subcontractors to cooperate and provide) to an Auditor such assistance as they may reasonably request in performing any audit, including cooperating with such Auditor to get such Auditor access to a subcontractors facilities or books and records to the extent such access is not permitted by Service Provider's contract with such subcontractor. All audits and access granted under this Section 2.8(c) shall comply with the following requirements: (1) the Auditor shall comply with Service Provider's reasonable security, operating and confidentiality procedures (including a confidentiality agreement with Service Provider), and Service Provider may designate an authorized employee to be present while any such audit is being conducted, (2) Service Recipient shall pay all the costs and expenses of Auditors designated by Service Recipient, (3) the Auditor shall be prohibited from taking originals or making copies of any of Service Provider's data or records without Service Provider's written consent and (4) Service Provider shall not be required to grant access to (i) any Intellectual Property owned by Service Provider or its Affiliates or (ii) any data or records the disclosure of which is prohibited under an agreement in place between Service Provider or its Affiliate and an unaffiliated third party.

Section 2.9 Limited Warranty. Except as otherwise provided herein and subject to Section 2.4, Seller specifically disclaims all warranties of any kind, express or implied, arising out of or related to this Agreement,

including any implied warranties of merchantability and fitness for a particular purpose, with respect to the Services, and Seller makes no representations or warranties as to the quality, suitability or adequacy of the Services for any purpose or use. Except as expressly set forth in this Agreement, no information or description concerning the Services, whether written or oral, given by Seller or any of its Affiliates or any of their respective representatives, shall in any way alter the Services to be provided under this Agreement, including the scope, level of service or other attributes with respect to any Service. For the avoidance of doubt, this Section 2.9 shall have no effect on any representation or warranty set forth in the Purchase Agreement.

Section 2.10 Transition Support. Promptly after the termination of any Service in accordance with this Agreement, the applicable Service Provider shall, subject to Applicable Law and at Purchaser's expense, use its commercially reasonable efforts to transfer all relevant data concerning such Service to the applicable Service Recipient. In addition, if reasonably requested by the applicable Service Recipient, the applicable Service Provider shall deliver to such Service Recipient as promptly as practicable (but in no event more than 45 days after such request) Service Records related to such Service provided, however, that the applicable Service Provider shall have the right to retain an archival copy of such records to the extent required by Applicable Law or for the purpose of responding to regulatory requests or intraparty claims. Simultaneously with the delivery of any such Service Records and subject to such Service Provider's right to retain or use an archival copy of such Service Records as set forth in the preceding sentence, the applicable Service Provider shall (i) grant a fully paid-up, royalty free non-exclusive license to the applicable Service Recipient, under any Intellectual Property rights owned by such Service Provider and embodied in such Service Records (excluding any Intellectual Property rights embodied in Service Recipient Customer Data) held by Service Provider, to use, reproduce, modify and create derivative works of such Service Records solely for use in the CRS Business and (ii) irrevocably assign to the applicable Service Recipient, at such Service Recipient's expense, any Intellectual Property rights owned by such Service Provider and embodied in Service Recipient Customer Data in such Service Records.

Section 2.11 Certain Transferred Business Employees. Seller agrees to reasonably cooperate with Purchaser to provide arrangements similar to those being provided immediately prior to the Effective Time permitting those Transferred Business Employees listed on Exhibit D who accept their respective offers of employment made by Purchaser in connection with the transactions contemplated by the Purchase Agreement to continue to work remotely immediately following their employment by Purchaser; provided that Purchaser shall bear all costs and expenses associated with any such arrangements permitting such Transferred Business Employees to continue to work remotely. Seller will provide an updated version of Exhibit D no later than seven (7) days after the Closing Date.

Section 2.12 Offshore Facilities.

(a) Seller agrees that all processing floors located at Seller's or its Subsidiaries' offshore service centers located in the Philippines, India, Sri Lanka, Mexico and China used to provide Services (the "Offshore Facilities") shall contain reasonable physical access control measures, which shall include closed circuit television cameras installed at all common areas and all access points to workspace areas.

(b) Seller shall consolidate Personnel providing Services at Seller's and its Subsidiaries' offshore service center located in Vizag, India (the "Vizag Facility") onto designated floors or workspaces. Each such designated floor or workspace within the Vizag Facility shall not be accessed simultaneously by Personnel providing Services, on the one hand, and any other employees or agents of Seller or its Subsidiaries, on the other hand. To avoid doubt, other than any consolidation requirements contained in the First Party Collections Agreement, neither Seller nor any other Service Provider shall have any obligation to consolidate Personnel providing Services onto any designated or segregated floors or workspaces.

(c) In the event of a physical security or data security breach related to the CRS Business, Seller agrees to provide Purchaser, upon Purchaser's reasonable request, with (i) a report, in the form currently utilized by Seller, of access logs in the Offshore Facilities used in connection with the Services and (ii) information on badge entry and exit from the workspace areas in the Offshore Facilities from which Services are provided.

(d) Seller and its Affiliates will reasonably cooperate with Purchaser and its Affiliates or agents to access Seller's or its Subsidiaries' offshore service center located in Alabang, Philippines (the "Alabang Facility") for

the purpose of facilitating the continued compatibility between the systems and software, including future integration/migration preparations, at the Alabang Facility used to provide services to the CRS Business and the systems and software used in the CRS Business. Seller and its Affiliates will reasonably cooperate with Purchaser and its Affiliates to facilitate such continued compatibility and future integration/migration preparations. To the extent necessary to facilitate such compatibility, Seller and its Affiliates will, upon reasonable request, provide supervised access to the Alabang Facility to Purchaser and its Affiliates and agents; provided (1) such access will not unreasonably interfere with the day to day operations of the Alabang Facility, (2) Purchaser and its Affiliates and agents will not be permitted to alter, modify or make changes to the existing production systems and software or IT infrastructure within the production floor of the Alabang Facility and (3) Purchaser and its Affiliates and agents will not be allowed to access production systems on Seller's network except for planning purposes only (it being understood that Purchaser will be in no way permitted to alter, modify or make any changes to the production systems. Purchaser and its Affiliates will be allocated secure demarcated space within the Main Equipment Room (MER), communications distribution closets on user floors if necessary and working space within the Alabang Facility to incorporate their IT/Network infrastructure in order to test the compatibility of systems/processes as a parallel IT/Network infrastructure to Seller, however, in order to ensure security and integrity of Seller and Purchaser, no interconnectivity between systems, network or infrastructure will be permitted.

Section 2.13 Operating Guide for IT Operations. Seller agrees to use the Operating Guide, "*Capital One Information Technology Operations—IT Operations and Procedures with: HSBC*", attached as Exhibit H (the "Operating Guide"), as a reference to deliver information technology services to Purchaser as mutually agreed upon in this Agreement. The Operating Guide will include processes and procedures for the information technology operational services Seller is providing to Purchaser. Seller also agrees to use the TSA to PLA matrix, PLO/PLA Reporting and joint monthly information technology operating review to monitor the delivery of information technology services to Purchaser. All operating measures contained in the Operating Guide, including but not limited to service level agreements, notification times, and performance targets, are to be used as guiding principles, and are not contractually binding on either Party. Any failure by either Party to comply with this Section 2.13 or any standards set forth in the Operating Guide shall not constitute a breach of this Agreement and shall not give rise to any (a) claim on the part of the other Party, including claims for indemnification pursuant to Article V, unless such failure otherwise independently constitutes a breach of this Agreement or an event for which indemnity pursuant to Article V may be sought or (b) right on behalf of either party to terminate this Agreement or any Service Provider pursuant to this Agreement, unless such failure otherwise independently gives a Party the right to terminate this Agreement.

Section 2.14 Operational Control Report.

(a) Each Service Provider agrees to make available for inspection, at Service Recipient's cost, Service Provider's internal documentation of tests and procedures set forth in Exhibit F, or such alternative tests and procedures as the Parties mutually agree, in each case, regarding the financial controls that Service Provider has in place with respect to the Services (the "Control Procedures"). The Control Procedures shall be conducted each year, covering the period from January 1 to December 31 of each year during the term of this Agreement (except for the first Control Procedures, which shall cover the period from the Closing Date to December 31, 2012). In addition to the inspection rights provided pursuant to this Section 2.14, Service Provider will deliver to Service Recipient a summary of all issues affecting Service Provider's financial controls set forth in Exhibit F with respect to the Services uncovered by the Control Procedures (the "Control Report") on or before November 30 of each year during the term of this Agreement reflecting results of Service Provider's tests and procedures through October 31. On or before January 31, of each year during the term of this Agreement, Service Provider shall disclose final results of tests and procedures, including any changes to its financial controls set forth in Exhibit F with respect to the Services that occurred between November 1 and December 31 of the immediately preceding year, or certify to Service Recipient in writing that no such changes have occurred (a "Bring-down Certification"). If the term of this Agreement expires during a period covered by a pending Control Report or Bring-down Certification, Service Provider shall deliver such Control Report or Bring-down Certification, completed as of the expiration of the term of this Agreement, within 60 days of the expiration of such term. Service Recipient agrees to provide such undertaking with respect to, inter alia, confidentiality of the Control Reports and Bring-down Certifications, as Service Provider's external auditor may require from time to time.

(b) Notwithstanding any provision in this Agreement to the contrary and except as required by Applicable Law, (i) Service Provider shall not be required to grant Service Recipient access to Service Provider's internal audit reports and (ii) Service Recipient's Affiliates or personnel (including Service Recipient's external auditors) shall not be permitted to remove any copies of any of Service Provider's results of tests and procedures (provided that Service Recipient's agents and personnel may take notes and independently create other documents referencing or relating to Service Provider's results of tests and procedures).

Section 2.15 Responsibilities. Notwithstanding anything in this Agreement to the contrary, a Service Provider's nonperformance of its obligations under this Agreement shall be excused if and only to the extent such Service Provider's nonperformance results from Purchaser's, or a Service Recipient's, failure to perform its responsibilities set forth in this Agreement or the Ancillary Agreements or from the wrongful or tortious actions or omissions of Purchaser, its Affiliate's, or a Service Recipient's agent or subcontractor performing obligations of Purchaser or a Service Recipient under this Agreement (which, for the avoidance of doubt, shall not include the failure to pay fees and expenses disputed in good faith) after Seller has provided reasonable notice of such nonperformance or such wrongful or tortious actions or omissions and used commercially reasonable efforts to perform notwithstanding such nonperformance, actions or omissions.

Section 2.16 Material Changes. The Parties acknowledge that the provision of the Services is a collaborative process, which will require communication by the Parties on all matters that will materially affect the Services. Accordingly, each Party agrees to give the other Party no less than thirty (30) calendar days notice of any change in the manner in which the CRS Business is conducted or the Services are provided that would reasonably be expected to have a material adverse effect on Service Provider's provision of the Services provided under this Agreement, such as site closures, significant work-force reductions or other similar changes (other than any changes that have been discussed between the Parties prior to the date of this Agreement) (a "Material Change"). Upon notice of a Material Change, either or both Parties may conduct a review and prepare a risk assessment, including risk mitigation recommendations, if applicable. Each Party will cooperate with the other to provide any information reasonably needed by the other Party to complete any such assessment. Within two weeks of notice of any Material Change either or both risk assessments will be presented to the Steering Committee at a special meeting called for such purpose at which either Party may make risk mitigation recommendations related to the Material Change.

ARTICLE III FEES AND PAYMENTS

Section 3.1 Fees for Services.

(a) The cost charged to the applicable Service Recipient for each Service, other than an Additional Service or a Replacement Service, shall be at Cost Basis with respect to such Service. Exhibit A contains a list of the Cost Basis to be charged for each Service, other than an Additional Service or a Replacement Service, as of the date of this Agreement. In addition and without duplication, except as otherwise set forth in the Purchase Agreement or any other Ancillary Agreement, Service Recipient shall be responsible for reimbursing Service Provider for any reasonable out-of-pocket costs and expenses approved by the Steering Committee (such approval not to be unreasonably withheld, conditioned or delayed) to the extent incurred by Service Provider or any of its Affiliates in good faith in order to obtain any resources, personnel, approvals, agreements, permits, consents, waivers and licenses reasonably necessary for facilitating the provision of any of the Services (other than any costs and expenses resulting from the separation of information technology resources from Seller or its Affiliates). The cost charged to the applicable Service Recipient for each Additional Service and each Replacement Service shall be (i) if such Additional Service or Replacement Service is a form of service or support currently provided by Seller or its Affiliates in connection with the operation of the CRS Business immediately prior to the Effective Time and is being provided with the same level of service as provided immediately prior to the Effective Time, at the Cost Basis of such Additional Service or Replacement Service, or (ii) otherwise at the cost determined in accordance with Seller's standard internal cost methodology, consistently applied and provided that such cost is commercially reasonable. In the event Seller or a Service Provider fails to

provide a Service in accordance with the standards set forth in Section 2.4(a), Purchaser shall not be responsible for any cost incurred by Seller or the applicable Service Provider in connection with returning such Service to such standards.

(b) Purchaser agrees to pay, or to cause to be paid, all costs charged pursuant to this Agreement for Services on a monthly basis during the term of this Agreement. The costs set forth in Exhibit A may be, during the term of this Agreement (but not before the date that is one year after the date hereof), (i) reduced as Services or portions of any Services are terminated by Purchaser or (ii) increased in connection with any increased costs incurred by the applicable Service Providers and shall be decreased to the extent of any decrease in cost incurred by the applicable Service Providers. Beginning with the annual period commencing on the date one year following the date hereof, costs charged to the applicable Service Recipient for Services provided under this Agreement shall be reviewed annually by the Steering Committee and/or the Operating Committee or more frequently as any such committee may agree (but in any event not less than once during each 12-month period after the date of this Agreement) and shall only be changed from those set forth on Exhibit A by the Steering Committee or Operating Committee (whose assent to any requested change in the costs charged for any Service shall not be unreasonably withheld, conditioned or delayed), and shall at all times be calculated in accordance with the methodology provided for in Section 3.1(a).

Section 3.2 Payments.

(a) Within 30 days after the end of each month, each Service Provider will provide Purchaser with an invoice for the fees and expenses payable to such Service Provider, containing reasonable supporting detail, pursuant to this Agreement with respect to such month. Within 30 days after receipt of each invoice (such date, the "Payment Due Date"), Purchaser will pay to each applicable Service Provider its respective invoiced amounts with respect to the immediately preceding month; provided that Purchaser shall not be required to pay any invoiced amount that Purchaser contests in good faith by giving written notice to Seller of such dispute on or prior to the applicable Payment Due Date. As soon as reasonably practicable after receipt of any request from Purchaser, the applicable Service Provider shall provide the Purchaser with additional data and documentation supporting the calculation of any invoiced amounts contested by Purchaser for the purpose of verifying the accuracy of such calculation and such further documentation and information relating to the calculation of such invoiced amounts as Purchaser may reasonably request. The Parties shall attempt to resolve any disputes relating to an invoiced amount in accordance with the procedures set forth in Article IX. In the event such dispute is resolved, Purchaser shall pay any required amount to the applicable Service Provider within 30 days after the date such resolution occurs.

(b) Payments shall be made by wire transfer to an account designated in advance in writing from time to time by the applicable Service Provider. All payments made pursuant to this Agreement shall be denominated in U.S. Dollars.

Section 3.3 No Set Off; Netting. Neither Purchaser nor any of its Affiliates shall have any right of set off or any other similar rights with respect to any amounts owed pursuant to this Agreement or any other amounts claimed to be owed by or to Purchaser or its Affiliates arising out of the Purchase Agreement or the Seller Transition Services Agreement.

Section 3.4 Taxes. Notwithstanding anything in this Agreement to the contrary, the Parties' respective responsibilities for Taxes arising under or in connection with this Agreement shall be as follows:

(a) Each Party shall be responsible for:

- (i) any personal property Taxes on property it uses, regardless of whether such property is owned or leased;
- (ii) franchise and privilege Taxes on its business;
- (iii) Taxes based on its net income or gross receipts; and
- (iv) Taxes based on the employment or wages of its employees, including FICA, Medicare, unemployment, worker's compensation and other similar Taxes.

(b) Each Service Provider shall be responsible for any sales, use, excise, value-added, services, consumption and other Taxes and duties payable by such Service Provider on the goods or services used or consumed by such Service Provider in providing the Services where the Tax is imposed on such Service Provider's acquisition or use of such goods or services and the amount of Tax is measured by such Service Provider's costs in acquiring such goods or services. For the avoidance of doubt, nothing in this Section 3.4(b) shall affect the determination of cost charged for any Service provided hereunder, which cost shall be determined in accordance with Section 3.1(a).

(c) Purchaser shall be responsible for any sales, use, excise, value-added, services, consumption and other Taxes and duties that are assessed on the provision of the Services as a whole, or on any particular Service.

(d) To the extent that a Service Provider is required by law to collect sales and use Tax from Purchaser on the provision of Services and remit such Tax to the respective states and/or localities, Purchaser shall pay such Tax to such Service Provider; provided that the Service Provider invoices Purchaser for such Tax on the invoice for such Services.

(e) If any sales, use, excise, value added, services, consumption or other like Taxes or duties are assessed on the provision of any portion of the Services, the parties shall work together to segregate the payments under this Agreement into three payment streams:

(i) those for taxable Services;

(ii) those for which the applicable Service Provider functions merely as a payment agent for Purchaser in receiving goods, supplies, or services (including leasing and licensing arrangements) that otherwise are non-taxable or have previously been subject to Tax; and

(iii) those for other nontaxable Services.

(f) The Parties shall cooperate with each other to enable each to more accurately determine its own Tax liability and to minimize such liability to the maximum extent legally permissible. Unless Purchaser has provided a Service Provider with tax-exemption, direct pay, or resale certificates, such Service Provider's invoices shall separately state the amounts of any Taxes such Service Provider is collecting from Purchaser, and Seller will cause the Service Provider to remit such Taxes to the appropriate authorities. Each Party shall provide and make available to the other any direct pay or resale certificates, information regarding out-of-state or out-of-country sales or use of equipment, materials, or services, and other exemption certificates or information reasonably requested by any other Party.

(g) Seller shall cause each Service Provider to promptly notify Purchaser of, and coordinate with Purchaser the response to and settlement of, any claim for Taxes asserted by applicable taxing authorities for which Purchaser is responsible hereunder. In such event, and if the claim arises out of a form or return signed by a Service Provider, then the Service Provider may elect to control the response to and settlement of the claim, but Purchaser shall have all rights to participate at its own expense in the responses and settlements that are appropriate to its potential responsibilities or liabilities. If the applicable Service Provider fails to notify Purchaser or to allow Purchaser to participate in responses and settlements of a claim for Taxes as provided above, then Purchaser shall have no liability to such Service Provider for any applicable Taxes to the extent that such Taxes result directly from such claim; provided that failure to provide such notice shall not release Purchaser from any of its obligations under this Section 3.4 except to the extent Purchaser is actually prejudiced by such failure (for the avoidance of doubt, any failure by such Service Provider to provide such notice to Purchaser at least 21 days prior to the due date for filing a response or any other materials with the relevant taxing authority with respect to such claim shall constitute a rebuttable presumption of prejudice to Purchaser). If Purchaser reasonably requests a Service Provider to challenge the imposition of any Tax for which Purchaser is responsible hereunder, Seller shall cause the Service Provider to do so in a timely manner and Purchaser shall reimburse the Service Provider for all reasonable legal and/or consulting fees and expenses it incurs with respect to such challenge. Purchaser shall be entitled to any Tax refunds or rebates granted to the extent such refunds or rebates are of Taxes that were paid by Purchaser.

(h) Purchaser shall be entitled to deduct and withhold from any payment to or for the account of any Service Provider pursuant to this Agreement any amounts that are required to be deducted and withheld with respect to

such payment under the U.S. Internal Revenue Code of 1986, as amended (the “Code”) or any applicable state, local or foreign Tax law, and shall promptly remit such amounts to the appropriate taxing authority. To the extent amounts are so withheld and paid over, such amounts shall be treated for all purposes of this Agreement as having been paid to the applicable Service Provider. As promptly as practicable after remittance to the appropriate taxing authority of any amounts so withheld, Purchaser shall furnish to the applicable Service Provider the original or certified copy of a receipt evidencing payment, or other evidence of payment reasonably acceptable to such Service Provider. At least 15 days prior to the due date of the first payment to be made hereunder to a Service Provider that is not a “U.S. person” (as such term is defined in the Code), such Service Provider shall deliver to Purchaser a duly completed and executed Internal Revenue Service Form W-8BEN (or successor form) claiming any applicable complete exemption from, or a reduced rate of, United States withholding tax on payments made to or for the account of such Service Provider pursuant to this Agreement, and shall update such form as required by applicable law or as reasonably requested by Purchaser. As long as any such Service Provider has complied with its obligations pursuant to the preceding sentence, any withholding required to be made by Purchaser with respect to any payments to or for the account of such Service Provider pursuant to this Agreement shall be made at a rate not exceeding the rate required by applicable law giving effect to the Internal Revenue Service Form W-8BEN (or successor form) delivered by such Service Provider to Purchaser.

ARTICLE IV TERM AND TERMINATION

Section 4.1 Term. The provision of Services shall commence as of the Effective Time, and each Service shall terminate upon the earliest of (a) the date two years from the Closing Date or (b) such shorter period as set forth in the Integrated Transition Plan; provided that Purchaser may extend the term of any Service provided pursuant to this Agreement for an additional period of not more than one year by providing written notice to Seller at least 90 days prior to the termination of such Service if Purchaser has made all commercially reasonable efforts but is unable to operate independently of or otherwise replace such Service. This Agreement shall terminate upon the termination of all Services provided pursuant to this Agreement. Notwithstanding the foregoing, in the event that Purchaser, acting in good faith, fails to timely provide a notice with respect to the proposed extension of a Service, but provides notice with respect to the proposed extension prior to the termination of such Service, the Parties shall reasonably cooperate to attempt to accommodate Purchaser’s request for the extension of the term for such Service to the extent reasonably practicable.

Section 4.2 Termination. This Agreement, or any particular Service or portion of a Service provided pursuant to this Agreement, may be terminated prior to the end of the term set forth in Section 4.1 (provided that if Seller reasonably determines and provides Purchaser with written notice that the termination of a particular Service or portion of a Service will adversely affect a Service Provider’s ability to provide any other Service or any portion of any other Service in a material respect, such Service or portion of a Service shall not be individually terminated by Purchaser pursuant to this Section 4.2 unless Purchaser agrees not to hold Seller or any Service Provider responsible for any degradation in Service Provider’s provision of such other Service or portion of such other Service to the extent resulting from such termination):

(a) By Purchaser upon 135 days’ prior written notice (provided that Purchaser shall be responsible for paying any and all fees and expenses incurred by Seller or any Service Provider as a result of such termination by Purchaser, provided, further that Seller or the applicable Service Provider shall use commercially reasonable efforts to minimize any and all such fees and expenses, and provided, further, that notwithstanding the foregoing, in the event that Purchaser acting in good faith fails to timely provide a notice with respect to the proposed termination of a Service, the Parties shall reasonably cooperate to attempt to accommodate Purchaser’s request for the early termination of such Service to the extent reasonably practicable);

(b) By Purchaser upon 30 days’ prior written notice following an Event of Default by Seller or any Service Provider (unless such breach is the result of a breach by Purchaser or any Service Recipient in any material respect, of any of their respective material obligations, representations or warranties contained in this Agreement), which written notice shall describe in detail the Event of Default, unless such Event of Default is cured during such 30-day period from the date notice is given;

(c) By Seller upon 30 days' prior written notice following an Event of Default by Purchaser or any Service Recipient (unless such breach is the result of a breach by Seller or any Service Provider in any material respect, of any of their respective material obligations, representations or warranties contained in this Agreement), which written notice shall describe in detail the Event of Default, unless such Event of Default is cured during such 30-day period from the date notice is given;

(d) By Seller upon 30 days' prior written notice following the failure of Purchaser to satisfy any undisputed monetary obligation under this Agreement, unless such monetary obligation is satisfied in full within such 30-day period from the date notice is given; or

(e) Upon the mutual written agreement of Purchaser and Seller.

Section 4.3 Effect of Termination.

(a) In the event of the termination of this Agreement as provided in Article IV, this Agreement shall forthwith become void and have no further effect, except that (i) Section 2.8(c), this Section 4.3 and Article VII, Article IX and Article X shall survive the termination of this Agreement and (ii) Article V shall survive the termination of this Agreement for a period of one year (except with respect to claims for indemnification on account of a breach of Section 3.4, which shall survive until 60 days after the expiration of the applicable statute of limitations). Upon the termination of this Agreement, Seller shall not have any further obligation to provide, or cause to be provided, any of the Services (or any portion of any Service). The termination of this Agreement will not terminate, affect or impair any rights, obligations or liabilities of any Party that have accrued prior to such termination or which under the terms of this Agreement continue after termination.

(b) Upon the termination or expiration of any Service or any portion of any Service pursuant to this Agreement, Seller shall have no further obligation to provide, or cause to be provided, respectively, such Service or such portion of such Service, as applicable, and Purchaser shall have no further obligation to pay, or cause to be paid, any costs in respect of such Service or such portion of such Service, as applicable (other than any costs resulting from the provision of such Service or such portion of such Service prior to its termination or expiration).

ARTICLE V INDEMNIFICATION

Section 5.1 Indemnification by Seller. Subject to Section 9.7, Seller hereby agrees that it shall indemnify, defend and hold harmless Purchaser, its Affiliates, and their respective directors, officers, shareholders, partners, members, attorneys, accountants, agents, representatives and employees and their heirs, successors and permitted assigns, each in their capacity as such (the "Purchaser Indemnified Parties") from, against and in respect of any and all Losses imposed on, sustained by, incurred or suffered by, or asserted against, any of the Purchaser Indemnified Parties, whether in respect of third-party claims, claims between any Seller and Purchaser, or otherwise, directly or indirectly arising out of or as a result of (a) Seller's or its Affiliates' breach of this Agreement or (b) Purchaser or the Receiving Party's failure to comply with any and all terms or conditions imposed by a licensor of Third-Party IP which is sublicensed to the Receiving Party pursuant to Section 6.1(b) to the extent (i) such terms and conditions have not been provided to Purchaser or the applicable Service Recipient and (ii) such failure arose in the ordinary conduct of Purchaser or the Receiving Party's business; provided, however, that, except with respect to liabilities for Taxes or any incremental fees or penalties incurred by Purchaser under an Assigned Partner Agreement due to actions of Seller or its Affiliates under this Agreement, Seller shall not have any liability for indemnification to the Purchaser Indemnified Parties under this Section 5.1 for any Service rendered by it (or by any Service Provider) except to the extent that such Losses arise out of Seller's or any of its Affiliates' own negligence, gross negligence, fraud or willful misconduct. Seller shall not be liable for indemnification under this Section 5.1 for any specific act or omission to act by Seller (or by any Service Provider) if such specific action (or omission to act) is taken at Purchaser's or any of its Affiliates' express written direction.

Section 5.2 Indemnification by Purchaser. Subject to Section 9.7, Purchaser hereby agrees that it shall indemnify, defend and hold harmless Seller, its Affiliates, and their respective directors, officers, shareholders,

partners, members, attorneys, accountants, agents, representatives and employees and their heirs, successors and permitted assigns, each in their capacity as such (the “Seller Indemnified Parties”) from, against and in respect of any and all Losses imposed on, sustained by, incurred or suffered by, or asserted against, any of the Seller Indemnified Parties, whether in respect of third-party claims, claims between any Seller and Purchaser, or otherwise, directly or indirectly arising out of or as a result of (a) Purchaser’s or its Affiliates breach of this Agreement or (b) any specific actions taken by Seller or any Service Provider at the express written direction of Purchaser or its Affiliates; provided, however, that, except with respect to liabilities for Taxes, Purchaser shall not have any liability for indemnification to the Seller Indemnified Parties under this Section 5.2 for any Service provided to it (or any Service Recipient) except to the extent that such Losses arise out of Purchaser’s or any of its Affiliates’ own negligence, gross negligence fraud or willful misconduct.

Section 5.3 Procedures; Limitations. Any claim for indemnification under this Agreement shall be made in accordance with the procedures set forth in Article VIII of the Purchase Agreement (excluding, for the avoidance of doubt, Section 8.9 of the Purchase Agreement) and shall be subject to the limitations set forth in Section 9.7 of this Agreement.

ARTICLE VI INTELLECTUAL PROPERTY

Section 6.1 Ownership and Licensing of Intellectual Property.

(a) If, in connection with its provision of any Service, Seller (together with its Affiliates, the “Providing Party”) provides, or provides access to, Purchaser or its Affiliates (together, the “Receiving Party”) any Technology or Services the receipt of which by the Receiving Party would, in the absence of a license from the Providing Party, infringe or misappropriate any Intellectual Property right (excluding Trademarks) owned and licensable by the Providing Party (collectively, “Service IP”), such Providing Party hereby grants to the Receiving Party, during the term of this Agreement, a non-exclusive, revocable, personal, non-transferable, royalty-free, fully paid-up license, without the right to sublicense, under such Service IP, solely to the extent necessary for the Receiving Party to receive such Services in accordance with this Agreement.

(b) To the extent that the Providing Party provides, or provides access to, the Receiving Party any Technology the Intellectual Property rights in which are not owned by the Providing Party but which are licensed by a third party to the Providing Party with a right of the Providing Party to grant a sublicense to the Receiving Party as set forth herein (“Third-Party IP”), such Providing Party hereby grants to the Receiving Party and its Affiliates, during the term of this Agreement, a non-exclusive, revocable, personal, non-transferable, royalty-free (except as set forth in the last sentence of this Section 6.1(b) or, with respect to any Technology listed as a Service, except for the Cost Basis of such Service), fully paid-up (except as set forth in the last sentence of this Section 6.1(b) or, with respect to any Technology listed as a Service, except for the Cost Basis of such Service) sublicense, without the right to further sublicense, under such Third-Party IP, to internally use such Technology, solely to the extent such grant would not breach or otherwise violate any agreement between the Providing Party with any third party and solely to the extent necessary for the Receiving Party to receive Services in accordance with this Agreement; provided that the Receiving Party’s access to, use of and rights for such Third-Party IP shall be subject in all regards to any restrictions, limitations or other terms or conditions imposed by the licensor of such Third-Party IP, which terms and conditions will be provided to the applicable Service Recipient by the applicable Service Provider to the extent permitted by such terms and conditions. The Receiving Party shall reimburse the Providing Party for any out-of-pocket costs incurred by the Providing Party in connection with providing, or providing access to, such Technology.

(c) Upon the termination or expiration of any Service pursuant to this Agreement, the license or sublicense, as applicable, to the relevant Intellectual Property right granted hereunder in connection with such Service will automatically terminate (except to the extent such license or sublicense also applies to one or more Services that has not terminated or expired); provided, however, that all licenses and sublicenses granted hereunder shall terminate immediately upon the expiration or earlier termination of this Agreement for any reason.

(d) Except as otherwise expressly provided in this Agreement, the other Ancillary Agreements or the Purchase Agreement, no Party or its Affiliates shall have any rights or licenses with respect to any Intellectual

Property of the other Party or its Affiliates. All rights and licenses not expressly granted in this Agreement, the other Ancillary Agreements or the Purchase Agreement are expressly reserved by the relevant Party.

ARTICLE VII CONFIDENTIALITY; DATA SECURITY

Section 7.1 Confidentiality.

(a) The Parties agree that all Confidential Information of the other Party and its Affiliates, as well as the terms and conditions of this Agreement, shall be treated as confidential and shall be disclosed only to those individuals of such Party with a reasonable need to know in order to carry out the transactions of such Party contemplated by this Agreement (provided such individuals agree to be bound by the confidentiality obligations herein). Each Party will use at least the same degree of care to prevent disclosing to third parties the Confidential Information of the other Party and its Affiliates as it employs to avoid unauthorized disclosure, publication or dissemination of its own information of a similar nature, but in no event less than a reasonable standard of care. In addition, any Party may disclose Confidential Information of the other Party and its Affiliates to third parties who may be engaged by such Party to perform services hereunder, and subject to such third parties agreeing to confidentiality obligations substantially equivalent to those set forth herein, where (i) the use by such entity is authorized under this Agreement, (ii) such disclosure is reasonably necessary to or otherwise naturally occurs in that entity's scope of responsibility, and (iii) the disclosure is in accordance with the terms and conditions of this Agreement. No Party will (A) make any use or copies of the Confidential Information of the other Party and its Affiliates except as necessary to perform its obligations under this Agreement, (B) acquire any right in or assert any lien against the Confidential Information of the other Party and its Affiliates, or (C) refuse for any reason (including a default or material breach of this Agreement by any other Party) to promptly provide any other Party's or its Affiliate's Confidential Information (including all copies thereof) to such other Party if requested in writing to do so. Upon the expiration or termination for any reason of this Agreement and the concomitant completion of a Party's obligations under this Agreement, the other Party shall (except as otherwise provided in this Agreement), return or destroy, as such Party may elect, all documentation in any medium that contains, refers to, or relates to such Party's or its Affiliate's Confidential Information, and retain no copies, except in order to comply with such Party's bona fide document retention policies and in order to comply with Applicable Law (it being understood that any retained copies will only be used for, and that access to such retained copies will be limited to only those employees who need to know such information for, the purpose of complying with such Party's bona fide document retention policies or with Applicable Law). All such Confidential Information that is retained following termination or expiration shall continue to be treated as confidential by the Parties in accordance with the terms of this Agreement. In addition, the Parties shall take reasonable steps to ensure that their employees comply with these confidentiality provisions. All personnel handling such Confidential Information have been appropriately trained in the implementation of the applicable information security policies and procedures of Purchaser or Seller, as the case may be. The Parties agree to regularly audit and review their respective information security policies and procedures to ensure their continued effectiveness and determine whether adjustments are necessary in light of circumstances including changes in technology, customer information systems or threats or hazards to Confidential Information.

(b) The obligations of this Article VII will not apply to any particular information which any Party can demonstrate: (i) was, at the time of disclosure to it, in the public domain; (ii) after disclosure to it, is published or otherwise becomes part of the public domain through no fault of the receiving Party; (iii) was rightfully in the possession of the receiving Party at the time of disclosure to it; (iv) is received from a third party who had a lawful right to disclose such information to it; or (v) was independently developed by the receiving Party without reference to Confidential Information of the furnishing Party. In addition, a Party shall not be considered to have breached its obligations under this Article VII for disclosing Confidential Information of any other Party as required (upon advice of counsel) to satisfy any legal demand of a government, judicial or administrative body; provided, however, that, promptly upon receiving any such request and to the extent that it may legally do so, such Party advises the other Party so that the other Party may take appropriate actions in response to the demand.

(c) Notwithstanding anything in this Agreement to the contrary, to the extent reasonably necessary, either Party may disclose this Agreement (or any relevant portions of this Agreement) to (a) its Affiliates and its and its

Affiliates' regulators, (b) other service providers in connection with re-sourcing or outsourcing all or a portion of the Services to other service providers or (c) a third party in connection with (i) any audit, (ii) a potential or actual merger, acquisition, divestiture or other activity that may result in a change in control of such Party or a potential or actual sale of all or a portion of the account portfolio of any Service Recipient, or (iii) such Party obtaining any financing or investment, or as otherwise permitted. Subject to the foregoing, in no event may this Agreement be reproduced or copies shown to any third parties by either Party without the consent of the other Party, except as may be necessary by reason of legal, accounting or regulatory requirements of such Party, or to obtain legal, accounting or other advice in connection with this Agreement, in which event such Party agrees to exercise reasonable diligence in limiting such disclosure to the minimum necessary under the particular circumstances and cause anyone to whom such Party provides this Agreement to keep it confidential in accordance with the provisions of this Agreement. The foregoing does not permit Purchaser to disclose specific rates or other charges or fees associated with providing any Service to any third-party service providers; provided that in any event Purchaser may disclose rates and fees to Affiliates of Purchaser.

(d) The obligations set out in this Article VII do not apply to HSBC Holdings plc ("HSBC Holdings") nor any Subsidiary or division thereof other than Seller, HSBC Finance Corporation, HSBC USA Inc., HNAH and their respective Subsidiaries. To the extent that the staff of HSBC Holdings, HSBC Finance Corporation, HNAH or HSBC USA Inc. or staff within any of their respective Subsidiaries or divisions receives Confidential Information from Seller or its Subsidiaries, Seller or such Subsidiary, as applicable, shall procure that HSBC Holdings, HSBC Finance Corporation, HNAH or HSBC USA Inc. or such of their respective Subsidiaries or divisions receiving Confidential Information will comply with the obligations set forth in this Article VII with respect to such Confidential Information.

Section 7.2 Data Protection.

(a) Each of the Parties undertakes and agrees to cause those of its Affiliates constituting Service Providers or Service Recipients, as applicable, to comply fully with all Applicable Laws related to data protection and to procure that its respective employees, agents and contractors observe the provisions of such Applicable Laws.

(b) If either Party or any of its Affiliates has access to or receives NPPI data or Personal Information pursuant to this Agreement, such Party shall, and shall cause such Affiliates to, only use the data to the extent strictly necessary for the performance of such Party's obligations under this Agreement.

(c) If (A) Service Provider acts as a data processor or servicer in relation to any personal data processed pursuant to this Agreement on behalf of any Service Recipient or (B) Service Provider has access to or receives Personal Information related to customers, former customers or customer prospects of any Canadian Service Recipient, Seller shall cause such Service Provider to:

- (i) Comply with the obligations imposed on such Service Recipient by any Applicable Law;
- (ii) Maintain security, technical and organizational security measures sufficient to comply at least with the obligations imposed by Applicable Law;
- (iii) Allow representatives of such Service Recipient to audit such Service Provider's compliance with this Section 7.2 and, at the option of such Service Recipient, on request, provide such Service Recipient with reasonable evidence of such Service Provider's compliance with such requirements;
- (iv) Not transfer or process any such personal data outside the United States without the prior written consent of such Service Recipient, except as provided for in this Agreement;
- (v) Not otherwise process such personal data in any way contrary to any Applicable Laws related to data protection;
- (vi) Use commercially reasonable efforts to assist such Service Recipient to comply with any obligations imposed in relation to any such personal data processed by or on behalf of the applicable Service Provider; and
- (vii) Comply with all reasonable written instructions of such Service Recipient in relation to any such personal data, provided that such instructions are not inconsistent with this Agreement.

(d) Seller shall promptly notify Purchaser, in writing, of any confirmed breach of the provisions of this Section 7.2.

Section 7.3 Correction of Errors.

(a) Seller shall and shall cause each applicable Service Provider to use reasonable best efforts to correct, at no additional charge or cost to Purchaser or any applicable Service Recipient, any error or inaccuracy caused by such Service Provider, or any of such Service Provider's Personnel, in any data belonging to Purchaser promptly following Seller's discovery or receipt of notice of such error or inaccuracy.

(b) Any archival media, including tapes and disk units, containing any data belonging to Purchaser shall be used by Seller and each Service Provider solely for back-up and recovery purposes, to comply with Applicable Laws and in connection with any audit.

Section 7.4 Use of Information.

(a) All Service Recipient Customer Data that is disclosed to, or accessed or obtained by, any Service Provider or any of Service Provider's Personnel under this Agreement, shall be used by such Service Provider only to effect the transaction for which Service Recipient Customer Data was disclosed, accessed or obtained or to perform its obligations under this Agreement and pursuant to all Applicable Laws, including Title V of the Gramm-Leach-Bliley Act as implemented and formally construed by federal banking regulators ("GLBA") and PIPEDA. Seller agrees to, and to cause the applicable Service Providers to, maintain the confidentiality of all Service Recipient Customer Data and to use and re-disclose it only in accordance with the Agreement and as required by Applicable Law. Each Service Provider's contracts with applicable third parties relating to this Agreement shall provide for the protection of such Service Recipient Customer Data in accordance with Title V of the GLBA and PIPEDA (as applicable), and confidentiality and data protection obligations comparable to the terms contained of Article VII of this Agreement.

(b) Purchaser agrees that each Service Provider may store, disclose and use Service Recipient Customer Data obtained by such Service Provider under this Agreement only for purposes of performing the obligations under this Agreement of Seller or any Service Provider under the Agreement or for purposes permitted under Applicable Law. In addition, neither Seller nor any Service Provider shall compile, rent or sell to others any lists containing such Service Recipient Customer Data to be used for purposes other than providing Services to which it specifically relates that are specified under this Agreement.

(c) Seller agrees to, and to cause each Service Provider to, maintain appropriate, commercially reasonable administrative, technical and physical safeguards for all Service Recipient Customer Data and Confidential Information disclosed to, accessed or obtained by Seller or any Service Provider, to restrict the use and disclosure of such Service Recipient Customer Data and Confidential Information within Seller, or any Service Provider as applicable, to those individuals performing actions in connection with the Services hereunder or as required by Applicable Law. In addition, Seller shall cause each Service Provider to implement appropriate safeguards designed to (i) ensure the security and confidentiality of such Service Recipient Customer Data and Confidential Information, (ii) protect against any anticipated threats or hazards to the security or integrity of such Service Recipient Customer Data and Confidential Information, (iii) protect against unauthorized access to or use of such Service Recipient Customer Data and Confidential Information that could result in substantial harm or inconvenience to any customer and (iv) ensure the proper disposal of all such Service Recipient Customer Data as required by Section 501(b) of the GLBA, the Fair Credit Reporting Act and PIPEDA, as applicable.

(d) In the event of unauthorized disclosure, loss, or unauthorized access to Service Recipient Customer Data by Seller, any Service Provider or any Service Provider's Personnel, Seller shall notify Purchaser as soon as possible in writing and take appropriate, commercially reasonable action to prevent further unauthorized disclosure, loss or unauthorized access. Seller shall, and cause each applicable Service Provider to, (i) reasonably cooperate with Purchaser's efforts to implement each component of its data security response program that is identified in 12 CFR Part 30, Appendix B, Supplement A at II(A) and (ii) reasonably cooperate with Purchaser and shall pay commercially reasonable expenses to provide any notices and information regarding such unauthorized access to appropriate Governmental Entities and affected customers, former customers or customer prospects. At Purchaser's request, Seller shall provide, at Seller's expense and in consultation with Purchaser

such affected customers, former customers or customer prospects with access to credit monitoring services, credit protection services, credit fraud alerts or similar services reasonably necessary under the circumstances to protect such affected customers, former customers or customer prospects.

(e) Seller shall, and shall cause each Service Provider to, maintain policies and procedures designed to detect relevant and applicable “Red Flags” regarding customers, as such Red Flags are defined by the final rules and guidelines that implement Section 615 of the Fair Credit Reporting Act. Upon request, Seller shall, and shall cause each Service Provider to, report the occurrence of applicable Red Flags regarding customers to Purchaser as well as the appropriate, commercially reasonable, steps undertaken by Seller, or the applicable Service Provider, to prevent or mitigate identity theft of customers.

(f) The Parties recognize that Massachusetts law requires Purchaser to obtain a certification from Seller that it will implement and maintain security measures consistent with 201 CMR 17.00 to protect the “personal information” of Massachusetts residents, and Seller hereby so certifies. It is the intention of the Parties that the security measures in question are those provided for under this Agreement and that the definitions of NPPI and Confidential Information includes the “personal information” that is both subject to the Massachusetts requirements and this Agreement.

Section 7.5 Network Access. Seller controls access to its network through the utilization of security measures that restrict access. Seller acknowledges that Purchaser has no ability to modify such security methods and is in total reliance upon Seller for the protection of Purchaser’s internal system against access through the use of Seller’s network. Seller represents that its security measures are designed, consistent with industry best practices, in an effort to (a) ensure that Seller’s internal system cannot be accessed without Seller’s express authorization, (b) enable Seller to immediately terminate any unauthorized access and (c) enable Seller to identify the entity making such unauthorized access. Seller shall make no changes to its security measures which would increase the risk of an unauthorized access or that are inconsistent with or less robust than Seller’s current policies.

Section 7.6 Notices. The Parties shall cooperate fully with each other in providing all required notices and disclosures to the appropriate Governmental Entity and to affected customers concerning the initiation or termination of this Agreement, the Services provided hereunder, or of any substantial changes in the Services being provided to Purchaser or customers.

Section 7.7 Injunctive Relief. The Parties acknowledge that, in the event of a breach of Article VII of this Agreement, the non-breaching Party or its Affiliates may suffer irreparable damage that cannot be fully remedied by monetary damages. Therefore, in addition to any remedy, which the non-breaching Party or its Affiliates may possess pursuant to Applicable Law, the non-breaching Party or its Affiliates retains the right to seek and obtain injunctive relief against any such breach in any court of competent jurisdiction. The obligations of the Parties pursuant to this Article VII shall survive this Agreement and shall inure to the benefit of each Party, their Affiliates and any assignee thereof without limitations.

ARTICLE VIII ANTI-BRIBERY AND CORRUPT PRACTICES

Section 8.1 Bribery and FCPA. In connection with this Agreement, each Party warrants, represents and undertakes that neither it nor any of its Affiliates are foreign officials (as defined in the U.S. Foreign Corrupt Practices Act) and that it shall ensure that its Affiliates are familiar with the provisions of the U.S. Foreign Corrupt Practices Act, the UK Bribery Act 2010 and other bribery- and/or corruption-related analogous legislation in other jurisdictions (collectively, the “FCPA”) and each agree that:

(a) In connection with this Agreement, each Party warrants, represents and undertakes that it and its Affiliates have not and that it shall not and shall ensure that its Affiliates shall not, in connection with the transactions contemplated by this Agreement make any payment or transfer anything of value, offer, promise or give a financial or other advantage or request, agree to receive or accept a financial or other advantage either directly or indirectly (i) to any government official or employee (including employees of a government corporation or public international organization) or to any political party or candidate for public office or (ii) to

any other person or entity, if doing so would violate or cause any Party to be in violation of the laws of the country in which such act is done or the laws of the United States or the United Kingdom (or any part thereof);

(b) It is the intention of the Parties that in the course of their respective negotiations and performance of this Agreement no payments or transfers of value, offers, promises or giving of any financial or other advantage or requests, agreements to receive or acceptances of any financial or other advantage shall be made either directly or indirectly which have the purpose or effect of public or commercial bribery or acceptance of or acquiescence in bribery, extortion, kickbacks, greasing or other unlawful or improper means of obtaining or retaining business, commercial advantage or improperly obtaining the performance of any function or activity;

(c) It shall not otherwise violate or cause any other Party to violate the FCPA in connection with the Services provided pursuant to this Agreement;

(d) It shall have anti-bribery policies and procedures and ensure compliance with these obligations from its own associated persons, agents or subcontractors as may be used by the Party in its provision of services for the other Party;

(e) Notwithstanding any other provisions to the contrary, any Party may suspend or terminate this Agreement in whole or in part on learning information that would lead a reasonable person to conclude that any other Party has violated or caused any other Party to violate the FCPA in the course of its performance under this Agreement; and

(f) In the event of termination pursuant to Section 8.1(e), the terminating Party and its Affiliates may retain from, or charge to, any other Party an amount equal to the Cost Basis paid or payable by such Party, or any of such Party's Affiliates, in respect of any transactions or matters in which the other Party or the other Party's Affiliates violated or caused the terminating Party, or the terminating Party's Affiliates, to violate the FCPA as well as the amount of any costs, fines, or penalties which the terminating Party, or the terminating Party's affiliates, is required to pay as a consequence of acts or omissions of the other Party or the other Party's Affiliates.

ARTICLE IX SETTLEMENT; DISPUTE RESOLUTION

Section 9.1 Resolution Procedure. Prior to the initiation of legal proceedings, other than the proceedings referred to in Section 7.7, Section 9.5 or this Section 9.1, each Party agrees to use its commercially reasonable efforts to resolve disputes under this Agreement by a negotiated resolution between the Parties or as provided for in this Article IX. If any such dispute is not resolved through a negotiated resolution as provided for in this Article IX, either Party may bring a legal action or proceeding in a court specified in Section 10.6.

Section 9.2 Exchange Of Written Statements. In the event of a dispute under this Agreement, Seller, on the one hand, or Purchaser, on the other hand, may give a notice to the other requesting that the Steering Committee in good faith try to resolve (but without any obligation to resolve) such dispute. For the avoidance of doubt, resolution by the Steering Committee shall require the concurrence of at least one Person representing each Party. Not later than 15 days after such notice, unless the dispute has been resolved in the interim, Seller and Purchaser shall each submit to the other a written statement setting forth their respective description of the dispute and of the positions of the Parties on such dispute and their respective recommended resolution and the reasons why such recommended resolution is fair and equitable in light of the terms and spirit of this Agreement. Such statements represent part of a good-faith effort to resolve a dispute and, as such, no statements prepared by any Party pursuant to this Article IX may be introduced as evidence or used as an admission against interest in any arbitral or judicial resolution of such dispute.

Section 9.3 Good-Faith Negotiations. After the simultaneous exchange of such written statements, then the Steering Committee shall promptly commence good-faith negotiations to resolve such dispute but without any obligation to resolve it. The negotiating meetings may be conducted by teleconference or in person, as deemed appropriate by the Steering Committee.

Section 9.4 Determination of Resolution Panel. The Steering Committee shall have 30 days from the commencement of good-faith negotiations (unless the Steering Committee shall extend that period of time) to attempt to reach an agreed resolution. If the Steering Committee renders an agreed resolution on the matter in dispute within the designated period of time, then the Parties shall be bound thereby. If the Steering Committee does not render an agreed resolution on the matter in dispute within the designated period of time, then the Parties will submit the matter to the senior executive officers for each Party responsible for this Agreement (which each Party shall designate for itself using its reasonable discretion), who shall have 30 days from the time the matter is submitted (unless such officer shall extend that period of time) to engage in good-faith negotiations to attempt to reach an agreed resolution of the matter in dispute. If such senior executive officers cannot reach an agreed resolution on the matter in dispute within the designated period of time, then any Party may commence legal proceedings in any court of competent jurisdiction.

Section 9.5 Injunctive Relief. The Parties recognize and acknowledge that in the event of a potential, anticipatory or actual breach of this Agreement, it may be necessary or appropriate for the non-breaching Party to seek injunctive relief, if and to the extent legally available, in order to avoid harm or further harm to the non-breaching Party. If a Party desires injunctive relief, it may pursue the same in any court of competent jurisdiction; provided, however, that, if granted, such injunctive relief shall apply only to prevent a breach or further breaches and shall remain in effect only so long as the court deems necessary or appropriate to permit resolution of the underlying disputes in accordance with this Article IX. Neither the seeking of injunctive relief nor the granting thereof is intended or shall result in the application of a substantive or procedural law other than the applicable governing law pursuant to this Agreement.

Section 9.6 Continuity of Services. Seller acknowledges that the timely and complete performance of its obligations pursuant to this Agreement is critical to the business and operations of the Service Recipients. In the event of any dispute arising out of or relating to this Agreement, and subject to Seller's ability to terminate this Agreement as set forth in Section 4.2, (i) Seller shall continue to so perform its obligations under this Agreement in good faith during the resolution of such dispute (except to the extent Seller's or any of its Affiliates' nonperformance results directly from Purchaser's or its Affiliates' failure to perform its obligations under this Agreement or the Ancillary Agreements (other than Purchaser's failure to pay any fees and expenses disputed in good faith) or from the wrongful or tortious actions or omissions of Purchaser or its Affiliates in performing their respective obligations under this Agreement or the Ancillary Agreements, after Seller has provided reasonable notice of such nonperformance or such wrongful or tortious actions or omissions and used commercially reasonable efforts to perform notwithstanding such nonperformance, actions or omissions) and (ii) Purchaser shall continue to pay any undisputed fees and expenses payable to Service Providers pursuant to this Agreement.

Section 9.7 Limitation on Damages. All damages and liabilities under this Agreement (including, to avoid doubt, liability for any Losses) shall be subject to the following limitations:

(a) *Liability Standard*. Except with respect to liabilities for Taxes or, in the case of Seller, any incremental fees or penalties incurred by Purchaser under an Assigned Partner Agreement due to actions of Seller or its Affiliates under this Agreement, no Party shall have any liability of any kind under this Agreement (pursuant to Article V or otherwise) except to the extent that such liabilities or Losses arise out of such Party or any of its Affiliates' own negligence, gross negligence, fraud or willful misconduct.

(b) *Direct Damages*. Neither Purchaser nor Seller shall be liable or responsible under this Agreement for (a) any Losses that are not direct, actual damages or (b) any consequential, punitive, special or speculative damages or lost profits, in each case, with respect to any claim made under or in respect of this Agreement (including claims made pursuant to Article V) or otherwise relating to, arising from or regarding the provision (or failure to provide) or receipt of any Services, except to the extent awarded by a court of competent jurisdiction in connection with a claim by a third-party. Notwithstanding the foregoing, liability arising from the following shall not be subject to the exclusion set forth in this Section 9.7(b) (but for the avoidance of doubt, shall, to the extent applicable, be subject to the other provisions of this Section 9.7): (i) fraud or willful misconduct and (ii) gross negligence of a Party; provided, in the case of clauses (i) and (ii), a Party shall be liable only for consequential damages other than speculative or punitive damages, and solely to the extent such damages were reasonably foreseeable at the time of the act or omission giving rise to the Loss and proximately caused by such act or

omission; and provided further that Seller shall not be liable for consequential damages (whether lost profits or otherwise) hereunder arising from the failure of any counterparty to an Assigned Partner Agreement to extend or renew the term of such Assigned Partner Agreement. For the avoidance of doubt, this Section 9.7(b) shall not apply to liabilities for Taxes, which are governed by Section 3.4.

(c) *Liability Limitation.* In no event shall the aggregate liability of either Party under this Agreement (including, to avoid doubt, liability for any Losses) exceed an amount equal to (i) for Losses caused by (A) the gross negligence of such Party or (B) by any negligent act or omission resulting in a breach by a Party of its obligations under this Agreement that results in the other Party's violation of Applicable Law, but in the case of this clause (B) solely those Losses which are uniquely related to and caused by the occurrence of such violation of Applicable Law, rather than the underlying conduct without regard to the occurrence of such violation of Applicable Law (taken together with all other Losses for which such Party is liable pursuant to clause (ii) of this Section 9.7(c)), an amount equal to \$600 million, and (ii) for Losses not subject to clause (i) above, \$125 million (taken together with all other Losses for which such Party is liable pursuant to clause (i) of this Section 9.7(c)). Notwithstanding the foregoing, liability arising from (x) fraud or willful misconduct of a Party, or (y) any breach by a Party of its obligations set forth in Section 3.4 shall not be subject to the caps set forth in this Section 9.7(c) (but for the avoidance of doubt, shall, to the extent applicable, be subject to the other provisions of this Section 9.7).

(d) *Actions at Other Party's Direction.* A Party shall not be liable under this Agreement for any specific act or omission to act by such Party (or by any Service Provider or Service Recipient, as the case may be) if such specific action (or omission to act) is taken at the other Party's or any of its Affiliates' express written direction.

(e) *Excused Performance.* Seller shall not have any liability under this Agreement for any non-performance which was excused pursuant to Section 2.15.

(f) *General.* The limitations contained in this Section 9.7 are an essential part of this Agreement between the Parties and are intended to be enforced (by a court or otherwise) as written. In any suit for damages, each Party agrees to explicitly waive any claim to damages in conflict with these limitations.

ARTICLE X MISCELLANEOUS

Section 10.1 Notices. All notices, requests, demands and other communications required hereunder shall be in writing and shall be deemed to have been duly given or made if delivered personally, sent by facsimile transmission or telex confirmed in writing within two Business Days, or sent by registered or certified mail, postage prepaid, as follows:

If to Seller, to:

Stuart Alderoty
Senior Executive Vice President and General Counsel
HSBC North America Holdings Inc.
452 Fifth Avenue, Floor 10
New York, New York 10018
Facsimile: (212) 525-6994

with a copy to:

Mitchell S. Eitel, Esq. and Camille L. Orme, Esq.
Sullivan & Cromwell LLP
125 Broad Street
New York, New York 10004
Facsimile: (212) 291-9046 and
(212) 291-3373

and (solely for notices delivered pursuant to the third sentence of Section 2.1(a)):

Lynne A. Brzezinski
Executive Vice President – Head of Corporate Tax
HSBC North America
26525 N. Riverwoods Boulevard
Mettawa IL 60045
Facsimile: (224) 552-6421

If to Purchaser, to:

Murray Abrams
Executive Vice President, Corporate Development
John G. Finneran, Jr.,
General Counsel and Corporate Secretary
Capital One Financial Corporation
1680 Capital One Drive
McLean, Virginia
Facsimile: (703) 720-1094

with a copy to:

Matthew M. Guest, Esq.
Wachtell, Lipton, Rosen & Katz
51 W. 52nd Street
New York, New York 10019
Facsimile: (212) 403-2000

Any Party may change the address or fax number to which such communications are to be sent to it by giving written notice of change of address to the other Parties in the manner provided above for giving notice.

Section 10.2 Binding Effect; Assignment; No Third-Party Beneficiaries. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. Except as expressly provided in this Agreement, this Agreement and all rights hereunder may not be assigned by any Party except by prior written consent of the other Parties, and any purported assignment without such consent shall be null and void. The Parties intend that this Agreement shall not benefit or create any right or cause of action in or on behalf of any Person other than the Parties.

Section 10.3 Severability. The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

Section 10.4 Entire Agreement; Amendment. All Exhibits shall be deemed to be incorporated into and made part of this Agreement. This Agreement, together with the Exhibits and the Purchase Agreement, contain the entire agreement and understanding among the Parties with respect to the subject matter hereof (and supersede any prior agreements, arrangements or understandings among the Parties with respect to the subject matter hereof) and there are no agreements, representations, or warranties which are not set forth in this Agreement. This Agreement may not be amended or revised except by a writing signed by Seller and Purchaser.

Section 10.5 Waiver. Any waiver, permit, consent or approval of any kind or character of any breach or default under this Agreement, or any waiver of any provision or condition of this Agreement shall be effective only to the extent specifically set forth in writing. Notwithstanding any provision set forth in this Agreement, no Party shall be required to take any action or refrain from taking any action that would cause it to violate any Applicable Law, statute, legal restriction, regulation, rule or order of any Governmental Entity.

Section 10.6 Governing Law; Consent to Jurisdiction. The execution, interpretation and performance of this Agreement shall be governed by the laws of the State of New York without giving effect to any conflict of laws provision or rule (whether of the State of New York or any other jurisdiction) that would cause the application of the law of any other jurisdiction other than the State of New York. EACH PARTY HERETO, TO THE EXTENT IT MAY LAWFULLY DO SO, HEREBY EXCLUSIVELY SUBMITS TO THE JURISDICTION OF ANY COURT OF THE STATE OF NEW YORK LOCATED IN THE BOROUGH OF MANHATTAN IN NEW YORK CITY AND THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK, AS WELL AS TO THE JURISDICTION OF ALL COURTS FROM WHICH AN APPEAL MAY BE TAKEN OR OTHER REVIEW SOUGHT FROM THE AFORESAID COURTS, FOR THE PURPOSE OF ANY SUIT, ACTION, APPEAL OR OTHER PROCEEDING UNDER OR WITH RESPECT TO THIS AGREEMENT OR ANY OF THE AGREEMENTS, INSTRUMENTS OR DOCUMENTS CONTEMPLATED HEREBY, AND EXPRESSLY WAIVES ANY AND ALL OBJECTIONS IT MAY HAVE AS TO VENUE IN ANY OF SUCH COURTS.

Section 10.7 Waiver of Jury Trial. EACH PARTY HERETO HEREBY WAIVES TRIAL BY JURY IN ANY SUIT, ACTION, APPEAL, PROCEEDING OR COUNTERCLAIM BROUGHT BY ANY OF THEM AGAINST THE OTHER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS AGREEMENT, OR ANY OTHER AGREEMENTS EXECUTED IN CONNECTION HEREWITH, OR THE ADMINISTRATION THEREOF OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREIN OR THEREIN, AND NO PARTY TO THIS AGREEMENT SHALL SEEK A JURY TRIAL IN ANY SUCH LAWSUIT, PROCEEDING, COUNTERCLAIM, OR ANY OTHER LITIGATION PROCEDURE BASED UPON, OR ARISING OUT OF, THIS AGREEMENT OR ANY RELATED INSTRUMENTS OR THE RELATIONSHIP BETWEEN THE PARTIES. NO PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION, IN WHICH A JURY TRIAL HAS BEEN WAIVED, WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THE PROVISIONS OF THIS SECTION HAVE BEEN FULLY DISCUSSED BY THE PARTIES HERETO, AND THESE PROVISIONS SHALL BE SUBJECT TO NO EXCEPTIONS. NO PARTY HAS IN ANY WAY AGREED WITH OR REPRESENTED TO ANY OTHER PARTY THAT THE PROVISIONS OF THIS SECTION WILL NOT BE FULLY ENFORCED IN ALL INSTANCES.

Section 10.8 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any Party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when two or more counterparts, individually or taken together, shall bear the signatures of all of the Parties reflected hereon as the signatories. The execution and delivery of this Agreement may be effected by facsimile or any other electronic means such as “.pdf” or “.tiff” files.

Section 10.9 Relationship of the Parties. The Parties agree that in performing their responsibilities pursuant to this Agreement, they are in the position of independent contractors. This Agreement shall not create any partnership, joint venture or other similar arrangement between Seller or any of its Affiliates, on the one hand, and Purchaser or any of its Affiliates, on the other hand.

Section 10.10 Force Majeure. No Party shall be liable for any failure or performance to the extent attributable to acts, events or causes (including war, riot, rebellion, civil disturbances, flood, storm, fire and earthquake or other acts of God or conditions or events of nature, or any act of any Governmental Entity) beyond its control to prevent in whole or in part performance by such Party under this Agreement. Each Party agrees to exercise commercially reasonable efforts to minimize the effect of any such act, event or cause.

Section 10.11 Further Assurances. The Parties hereby agree to do such further acts and things, and to execute and deliver such additional conveyances, assignments, agreements and instruments, as either may at any time reasonably request in order to better assure and confirm unto each Party their respective rights, powers and remedies conferred hereunder.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement on the day and year first above written.

HSBC TECHNOLOGY AND SERVICES (USA) INC.

By: /s/ Gregory T. Zeeman

Name: Gregory T. Zeeman

Title: Executive Vice President

CAPITAL ONE SERVICES, LLC

By: /s/ Bradley R. Thayer

Name: Bradley R. Thayer

Title: Managing Vice President, Corporate Development

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Dollars in millions)	Six Months	Year Ended December 31,				
	Ended June 30, 2012 ⁽¹⁾	2011	2010	2009 ⁽²⁾	2008	2007
Ratio (including interest expense on deposits):						
Earnings:						
Income from continuing operations before income taxes	\$ 2,094	\$4,587	\$4,330	\$1,336	\$ 582	\$3,870
Fixed charges	1,181	2,251	2,903	2,975	3,985	4,583
Equity in undistributed loss of unconsolidated subsidiaries	62	112	49	60	55	43
Earnings available for fixed charges, as adjusted	<u>\$ 3,337</u>	<u>\$6,950</u>	<u>\$7,282</u>	<u>\$4,371</u>	<u>\$4,622</u>	<u>\$8,496</u>
Fixed charges:						
Interest expense on deposits and debt	\$ 1,180	\$2,246	\$2,896	\$2,967	\$3,963	\$4,548
Interest factor in rent expense	1	5	7	8	22	35
Total fixed charges	<u>\$ 1,181</u>	<u>\$2,251</u>	<u>\$2,903</u>	<u>\$2,975</u>	<u>\$3,985</u>	<u>\$4,583</u>
Ratio of earnings to fixed charges, including interest on deposits	2.83	3.09	2.51	1.47	1.16	1.85
Ratio (excluding interest expense on deposits):						
Earnings:						
Income from continuing operations before income taxes	\$ 2,094	\$4,587	\$4,330	\$1,336	\$ 582	\$3,870
Fixed charges	497	1,064	1,438	882	1,473	1,677
Equity in undistributed loss of unconsolidated subsidiaries	62	112	49	60	55	43
Earnings available for fixed charges, as adjusted	<u>\$ 2,653</u>	<u>\$5,763</u>	<u>\$5,817</u>	<u>\$2,278</u>	<u>\$2,110</u>	<u>\$5,590</u>
Fixed charges:						
Interest expense on debt ⁽³⁾	\$ 496	\$1,059	\$1,431	\$ 874	\$1,451	\$1,642
Interest factor in rent expense	1	5	7	8	22	35
Total fixed charges	<u>\$ 497</u>	<u>\$1,064</u>	<u>\$1,438</u>	<u>\$ 882</u>	<u>\$1,473</u>	<u>\$1,677</u>
Ratio of earnings to fixed charges, excluding interest on deposits	5.34	5.42	4.05	2.58	1.43	3.33

⁽¹⁾ Results include the impact of the February 17, 2012 ING Direct and the May 1, 2012 HSBC U.S. card acquisitions.

⁽²⁾ Results include the impact of the February 27, 2009 Chevy Chase Bank, fsb acquisition.

⁽³⁾ Represents total interest expense reported in our consolidated statements of income, excluding interest on deposits of \$684 million for the six months ended June 30, 2012, and \$1.2 billion, \$1.5 billion, \$2.1 billion, \$2.5 billion and \$2.9 billion for the years ended December 31, 2011, 2010, 2009, 2008, and 2007, respectively.

**COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS**

(Dollars in millions)	Six Months Ended June 30, 2012 ⁽¹⁾	Year Ended December 31,				
		2011	2010	2009 ⁽²⁾	2008	2007
Ratio (including interest expense on deposits):						
Earnings:						
Income from continuing operations before income taxes	\$ 2,094	\$4,587	\$4,330	\$1,336	\$ 582	\$3,870
Fixed charges	1,181	2,251	2,903	2,975	3,985	4,583
Equity in undistributed loss of unconsolidated subsidiaries	62	112	49	60	55	43
Earnings available for fixed charges, as adjusted	<u>\$ 3,337</u>	<u>\$6,950</u>	<u>\$7,282</u>	<u>\$4,371</u>	<u>\$4,622</u>	<u>\$8,496</u>
Fixed charges:						
Interest expense on deposits and debt	\$ 1,180	\$2,246	\$2,896	\$2,967	\$3,963	\$4,548
Interest factor in rent expense	1	5	7	8	22	35
Total fixed charges	<u>\$ 1,181</u>	<u>\$2,251</u>	<u>\$2,903</u>	<u>\$2,975</u>	<u>\$3,985</u>	<u>\$4,583</u>
Preferred stock dividends, pre-tax	—	—	—	188	16	—
Total fixed charges and preferred stock dividends	<u>\$ 1,181</u>	<u>\$2,251</u>	<u>\$2,093</u>	<u>\$3,163</u>	<u>\$4,001</u>	<u>\$4,583</u>
Ratio of earnings to fixed charges, including interest on deposits	2.83	3.09	2.51	1.38	1.16	1.85
Ratio (excluding interest expense on deposits):						
Earnings:						
Income from continuing operations before income taxes	\$ 2,094	\$4,587	\$4,330	\$1,336	\$ 582	\$3,870
Fixed charges	497	1,064	1,438	882	1,473	1,677
Equity in undistributed loss of unconsolidated subsidiaries	62	112	49	60	55	43
Earnings available for fixed charges, as adjusted	<u>\$ 2,653</u>	<u>\$5,763</u>	<u>\$5,817</u>	<u>\$2,278</u>	<u>\$2,110</u>	<u>\$5,590</u>
Fixed charges:						
Interest expense on debt ⁽³⁾	\$ 496	\$1,059	\$1,431	\$ 874	\$1,451	\$1,642
Interest factor in rent expense	1	5	7	8	22	35
Total fixed charges	<u>\$ 497</u>	<u>\$1,064</u>	<u>\$1,438</u>	<u>\$ 882</u>	<u>\$1,473</u>	<u>\$1,677</u>
Preferred stock dividends, pre-tax	—	—	—	188	16	—
Total fixed charges and preferred stock dividends	<u>\$ 497</u>	<u>\$1,064</u>	<u>\$1,438</u>	<u>\$1,070</u>	<u>\$1,489</u>	<u>\$1,677</u>
Ratio of earnings to fixed charges, excluding interest on deposits	5.34	5.42	4.05	2.13	1.42	3.33

⁽¹⁾ Results include the impact of the February 17, 2012 ING Direct and the May 1, 2012 HSBC U.S. card acquisitions.

⁽²⁾ Results include the impact of the February 27, 2009 Chevy Chase Bank, fsb acquisition.

⁽³⁾ Represents total interest expense reported in our consolidated statements of income, excluding interest on deposits of \$684 million for the six months ended June 30, 2012, and \$1.2 billion, \$1.5 billion, \$2.1 billion, \$2.5 billion and \$2.9 billion for the years ended December 31, 2011, 2010, 2009, 2008, and 2007, respectively.

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 09, 2012

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 09, 2012

By: /s/ GARY L. PERLIN
Gary L. Perlin
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, Gary L. Perlin, Chief Financial Officer of Capital One Financial Corporation, a Delaware corporation ("Capital One"), do hereby certify that:

1. The Quarterly Report on Form 10-Q for the period ended June 30, 2012 (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
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Capital One.

Date: August 09, 2012

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, Chief Financial Officer of Capital One Financial Corporation, a Delaware corporation ("Capital One"), do hereby certify that:

1. The Quarterly Report on Form 10-Q for the period ended June 30, 2012 (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
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Capital One.

Date: August 09, 2012

By: /s/ GARY L. PERLIN
Gary L. Perlin
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.