CAPITAL ONE FINANCIAL CORP
Form 10-Q
May 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 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	**54-1719854**
(State or Other Jurisdiction of	**(I.R.S. Employer**

Incorporation or Organization)	**Identification No.)**
1680 Capital One Drive,	
McLean, Virginia	**22102**
(Address of Principal Executive Offices)	**(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 x 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 x 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	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of April 30, 2012, there were 580,342,796 shares of the registrant s Common Stock, par value $.01 per share, outstanding.

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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 months ended March 31, 2012 and 2011, and selected comparative consolidated balance sheet data as of March 31, 2012, and December 31, 2011. We also provide selected key metrics we use in evaluating our performance.

On February 17, 2012, we completed the previously announced acquisition (the ING Direct 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, which resulted in the addition of loans of $40.4 billion, other assets of $53.9 billion and deposits of $84.4 billion at acquisition. The ING Direct acquisition had a significant impact on our results and selected metrics for the three months ended and as of March 31, 2012. We use the term acquired loans to refer to the substantial majority of loans acquired in the ING Direct and Chevy Chase Bank business combinations, which were recorded at fair value at acquisition and subsequently accounted for based on expected cash flows to be collected. Because this accounting methodology takes into consideration estimated credit losses expected to be realized over the remaining estimated lives of the loans, including these acquired loans in our credit quality metrics may have a material impact. We therefore present certain credit quality metrics with and without these acquired loans.

Table 1: Consolidated Financial Highlights (Unaudited)

	Three Months Ended March 31,		
(Dollars in millions, except per share data as noted)	**2012**	**2011**	**Change**
Income statement			
Net interest income[1]	**$ 3,414**	$ 3,140	**9%**
Non-interest income[2]	**1,521**	942	**61**
Total revenue	**4,935**	4,082	**21**
Provision for credit losses[1]	**573**	534	**7**
Non-interest expense	**2,504**	2,162	**16**
Income from continuing operations before income taxes	**1,858**	1,386	**34**
Income tax provision	**353**	354	**
Income from continuing operations, net of tax	**1,505**	1,032	**46**
Loss from discontinued operations, net of tax[3]	**(102)**	(16)	**538**
Net income	**1,403**	1,016	**38**

Dividends and undistributed earnings allocated to participating securities	**(7)**		**
Net income available to common shareholders	**$ 1,396**	$ 1,016	**37%**

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	Three Months Ended March 31,		
	2012	2011	Change
Common share statistics			
Earnings per common share:			
Basic earnings per common share	**$ 2.74**	$ 2.24	**22%**
Diluted earnings per common share	**2.72**	2.21	**23**
Weighted average common shares outstanding:			
Basic earnings	**508.7**	454.1	**12**
Diluted earnings	**513.1**	460.3	**11**
Dividends per common share	**0.05**	0.05	
Average balances			
Loans held for investment[4]	**$ 152,900**	$ 125,077	**24%**
Interest-earning assets	**220,246**	173,440	**27**
Total assets	**246,384**	198,075	**24**
Interest-bearing deposits	**151,625**	108,633	**40**
Total deposits	**170,259**	124,158	**37**
Borrowings	**35,994**	40,538	**(11)**
Stockholders equity	**32,982**	27,009	**22**
Performance metrics			
Purchase volume[5]	**$ 34,498**	$ 27,797	**23%**
Revenue margin[1][6]	**8.96%**	9.41%	**(45)bps**
Net interest margin[1][7]	**6.20**	7.24	**(104)**
Net charge-off rate[1][8]	**2.04**	3.66	**(162)**
Net charge-off rate (excluding acquired loans)[1][9]	**2.40**	3.82	**(142)**
Return on average assets[10]	**2.44**	2.08	**36**
Return on average total stockholders equity[11]	**18.25**	15.28	**297**
Non-interest expense as a % of average loans held for investment[12]	**6.55**	6.91	**(36)**
Efficiency ratio[13]	**50.74**	52.96	**(222)**
Effective income tax rate	**19.0**	25.5	**(650)**
Full-time equivalent employees (in thousands), period end	**34.2**	27.9	**23%**

	March 31, 2012	December 31, 2011	Change
Balance sheet (period end)			
Loans held for investment[4]	**$ 173,822**	$ 135,892	**28%**
Interest-earning assets	**265,398**	179,878	**48**
Total assets	**294,481**	206,019	**43**
Interest-bearing deposits	**197,254**	109,945	**79**
Total deposits	**216,528**	128,226	**69**
Borrowings	**32,885**	39,561	**(17)**
Stockholders equity	**36,950**	29,666	**25**
Credit quality metrics (period end)			
Allowance for loan and lease losses	**$ 4,060**	$ 4,250	**(4)%**
Allowance as a % of loans held of investment	**2.34%**	3.13%	**(79)bps**
Allowance as a % of loans held of investment (excluding acquired loans)	**3.08**	3.22	**(14)**
30+ day performing delinquency rate	**2.23**	3.35	**(112)**
30+ day performing delinquency rate (excluding acquired loans)	**2.96**	3.47	**(51)**
30+ day delinquency rate	**2.69**	3.95	**(126)**
30+ day delinquency rate (excluding acquired loans)	**3.57**	4.09	**(52)**
Capital ratios			
Tier 1 common ratio[14]	**11.9%**	9.7%	**220bps**
Tier 1 risk-based capital ratio[15]	**13.9**	12.0	**190**
Total risk-based capital ratio[16]	**16.5**	14.9	**160**
Tangible common equity (TCE) ratio[17]	**8.2**	8.2	

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

(1) Amounts attributable to Kohl s Department Stores (Kohl s) under the revenue and loss-sharing arrangement reduced interest income by $222 million, reduced the provision for credit losses by $193 million and reduced net charge-offs by $40 million in the first quarter of 2012. The expected loss reimbursement from Kohl s netted against our allowance for loan and lease losses was approximately $153 million and $139 million as of March 31, 2012 and December 31, 2011, respectively.

(2) Includes a bargain purchase gain of $594 million attributable to the February 17, 2012 acquisition of ING Direct recognized in non-interest income in the first quarter 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.

(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 ING Direct and Chevy Chase Bank business combinations. The carrying value and outstanding unpaid principal balance of acquired loans accounted for based on expected cash flows at acquisition was $43.2 billion and $44.3 billion as of March 31, 2012, respectively, and $4.7 billion and $5.2 billion, respectively, as of December 31, 2011. The average balance of loans held for investment excluding the carrying value of acquired loans was $129.8 billion and $119.8 billion in the first quarter of 2012 and 2011, respectively.

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

(6) Calculated based on annualized total 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) Calculated based on annualized net charge-offs for the period divided by average loans held for investment, excluding acquired loans, for the period.

(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) 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.

(15) 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.

(16) 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.

(17) 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.

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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 strengthens our customer franchise and brand and adds over seven million customers and approximately $84.4 billion in deposits to our Consumer Banking business segment. 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. We had $173.8 billion in total loans outstanding and $216.5 billion in deposits as of March 31, 2012, compared with $135.9 billion in total loans outstanding and $128.2 billion in deposits 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. 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 months ended March 31, 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 Report. We also provide a reconciliation of our total business segment results to our consolidated U.S. GAAP results in Note 14 Business Segments.

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Table 2: Business Segment Results

	Three Months Ended March 31,							
	2012				2011			
	Total Revenue[1]		Net Income[2]		Total Revenue[1]		Net Income[2]	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	**$ 2,590**	**53%**	**$ 566**	**38%**	$ 2,615	64%	$ 643	62%
Consumer Banking	**1,464**	**30**	**224**	**15**	1,169	29	215	21
Commercial Banking	**516**	**10**	**210**	**14**	447	11	162	16
Other[3]	**365**	**7**	**505**	**33**	(149)	(4)	12	1
Total from continuing operations	**$ 4,935**	**100%**	**$ 1,505**	**100%**	$ 4,082	100%	$ 1,032	100%

(1) Total 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

Despite ongoing challenges and uncertainties, including high oil and gas prices and global economic concerns, the U.S. economy showed positive trends during the first quarter of 2012. Our results for the first quarter of 2012 reflected the impact of growth in consumer and business spending, coupled with traction from our geographic expansion and strategy to deepen our customer relationships, and credit performance improvement. The completion of our previously announced ING Direct acquisition also had a significant impact on our results during the first quarter. We believe that cyclical and seasonal improvement trends, as well as actions we took in underwriting and managing our business through the recession, including focusing on our most resilient businesses, have continued to drive our strong credit performance.

Financial Highlights

We reported net income of $1.4 billion, or $2.72 per diluted share, for the first quarter of 2012 on revenues of $4.9 billion, with each of our three business segments contributing to our earnings. Current-quarter results include an approximate half-quarter impact from the operations of ING Direct and a benefit from the recognition of a bargain purchase gain of $594 million in the ING Direct acquisition. The bargain purchase gain represents the excess of the fair value of the net assets acquired in the ING Direct acquisition as of the acquisition date over the consideration transferred. This gain was driven largely by a substantial decline in long-term interest rates between the period of our announcement of the ING Direct acquisition and its closing, which resulted in an increase in the fair value of the acquired assets. Net income excluding the impact of the bargain purchase gain was $809 million, or $1.56 per diluted share, for the first quarter of 2012. In comparison, we reported net income of $1.0 billion, or $2.21 per diluted share, for the first quarter of 2011 on revenues of $4.1 billion.

Our capital levels strengthened during the quarter, driven by strong earnings growth and capital actions related to the financing of the ING Direct acquisition and the acquisition of HSBC s U.S. credit card business. 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 $1.24 billion. On February 16, 2012, we issued 40 million shares of our common stock at settlement of the 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 for net proceeds of $1.9 billion. In addition, on February 17, 2012, we issued 54,028,086 shares of our common stock to the ING Sellers with a fair

value of $2.6 billion. Our recent equity issuances contributed to a significant increase in our regulatory capital ratios, with the Tier 1 common

ratio increasing by 220 basis points during the quarter to 11.9% as of March 31, 2012. The Tier 1 risk-based capital ratio increased to 13.9% as of March 31, 2012, from 12.0% as of December 31, 2011. In addition, we issued $1.25 billion of our senior notes due 2015 in a public offering, that closed on March 23, 2012.

Below are additional highlights of our performance for the first quarter of 2012. These highlights generally are based on a comparison to the same prior year period. The changes in our financial condition and credit performance are generally based on our financial condition and credit performance as of March 31, 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 $1.4 billion in the first quarter of 2012 increased by $380 million, or 37%, from the first quarter of 2011. The increase reflected the favorable impacts from the bargain purchase gain of $594 million attributable to ING Direct acquisition, income related to the sale of Visa stock of $162 million and higher revenue from our legacy businesses. These factors were partially offset by higher operating expenses related to our recent acquisitions, including an estimated $150 million of operating expenses attributable to ING Direct, increased marketing expenditures and an increase in the provision for mortgage loan repurchase losses largely due to the Government-Sponsored Enterprise (GSE) settlement described below in Consolidated Balance Sheet Analysis Potential Mortgage Representation & Warranty Liabilities.

Total Loans: Period-end loans held for investment increased by $37.9 billion, or 28%, in the first quarter of 2012, to $173.8 billion as of March 31, 2012, from $135.9 billion as of December 31, 2011. The increase was primarily attributable to the addition of the ING Direct loan portfolio of $40.4 billion. Excluding the impact from the addition of the ING Direct loan portfolio, total loans decreased by $2.5 billion, or 2%, reflecting an expected seasonal decline in credit card loan balances.

Charge-off and Delinquency Statistics: Our net charge-off and delinquency rates continued to improve during the first quarter of 2012. The net charge-off rate decreased to 2.04% in the first quarter of 2012, from 2.69% in the fourth quarter of 2011 and 3.66% in the first quarter of 2011. The 30+ day delinquency rate decreased to 2.69% as of March 31, 2012, from 3.95% as of December 31, 2011, primarily due to seasonality trends. Although our first quarter delinquency improvements outpaced industry trends, it is important to note that the seasonality in our delinquency rates is more pronounced than the overall industry. Some of the improvement in our credit quality metrics was attributable to the addition of the ING Direct loan portfolio and the related accounting. We provide information on our credit quality metrics excluding the impact of acquired loans in the Credit Risk Profile section of this report.

Allowance for Loan and Lease Losses: As a result of the strong credit performance, we reduced our allowance by $190 million in the first quarter of 2012 to $4.1 billion. The coverage ratio of the allowance to total loans held for investment fell by 79 basis points to 2.34% as of March 31, 2012, primarily due to the addition of the ING Direct loan portfolio. Because we recorded the ING Direct loans at fair value at acquisition there is currently no allowance related to these loans. See the Credit Risk Profile section of this report for information on our credit quality metrics excluding the impact of acquired loans.

Representation and Warranty Reserve: We recorded a provision for mortgage loan repurchase losses of $169 million in the first quarter of 2012, of which $95 million related to the GSE settlement. In comparison, we recorded a provision of $44 million in the first quarter of 2011. Our representation and warranty reserve totaled $1.1 billion as of March 31, 2012, compared with $943 million as of December 31, 2011.

Business Segments

Credit Card: Our Credit Card business generated net income from continuing operations of $566 million in the first quarter of 2012, compared with net income from continuing operations of $643 million in the first

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quarter of 2011. The decrease in earnings was attributable to higher non-interest expense and a reduction in non-interest income, which were partially offset by an increase in net interest income. Non-interest expense rose as a result of increased marketing expenditures and merger-related expenses associated with the acquisition of the HSBC U.S. credit card portfolio. Non-interest income was reduced due to the recognition of expense of $75 million in the first quarter of 2012 to establish a reserve for expected customer refunds attributable to issues associated with cross-selling certain other products to credit card customers. The increase in net interest income was primarily attributable to growth in average loan balances. Domestic Card continued to grow and gain market share in new account originations, due in part to recent acquisitions.

Consumer Banking: Our Consumer Banking business generated net income from continuing operations of $224 million in the first quarter of 2012, compared with net income from continuing operations of $215 million in the first quarter of 2011. The increase in earnings was attributable to growth in 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 originations over the past year and the half-quarter impact from home loans added in the ING Direct acquisition. The increase in non-interest expense reflected the approximate half-quarter impact of operating expenses associated with ING Direct, merger-related costs related to the ING Direct acquisition, 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. Because of the growth in auto loans, we recorded an allowance build in the first quarter of 2012, compared with an allowance release in the first quarter of 2011.

Commercial Banking: Our Commercial Banking business generated net income from continuing operations of $210 million in the first quarter of 2012, compared with net income from continuing operations of $162 million in the first quarter of 2011. 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.

Significant Recent Developments

Acquisition-Related Developments

HSBC Acquisition U.S. Credit Card Business

We completed the transaction in which we acquired substantially all of the assets and assumed liabilities of HSBC s credit card and private-label credit card business in the United States (the HSBC Transaction) for a purchase price of $31.3 billion on May 1, 2012. In the HSBC Transaction, the Company acquired $28.2 billion of credit card receivables and $0.6 billion in other net assets. We used the net proceeds from the equity and debt offerings described above, along with cash sourced from current liquidity, to fund the cash consideration payable in connection with the acquisition of HSBC s U.S credit card business.

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 profitable long-term growth 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.

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. The addition of ING Direct and of the HSBC s U.S. credit card business has grown our loan balances. Although we anticipate strong underlying growth in our Auto Finance, Commercial Banking and Domestic Card segments, we expect modest overall loan growth because of significant run-off portfolios that we acquired in the ING Direct Acquisition and HSBC Transaction. The timing and pace of this modest loan growth will depend on broader economic trends that impact overall consumer and commercial demand.

As noted above, we closed the HSBC Transaction in the second quarter of 2012. We expect that the closing of the HSBC Transaction will have a significant impact on our financial results in the second quarter. While we expect the acquisition to enhance our earnings trajectory and capital generation in the long-term, we anticipate that it will have a substantial negative effect on earnings and capital in the short-term. We anticipate that the largest impact on our earnings for the second quarter of 2012 from the HSBC Transaction, will result from an increase in our provision for credit losses due to an expected significant build in the allowance for loan and lease losses associated with loans acquired in the transaction. Over the next several years, we expect expenses and earnings to be affected by the amortization of intangibles as well as transaction and merger-related expenses.

Business Segment Expectations

Credit Card Business

In Domestic Card, the closing of the HSBC Transaction has added significant new customer relationships and loan portfolios and will affect quarterly trends in loan growth, revenue margin, non-interest expense, charge-off rates and earnings. We anticipate that the run-off of parts of the portfolios acquired in the HSBC Transaction will offset the underlying growth trajectory, resulting in modest loan growth for the segment. We expect to take a credit mark to cover expected losses on delinquent loans in the HSBC portfolio that no longer carry revolving privileges. We

anticipate the credit mark would absorb most of the HSBC credit losses for the next several quarters, lowering the overall charge-off rate of the Domestic Card segment during that time. When we announced the HSBC Transaction, we planned to take certain actions to bring HSBC customer practices into alignment with our customer practices. We expect that these planned actions will put downward pressure on Domestic Card revenue margin as we implement them over the next several quarters. The overall trends and level of Domestic Card revenue margin will depend upon the competitive environment, the pace and nature of Domestic Card loan growth, and other market forces in addition to the expected impact from our planned customer actions.

Consumer Banking Business

In our Consumer Banking business, we added significant new customer relationships, loans and deposits with the acquisition of ING Direct, and the acquisition will have a significant impact on Consumer Banking loan and deposit growth trajectories. The addition of the ING Direct loan portfolio caused loan yields to decrease. We expect loan yields will decrease again in the second quarter after which we expect them to remain relatively stable because we anticipate loan yield increases from the expected mortgage run-off to be offset by loan yield decreases from a higher mix of prime loans in our Auto Finance business in 2012. We expect that the growth in auto loans will be more than offset by a sizeable run-off of the ING Direct home loan portfolio and the continuing run-off of certain loans in our legacy Home Loan portfolio, which will drive a declining trend in Consumer Banking loan volumes. We expect that seasonal patterns will drive quarterly credit trends throughout the rest of 2012.

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. 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.

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.

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CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance for the three months ended March 31, 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 first quarter of 2012 and 2011.

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

	Three Months Ended March 31,					
	2012			2011		
(Dollars in millions)	Average Balance	Interest Income/ Expense[1]	Yield/ Rate	Average Balance	Interest Income/ Expense[1]	Yield/ Rate
Assets:						
Interest-earning assets:						
Consumer loans:[2]						
Domestic[3]	**$ 110,567**	**$ 2,935**	**10.34%**	$ 86,353	$ 2,702	12.52%
International	**8,301**	**340**	**16.38**	8,697	354	16.28
Total consumer loans	**118,868**	**3,275**	**10.76**	95,050	3,056	12.86
Commercial loans	**34,032**	**380**	**4.47**	30,027	361	4.81
Total loans held for investment	**152,900**	**3,655**	**9.56**	125,077	3,417	10.93
Investment securities	**50,543**	**298**	**2.36**	41,532	316	3.04
Other interest-earning assets:						
Domestic	**16,306**	**22**	**0.54**	6,150	16	1.04
International	**497**	**4**	**3.22**	681	3	1.76
Total other interest-earning assets[3]	**16,803**	**26**	**0.62**	6,831	19	1.11
Total interest-earning assets	**$ 220,246**	**$ 3,979**	**7.23%**	$ 173,440	$ 3,752	8.65%
Cash and due from banks	**2,237**			2,000		
Allowance for loan and lease losses	**(4,334)**			(5,629)		
Premises and equipment, net	**2,898**			2,720		
Other assets	**25,337**			25,544		
Total assets	**$ 246,384**			$ 198,075		
Liabilities and equity:						
Interest-bearing liabilities:						
Deposits:						
Domestic	**$ 151,625**	**$ 311**	**0.82%**	$ 108,633	$ 322	1.19%
International						
Total Deposits	**151,625**	**311**	**0.82**	108,633	322	1.19
Securitized debt obligations:						
Domestic	**12,855**	**67**	**2.08**	21,582	117	2.17
International	**3,330**	**13**	**1.56**	3,933	23	2.34
Total securitized debt obligations	**16,185**	**80**	**1.98**	25,515	140	2.19
Senior and subordinated notes	**10,268**	**88**	**3.43**	8,090	64	3.16
Other borrowings:						
Domestic	**5,823**	**79**	**5.43**	3,006	78	10.38
International	**3,718**	**7**	**0.75**	3,927	8	0.81
Total other borrowings	**9,541**	**86**	**3.61**	6,933	86	4.96

Total interest-bearing liabilities	**$ 187,619**	**$ 565**	**1.20%**	$ 149,171	$ 612	1.64%
Non-interest bearing deposits	**18,635**			15,525		
Other liabilities	**7,148**			6,370		
Total liabilities	**213,402**			171,066		
Stockholders equity	**32,982**			27,009		
Total liabilities and stockholders equity	**$ 246,384**			$ 198,075		
Net interest income/spread[3]		**$ 3,414**	**6.03%**		$ 3,140	7.01%
Impact of non-interest bearing funding			**0.17**			0.23
Net interest margin			**6.20%**			7.24%

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(1) Past due fees included in interest income totaled approximately $283 million and $245 million for the first quarter of 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.

(3) Amounts attributable to Kohl s under the revenue and loss-sharing arrangement reduced interest income by $222 million for the first quarter of 2012.

Table 4 presents the variances between our net interest income for the first quarter of 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]

	Three Months Ended March 31, 2012 vs. 2011		
	Total	Variance Due to	
(Dollars in millions)	Variance	Volume	Rate
Interest income:			
Loans held for investment:			
Consumer loans	$ 219	$ 696	$ (477)
Commercial loans	19	46	(27)
Total loans held for investment, including past-due fees	238	742	(504)
Investment securities	(18)	61	(79)
Other	7	18	(11)
Total interest income	227	821	(594)
Interest expense:			
Deposits	(11)	105	(116)
Securitized debt obligations	(60)	(47)	(13)
Senior and subordinated notes	24	18	6
Other borrowings		27	(27)
Total interest expense	(47)	103	(150)
Net interest income	$ 274	$ 718	$ (444)

(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 $3.4 billion for the first quarter of 2012 increased by $274 million, or 9%, from the first quarter of 2011, driven by a 27% increase in average interest-earning assets, which was partially offset by a 14% decline in our net interest margin to 6.20%. The addition of the ING Direct loan portfolio of $40.4 billion, which primarily consisted of consumer loans, and investment security portfolio of $30.2 billion, accounted for approximately $136 million of the $274 million increase in net interest income.

Average Interest-Earning Assets: The increase in average interest-earning assets was attributable to the addition of the ING Direct loan portfolio as well as growth in our legacy loan portfolios from the addition of new credit card accounts and increased purchase volumes and

a significant increase in auto loan originations over 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, which was partially mitigated by an improvement in our cost of funds. The decline in average yield reflected the shift in the mix of our interest-earning assets as 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

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generally have lower yields than our legacy loan and the investment security portfolios. Our cost of funds 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 the 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 first quarter of 2012 and 2011.

Table 5: Non-Interest Income

	Three Months Ended March 31,	
(Dollars in millions)	**2012**	**2011**
Non-interest income:		
Service charges and other customer-related fees	**$ 415**	$ 525
Interchange fees	**328**	320
Bargain purchase gain[1]	**594**	
Net other-than-temporary impairment (OTTI)	**(14)**	(3)
Other non-interest income:		
Provision for mortgage repurchase losses[2]	**(17)**	(5)
Other	**215**[3]	105
Total other non-interest income	**198**	100
Total non-interest income	**$ 1,521**	$ 942

(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 $169 million and $44 million in the first quarter of 2012 and 2011, respectively. The remaining portion of the provision for repurchase losses is included in discontinued operations.

(3) Includes a mark-to-market derivative loss of $78 million related to 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 income of $162 million related to the sale of Visa stock.

Non-interest income of $1.5 billion for the first quarter of 2012 increased by $579 million, or 61%, from non-interest income of $942 million for the first quarter of 2011. This increase was attributable to the recognition of a bargain purchase gain of $594 million at acquisition of ING direct and income of $162 million related to the sale of Visa stock shares in the first quarter of 2012. The bargain purchase gain represents the excess of the fair value of the net assets acquired in the ING Direct acquisition as of the acquisition date over the consideration transferred. This 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 the closing of the acquisition, which resulted in an increase in the fair value of the acquired assets. We provide additional information on the allocation of the ING Direct purchase price to the fair values of assets acquired and liabilities assumed and the bargain purchase gain in Note 2 Acquisitions.

These income amounts were partially offset by the recognition of expense of $75 million in the first quarter of 2012 to establish a reserve for expected customer refunds attributable to issues associated with cross-selling certain other products to credit card customers and a mark-to-market loss of $78 million recorded in the first quarter of 2012 for 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. The cumulative mark-to-market loss on these interest-rate swaps, which we terminated in the first quarter of 2012, from inception to termination totaled $355 million. See the Market Risk Profile section below and Note 10 Derivative Instruments and Hedging Activities for additional information on the ING Direct acquisition related hedges.

We also recorded higher other-than-temporary impairment losses of $14 million in the first quarter of 2012, compared with $3 million in the first quarter of 2011. The impairment losses stemmed from deterioration in the credit quality of certain non-agency mortgage-backed securities due to the continued 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 $573 million in the first quarter of 2012, compared with $534 million in the first quarter of 2011. The increase in the provision was driven primarily by the year-over-year increase in legacy loan balances and smaller allowance releases as a result of the stabilization of the improvement in credit trends. The net charge-off rate steadily declined, falling to 2.04% in the first quarter of 2012, from 2.69% in the fourth quarter of 2011 and 3.66% in the first quarter of 2011. The net charge-off rate excluding acquired loans was 2.40% in the first quarter of 2012, compared with 2.79% in the fourth quarter of 2011 and 3.82% in the first quarter of 2011.

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 section below.

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 expenses. Marketing expenses are also included in non-interest expense. Table 6 displays the components of non-interest expense for the first quarter of 2012 and 2011.

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Table 6: Non-Interest Expense

	Three Months Ended March 31,	
(Dollars in millions)	**2012[(1)]**	**2011**
Non-interest expense:		
Salaries and associated benefits	**$ 891**	$ 741
Marketing	**321**	276
Communications and data processing	**173**	164
Supplies and equipment	**150**	135
Occupancy	**123**	119
Other non-interest expense:		
Professional services	**344**	249
Collections	**136**	151
Bankcard association assessments	**110**	82
Amortization of intangibles	**60**	56
Other	**196**	189
Total other non-interest expense	**846**	727
Total non-interest expense	**$ 2,504**	$ 2,162

(1) Includes transaction costs and merger-related expenses related to the ING Direct acquisition of $65 million, of which $37 million represented transaction costs. We provide additional information on the ING Direct acquisition in Note 2 Acquisitions.

Non-interest expense of $2.5 billion for the first quarter of 2012 increased by $342 million, or 16%, from the first quarter of 2011. The increase was primarily due to higher operating expenses related to our recent acquisitions, including an estimated $150 million of half-quarter operating expenses attributable to ING Direct, increased marketing expenditures, primarily related to reward products in our Credit Card business and higher infrastructure costs from our continued investments in our home loan business and growth in auto originations.

Income Taxes

We recorded an income tax provision based on income from continuing operations of $353 million (19.0% effective income tax rate) in the first quarter of 2012, compared with an income tax provision of $354 million (25.5% effective income tax rate) in the first quarter of 2011. The decrease in our effective tax rate in the first quarter of 2012 from the first quarter of 2011 was primarily due to the ING Direct bargain purchase gain of $594 million, which was non-taxable. In addition, we recorded tax benefits of $6 million and $42 million in the first quarter of 2012 and 2011, respectively, related to the resolution of certain discrete tax issues and audits. Our effective income tax rate, excluding both the impact of the non-taxable bargain purchase gain and the benefit from these discrete tax issues and audits, was 28.4% and 28.6% in the first quarter 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 $169 million in the first quarter of 2012, of which $153 million ($97 million, net of tax) was included in discontinued operations. In comparison, we recorded a pre-tax provision for mortgage repurchase losses of $44 million in the first quarter of 2011, of which $39 million ($29 million, net of tax) was included in discontinued operations. The increase in the provision for

repurchase losses was primarily due to a GSE settlement to resolve present and future representation and warranty claims. We had already established an estimated reserve related to the GSE claims; however, we increased this reserve by $95 million in the first quarter of 2012 based on the final settlement amount, which we paid subsequent to the end of the first quarter of 2012.

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, to assign certain balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment. 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 months ended March 31, 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 March 31, 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 generated net income from continuing operations of $566 million in the first quarter of 2012, compared with $643 million in the first quarter of 2011. The primary sources of revenue for our Credit Card business are net 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.

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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.

Table 7: Credit Card Business Results

	Three Months Ended March 31,		
(Dollars in millions)	**2012**	**2011**	**Change**
Selected income statement data:			
Net interest income[1]	**$ 1,992**	$ 1,941	**3%**
Non-interest income	**598**	674	**(11)**
Total revenue	**2,590**	2,615	**(1)**
Provision for credit losses[1]	**458**	450	**2**
Non-interest expense	**1,268**	1,178	**8**
Income from continuing operations before income taxes	**864**	987	**(12)**
Income tax provision	**298**	344	**(13)**
Income from continuing operations, net of tax	**$ 566**	$ 643	**(12)%**
Selected performance metrics:			
Average loans held for investment	**$ 62,432**	$ 60,586	**3%**
Average yield on loans held for investment[2]	**14.41%**	14.68%	**(27)bps**
Revenue margin[1] [3]	**16.59**	17.26	**(67)**
Net charge-off rate[1] [4]	**4.14**	6.13	**(199)**
Purchase volume[5]	**$ 34,498**	$ 27,797	**23%**

	March 31, 2012	December 31, 2011	Change
Selected period-end data:			
Loans held for investment	**$ 61,476**	$ 65,075	**(6)%**
30+ day delinquency rate[6]	**3.51%**	3.86%	**(35)bps**
Allowance for loan and lease losses[1]	**$ 2,671**	$ 2,847	**(6)%**

(1) Amounts attributable to Kohl s under the revenue and loss-sharing arrangement reduced interest income by $222 million, reduced the provision for credit losses by $193 million and reduced net charge-offs by $40 million in the first quarter of 2012. The expected loss reimbursement from Kohl s netted against our allowance for loan and lease losses was approximately $153 million and $139 million as of March 31, 2012 and December 31, 2011, respectively.

(2) Average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period.

(3) Revenue margin is calculated by dividing revenues for the period by average loans held for investment during the period for the specified loan category.

(4) The net charge-off rate is calculated by dividing net charge-offs for the period by average loans held for investment during the period for the specified loan category.

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

(6) The delinquency rate is 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.

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

Net Interest Income: Net interest income increased by $51 million, or 3%, in the first quarter of 2012. The increase in net interest income was primarily attributable to loan growth. Loan yields were stable as lower yielding Kohl s loans were offset by higher yields across the rest of the portfolio.

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Non-Interest Income: Non-interest income decreased by $76 million, or 11%, in the first quarter of 2012. The decrease is primarily driven by the $75 million reserve established in the first quarter of 2012 which reflects an upcoming reimbursement we expect to provide customers affected by certain cross-sell sale practices.

Provision for Credit Losses: The provision for credit losses related to our Credit Card business increased by $8 million to $458 million in the first quarter of 2012. The increase was primarily driven by a lower allowance release of $176 million in the first quarter of 2012 compared to $465 million in the first quarter of 2011 due to the expected stabilization of credit, which was mostly offset by improved net charge-offs of $646 million in the first quarter of 2012, compared with $929 million in the first quarter of 2011 due to improved credit performance across all of our Credit Card segment.

Non-Interest Expense: Non-interest expense increased by $90 million, or 8%, in the first quarter of 2012. The increase in non-interest expense was primarily attributable to increased marketing expenditures. In addition, operating costs increased primarily due to merger-related expenses from the HSBC Transaction.

Total Loans: Period-end loans in our Credit Card business decreased by $3.6 billion, or 6%, to $61.5 billion as of March 31, 2012, from $65.1 billion as of December 31, 2011. The decline reflected normal seasonal credit card pay downs, as well as the continued run-off of our installment loan portfolio.

Charge-off and Delinquency Statistics: The net charge-off rate decreased to 4.14% in the first quarter of 2012 from 6.13% in the first quarter of 2011. The 30+ day delinquency rate decreased to 3.51% as of March 31, 2012, from 3.86% as of December 31, 2011. The improvement in the net charge-off and delinquency rates reflects the impact of improved credit quality across our credit card portfolio, tighter underwriting standards implemented over the last several years and ongoing stabilization of credit performance in the portfolio.

Domestic Card Business

Domestic Card generated net income from continuing operations of $515 million in the first quarter of 2012, compared with net income from continuing operations of $654 million in the first quarter of 2011. Since 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 first quarter of 2012 compared with first quarter of 2011 was driven by: (1) an increase in the provision for credit losses due to a lower allowance release of $170 million in the first quarter of 2012 compared to a $574 million allowance release in the first quarter of 2011 which was partially offset by lower net charge-offs of $531 million in the first quarter of 2012 compared to $804 million in the first quarter of 2011, (2) an increase in non-interest expense primarily due to increased marketing expenses as we continue to experience growth opportunities in certain customer segments and (3) a decrease in non-interest income primarily as a result of a $75 million reserve build in cross-sell for anticipated customer refunds associated with past cross-selling activities.

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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 March 31, 2012	2011	Change
Selected income statement data:			
Net interest income	**$ 1,713**	$ 1,651	**4%**
Non-interest income	**497**	583	**(15)**
Total revenue	**2,210**	2,234	**(1)**
Provision for credit losses	**361**	230	**57**
Non-interest expense	**1,052**	990	**6**
Income from continuing operations before income taxes	**797**	1,014	**(21)**
Income tax provision	**282**	360	**(22)**
Income from continuing operations, net of tax	**$ 515**	$ 654	**(21)%**
Selected performance metrics:			
Average loans held for investment	**$ 54,131**	$ 51,889	**4%**
Average yield on loans held for investment[1]	**14.11%**	14.42%	**(31)bps**
Revenue margin[2]	**16.33**	17.22	**(89)**
Net charge-off rate[3]	**3.92**	6.20	**(228)**
Purchase volume[4]	**$ 31,417**	$ 25,024	**(26)%**
	March 31, 2012	**December 31, 2011**	**Change**
Selected period-end data:			
Loans held for investment	**$ 53,173**	$ 56,609	**(6)%**
30+ day delinquency rate[5]	**3.25%**	3.66%	**(41)bps**
Allowance for loan and lease losses	**$ 2,205**	$ 2,375	**(7)%**

(1) Average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period.

(2) Revenue margin is calculated by dividing revenues for the period by average loans held for investment during the period for the specified loan category.

(3) The net charge-off rate is calculated by dividing 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) The delinquency rate is 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 generated net income from continuing operations of $51 million in the first quarter of 2012, compared with a net loss from continuing operations of $11 million in the first quarter of 2011. The increase in International Card net income in the first quarter of 2012 was driven primarily by: (1) a decrease in provision for loan losses as a result of an allowance release of $6 million in the first quarter of 2012 compared to an allowance build of $109 million in first quarter of 2011 due to the addition of the Hudson s Bay Company (HBC) loan portfolio, and lower net charge-offs of $115 million in the first quarter of 2012 compared to $125 million in the first quarter of 2011 attributable to the improvement in credit environment in Canada and the U.K. and (2) partially offset by an increase in non-interest expense of $28 million from higher operating expenses in both the U.K. and Canada.

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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

	Three Months Ended March 31,		
(Dollars in millions)	2012	2011	Change
Selected income statement data:			
Net interest income	**$ 279**	$ 290	**(4)%**
Non-interest income	**101**	91	**11**
Total revenue	**380**	381	
Provision for credit losses	**97**	220	**(56)**
Non-interest expense	**216**	188	**15**
Income from continuing operations before income taxes	**67**	(27)	**348**
Income tax provision	**16**	(16)	**200**
Income from continuing operations, net of tax	**$ 51**	$ (11)	**564%**
Selected performance metrics:			
Average loans held for investment	**$ 8,301**	$ 8,697	**(5)%**
Average yield on loans held for investment[1]	**16.38%**	16.28%	**10 bps**
Revenue margin[2]	**18.31**	17.52	**79**
Net charge-off rate[3]	**5.52**	5.74	**(22)**
Purchase volume[4]	**$ 3,081**	$ 2,773	**11%**
	March 31, 2012	**December 31, 2011**	**Change**
Selected period-end data:			
Loans held for investment	**$ 8,303**	$ 8,466	**(2)%**
30+ day delinquency rate[5]	**5.14%**	5.18%	**(4)bps**
Allowance for loan and lease losses	**$ 466**	$ 472	**(1)%**

(1) Average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period.
(2) Revenue margin is calculated by dividing revenues for the period by average loans held for investment during the period for the specified loan category.
(3) The net charge-off rate is calculated by dividing 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) The delinquency rate is calculated by loan category by dividing 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 $224 million in the first quarter of 2012, compared with net income from continuing operations of $215 million in the first quarter of 2011. 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.

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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 March 31, 2012	2011	Change
Selected income statement data:			
Net interest income	**$ 1,288**	$ 983	**31%**
Non-interest income	**176**	186	**(5)**
Total revenue	**1,464**	1,169	**25**
Provision for credit losses	**174**	95	**83**
Non-interest expense	**943**	740	**27**
Income from continuing operations before income taxes	**347**	334	**4**
Income tax provision	**123**	119	**3**
Income from continuing operations, net of tax	**$ 224**	$ 215	**4%**
Selected performance metrics:			
Average loans held for investment[1]:			
Auto	**$ 22,582**	$ 18,025	**25%**
Home loan	**29,502**	11,960	**147**
Retail banking	**4,179**	4,251	**(2)**
Total consumer banking	**$ 56,263**	$ 34,236	**64%**
Average yield on loans held for investment	**7.20%**	9.60%	**(240)bps**
Average deposits	**$ 129,915**	$ 83,884	**55%**
Average deposit interest rate	**0.73%**	1.06%	**(33)bps**
Core deposit intangible amortization	**$ 37**	$ 35	**6%**
Net charge-off rate[2]	**0.77%**	1.57%	**(80)bps**
Net charge-off rate (excluding acquired loans)[1][2]	**1.29**	1.82	**(53)**
Auto loan originations	**$ 4,270**	$ 2,571	**66%**

	March 31, 2012	December 31, 2011	Change
Selected period-end data:			
Loans held for investment[1]:			
Auto	**$ 23,568**	$ 21,779	**8%**
Home loan	**49,550**	10,433	**375**
Retail banking	**4,182**	4,103	**2**
Total consumer banking	**$ 77,300**	$ 36,315	**113%**
30+ day performing delinquency rate[3][4]	**1.63%**	4.47%	**(284)bps**
30+ day performing delinquency rate (excluding acquired loans)[3][4]	**3.63**	3.98	**(35)**
30+ day delinquency rate[3][4]	**2.25**	5.99	**(374)**

30+ day delinquency rate (excluding acquired loans) [3][4]	**5.01**	6.78	**(1.77)**
Nonperforming loans rate[5]	**0.77**	1.79	**(102)**
Nonperforming loans rate (excluding acquired loans)[5]	**1.71**	2.03	**(32)**
Nonperforming asset rate[6]	**0.82**	1.94	**(112)**
Nonperforming asset rate (excluding acquired loans)[6]	**1.83**	2.20	**(37)**
Allowance for loan and lease losses	**$ 718**	$ 652	**10%**
Deposits	**176,007**	88,540	**99**
Loans serviced for others	**17,586**	17,998	**(2)**

(1) Loans held for investment includes loans acquired in the ING Direct and Chevy Chase Bank business combinations. The carrying value and outstanding unpaid principal balance of consumer banking acquired loans accounted for based on expected cash flows at acquisition was $42.7 billion and $44.3 billion as of March 31, 2012, respectively, and $4.2 billion and $5.2 billion, respectively, as of December 31, 2011. The average balance of consumer banking loans held for investment excluding the carrying value of acquired loans was $33.7 billion and $29.4 billion in the first quarter of 2012 and 2011, respectively.

(2) The net charge-off rate is calculated by loan category by dividing net charge-offs for the period by average loans held for investment during the period for the specified loan category.

(3) The delinquency rate is calculated by loan category by dividing delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category.

(4) The 30+ day performing delinquency rate based on the contractual past due status for acquired loans was 3.08% as of March 31, 2012 and 2.94% as of December 31, 2011.

(5) 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. The nonperforming loan rate is 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.

(6) Nonperforming assets consist of nonperforming loans and real estate owned (REO). 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.

Net income generated by our Consumer Banking business of $224 million for the first quarter of 2012 represented an increase of $9 million over the first quarter of 2011. Key factors contributing to the increase in the results of our Consumer Banking business for the first quarter of 2012, compared with the first quarter of 2011 included the following:

Net Interest Income: Net interest income increased by $305 million, or 31%, in the first quarter of 2012. The increase was primarily attributable to the 64% 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 more than offset the decline in loan yields, which was attributable to the lower yielding ING Direct portfolio.

Non-Interest Income: Non-interest income decreased by $10 million, or 5%, in the first quarter 2012. The decrease was primarily attributable to the implementation of the Dodd-Frank amendment related to debit interchange fees in late 2011. The decrease was partially offset by the addition of ING Direct deposits in the first quarter of 2012.

Provision for Credit Losses: The increase in the provision for credit losses was due to an allowance build of $66 million in the first quarter of 2012 primarily as a result of higher auto loan originations compared with an allowance release of $34 million in the same prior year quarter. The increase in provision was partially offset by improved net charge-offs attributable to continued improvement in the credit and economic conditions.

Non-Interest Expense: Non-interest expense increased by $203 million, or 27%, in the first quarter 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 the Consumer Banking business grew by $41.0 billion, or 113%, to $77.3 billion as of March 31, 2012, from $36.3 billion as of December 31, 2011, primarily due to the acquisition of ING Direct home loans of $40.4 billion 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 $87.5 billion, or 99%, to $176.0 billion as of March 31, 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.

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Charge-off and Delinquency Statistics: The net charge-off and delinquency rates for the Consumer Banking business, improved during the first quarter of 2012 as a result of the improved economic environment, the addition of the ING Direct home loans portfolio and continued credit improvement on new auto loan originations. The net charge-off rate decreased to 0.77% for the first quarter of 2012, down from 1.57% for the prior year quarter. The 30+ day delinquency rate, which was 2.25% as of March 31, 2012, has declined from a rate of 5.99% as of December 31, 2011.

Commercial Banking Business

Our Commercial Banking business generated net income from continuing operations of $210 million in the first quarter of 2012, compared with net income from continuing operations of $162 million in first quarter of 2011. 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.

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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

	Three Months Ended March 31,		
(Dollars in millions)	**2012**	**2011**	**Change**
Selected income statement data:			
Net interest income	**$ 431**	$ 376	**15%**
Non-interest income	**85**	71	**20**
Total revenue	**516**	447	**15**
Provision for credit losses	**(69)**	(16)	**331**
Non-interest expense	**261**	212	**23**
Income (loss) from continuing operations before income taxes	**324**	251	**29**
Income tax provision (benefit)	**114**	89	**28**
Income (loss) from continuing operations, net of tax	**$ 210**	$ 162	**30%**
Selected performance metrics:			
Average loans held for investment[1]:			
Commercial and multifamily real estate	**$ 15,514**	$ 13,579	**14%**
Commercial and industrial	**17,038**	14,630	**16**
Total commercial lending	**32,552**	28,209	**15**
Small-ticket commercial real estate	**1,480**	1,818	**(19)**
Total commercial banking	**$ 34,032**	$ 30,027	**13%**
Average yield on loans held for investment	**4.47%**	4.81%	**(34)bps**
Average deposits	**$ 27,569**	$ 24,232	**14%**
Average deposit interest rate	**0.37%**	0.55%	**(18)bps**
Core deposit intangible amortization	**$ 9**	$ 11	**(18)%**
Net charge-off rate[2]	**0.19%**	0.80%	**(61)bps**
Net charge-off rate (excluding acquired loans)[2]	**0.19**	0.81	**(62)**

	March 31, 2012	**December 31, 2011**	**Change**
Selected period-end data:			
Loans held for investment[1]:			
Commercial and multifamily real estate	**$ 15,702**	$ 15,736	****%**
Commercial and industrial	**17,761**	17,088	**4**
Total commercial lending	**33,463**	32,824	**2**
Small-ticket commercial real estate	**1,443**	1,503	**(4)**
Total commercial banking	**$ 34,906**	$ 34,327	**2%**
Nonperforming loans rate[3][4]	**1.15%**	1.08%	**7bps**
Nonperforming loans rate (excluding acquired loans)[3][4]	**1.17%**	1.10%	**7bps**
Nonperforming asset rate[5][6]	**1.23**	1.17	**6**
Nonperforming asset rate (excluding acquired loans)[5][6]	**1.25**	1.18	**7**

Allowance for loan and lease losses	**$ 636**	$ 715	**(11)%**
Deposits	**28,046**	26,683	**5**

** Change is less than one percent.

(1) Loans held for investment includes loans acquired in the ING Direct and Chevy Chase Bank business combinations. The carrying value and outstanding unpaid principal balance of commercial banking acquired loans accounted for based on

expected cash flows at acquisition was $470 million and $542 million as of March 31, 2012, respectively, and $479 million and $546 million, respectively, as of December 31, 2011. The average balance of commercial banking loans held for investment excluding the carrying value of acquired loans was $33.5 billion and $29.5 billion in the first quarter of 2012 and 2011, respectively.

(2) The net charge-off rate is calculated by loan category by dividing net charge-offs for the period by average loans held for investment during the period for the specified loan category.

(3) The nonperforming loan rate is 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.

(4) 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.

(6) Nonperforming assets consist of nonperforming loans and REO.

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

Net Interest Income: Our Commercial Banking business experienced an increase in net interest income of $55 million, or 15% in the first quarter of 2012. The increase was primarily driven by higher deposit and loan balances.

Non-Interest Income: Non-interest income increased by $14 million, or 20% in the first quarter of 2012 largely attributable to growth in fees from ancillary services.

Provision for Credit Losses: The provision for credit losses decreased by $53 million in the first quarter of 2012. The significant reduction in the provision for credit losses was due to lower charge-offs and higher allowance release in the first quarter of 2012 of $79 million compared to the allowance release in the first quarter of 2011 of $45 million.

Non-Interest Expense: Non-interest expense increased by $49 million, or 23%, in the first quarter of 2012. The increase was due to increase in expenses due to 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 $579 million, or 2%, in the first quarter of 2012 to $34.9 billion as of March 31, 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 $1.4 billion, or 5%, to $28.0 billion as of March 31, 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 first quarter of 2012 as a result of the improved economic environment. The net charge-off rate decreased to 0.19% in the first quarter of 2012 from 0.80% in the first quarter of 2011. The improvement in the net charge-off rate was attributable to improving credit trends and strengthening of underlying collateral values which is lowering loss severities and creating opportunities for recoveries on previously charged-off loans.

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CONSOLIDATED BALANCE SHEET ANALYSIS AND CREDIT PERFORMANCE

Total assets of $294.5 billion as of March 31, 2012 increased by $88.5 billion, or 43%, from $206.0 billion as of December 31, 2011. Total liabilities of $257.5 billion as of March 31, 2012, increased by $81.1 billion, or 46%, from $176.4 billion as of December 31, 2011. Stockholders equity increased by $7.3 billion during the first three months of 2012, to $37.0 billion as of March 31, 2012 from $29.7 billion as of December 31, 2011. The increase in stockholders equity was primarily attributable to our net income of $1.4 billion in the first quarter of 2012 and the $5.8 billion in equity issuances in the first quarter of 2012.

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

Investment Securities

Our investment securities portfolio, which had a fair value of $60.8 billion and $38.8 billion, as of March 31, 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; other asset-backed securities collateralized primarily by credit card loans, auto loans, student loans, auto dealer floor plan inventory loans, equipment loans and home equity lines of credit; municipal securities; foreign government/agency bonds; covered bonds; and limited Community Reinvestment Act (CRA) equity securities. Our investment securities portfolio continues to be heavily 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 and agency securities, based on fair value, represented 72% of our total investment securities portfolio as of March 31, 2012, compared with 69% as of December 31, 2011.

All of our investment securities were classified as available for sale as of March 31, 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 March 31, 2012 and December 31, 2011.

Table 10: Investment Securities

	March 31, 2012		December 31, 2011	
(Dollars in millions)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
U.S. Treasury debt obligations	**$ 2,048**	**$ 2,053**	$ 115	$ 124
U.S. Agency debt obligations[1]	**172**	**179**	131	138
Residential mortgage-backed securities (RMBS):				
Agency[2]	**36,781**	**37,260**	24,980	25,488
Non-agency	**4,069**	**3,946**	1,340	1,162
Total RMBS	**40,850**	**41,206**	26,320	26,650
Commercial mortgage-backed securities (CMBS):				
Agency[2]	**4,337**	**4,365**	697	711
Non-agency	**1,195**	**1,220**	459	476
Total CMBS	**5,532**	**5,585**	1,156	1,187
Asset-backed securities[3]	**10,207**	**10,239**	10,119	10,150
Other securities[4]	**1,508**	**1,548**	462	510
Total securities available for sale	**$ 60,317**	**$ 60,810**	$ 38,303	$ 38,759

(1) Primarily consists of debt securities issued by Fannie Mae and Freddie Mac with amortized costs of $130 million as of both March 31, 2012 and December 31, 2011, and fair values of $136 million and $137 million, as of March 31, 2012 and December 31, 2011, respectively.

(2) Consists of MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae with amortized costs of $15.5 billion, $10.4 billion, and $15.2 billion and $12.3 billion $8.9 billion and $4.5 billion, respectively, as of March 31, 2012 and December 31, 2011, respectively, and fair values of $15.7 billion, $10.6 billion, and $15.3 billion and $12.6 billion, $9.1 billion and $4.5 billion, respectively, as of March 31, 2012 and December 31, 2011, respectively. The book value of Fannie Mae, Freddie Mac and Ginnie Mae investments exceeded 10% of our stockholders equity as of March 31, 2012.

(3) 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 75% credit card loans, 12% auto dealer floor plan inventory loans and leases, 6% auto loans, 2% student loans, 2% equipment loans, and 3% other as of March 31, 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 March 31, 2012, compared with 86% as of December 31, 2011.

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

Investment securities increased by $22.1 billion, or 57%, in the first quarter of 2012 to $60.8 billion as of March 31, 2012, from $38.8 billion as of December 31, 2011. The increase was primarily attributable to the acquisition of ING Direct which included investment securities of $30.2 billion at acquisition.

We sold approximately $7.3 billion of investment securities, consisting predominantly of agency MBS and FDIC notes in the first quarter of 2012. We recorded a net gain of $11 million on the sale of these securities. We provide additional information in Market Risk Profile.

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 $721 million and gross unrealized losses of $228 million on available-for sale securities as of March 31, 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 March 31, 2012 related to non-agency residential MBS. Of the $228 million gross unrealized losses as of March 31, 2012, $125 million related to securities that had been in a loss position for more than 12 months.

We recognized net OTTI on debt securities of $14 million in the first quarter of 2012. In comparison, we recognized net OTTI on investment securities of $3 million in the first quarter 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 weaknesses in the housing market.

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

Credit Ratings

Our investment securities portfolio continues to be heavily 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 91% of our total investment securities portfolio was rated AA+ or its equivalent, or better as of both March 31, 2012 and December 31, 2011, while approximately 6% and 4% were below investment grade as of March 31, 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 March 31, 2012 and December 31, 2011.

Table 11: Non-Agency Investment Securities Credit Ratings

	March 31, 2012				December 31, 2011			
(Dollars in millions)	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	**$ 4,069**	**1%**	**8%**	**91%**	$ 1,340	%	3%	97%
Non-agency commercial MBS	**1,195**	**95**	**5**		459	92	8	
Asset-backed securities	**10,207**	**85**	**14**	**1**	10,119	86	14	

Total Loans

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

Table 12: Net Loans Held for Investment

	March 31, 2012			December 31, 2011		
(Dollars in millions)	Total Loans Held For Investment	Allowance	Net Loans Held For Investment	Total Loans Held For Investment	Allowance	Net Loans Held For Investment
Credit Card	**$ 61,476**	**$ 2,671**	**$ 58,805**	$ 65,075	$ 2,847	$ 62,228
Consumer Banking	**77,300**	**718**	**76,582**	36,315	652	35,663
Commercial Banking	**34,906**	**636**	**34,270**	34,327	715	33,612
Other	**140**	**35**	**105**	175	36	139
Total	**$ 173,822**	**$ 4,060**	**$ 169,762**	$ 135,892	$ 4,250	$ 131,642

Total loans held for investment increased by $37.9 billion, or 28%, in the first quarter of 2012 to $173.8 billion as of March 31, 2012, from $135.9 billion as of December 31, 2011. The increase was primarily attributable to the acquisition of ING Direct which included loans of $40.4 billion. Partially offsetting the increase in loans was the continued expected run-off of loans in businesses we exited or repositioned early in the economic recession, 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 $88.3 billion, or 69%, in the first quarter of 2012, to $216.5 billion as of March 31, 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 $17.4 billion as of March 31, 2012, from $23.0 billion as of December 31, 2011. The $5.6 billion decrease in our debt, which excludes securitized debt obligations, was primarily attributable to an approximately $5.8 billion decrease in short-term FHLB advances offset by an increase of $1.0 billion in unsecured senior debt. We provide additional information on our borrowings in Note 9 Deposits and Borrowings.

Securitized Debt Obligations

Borrowings owed to securitization investors decreased by $1.0 billion to $15.5 billion as of March 31, 2012, from $16.5 billion as of December 31, 2011. This decrease was attributable to pay downs of the loans underlying the consolidated non-credit card securitization trusts and the scheduled maturities of the debt within our credit card securitization trusts.

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.

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.

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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.

Table 13 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 March 31, 2012 and December 31, 2011:

Table 13: Unpaid Principal Balance of Mortgage Loans Originated and Sold to Third Parties Based on Category of Purchaser

	Unpaid Principal Balance		Original Unpaid Principal Balance				
(Dollars in billions)	**March 31, 2012**	**December 31, 2011**	**Total**	**2008**	**2007**	**2006**	**2005**
Government sponsored enterprises (GSEs[1])	**$ 5**	$ 5	$ 11	$ 1	$ 4	$ 3	$ 3
Insured Securitizations	**6**	6	19		2	8	9
Uninsured Securitizations and Other	**27**	30	81	3	15	30	33
Total	**$ 38**	$ 41	$ 111	$ 4	$ 21	$ 41	$ 45

(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 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. 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 $38 billion in unpaid principal balance remains

outstanding as of March 31, 2012, approximately $15 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 get additional data or refine our analysis.

The subsidiaries had open repurchase requests relating to approximately $2.3 billion original principal balance of mortgage loans as of March 31, 2012, compared with $2.1 billion as of December 31, 2011. As of March 31, 2012, the majority of new repurchase demands received over the last year and, as discussed below, the majority of our $1.1 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.

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.

Table 14: Open Pipeline All Vintages (all entities)[(1)]

(Dollars in millions) (All amounts are Original Principal Balance)	**GSEs**	**Insured Securitizations**	**Uninsured Securitizations 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)	
Open claims as of December 31, 2011	$ 176	$ 1,243	$ 672	$ 2,091
Gross new demands received	**107**	**50**	**172**	**329**
Loans repurchased/made whole	**(9)**	**(1)**	**(22)**	**(32)**
Demands rescinded	**(35)**		**(7)**	**(42)**
Reclassifications[(2)]		**1**	**(1)**	
Open claims as of March 31, 2012	**$ 239**	**$ 1,293**	**$ 814**	**$ 2,346**

(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 March 31, 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 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 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, although we often disagree with the GSEs about the validity of their repurchase requests, 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 loans are grounded in this history. Finally, as discussed in more detail below, one of our subsidiaries entered into a settlement with a GSE to resolve present and future repurchase claims in the first quarter of 2012. Our reserves allocated to the GSE segment reflect the amount of that settlement, which was paid after March 31, 2012.

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 GreenPoint 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

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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 $1.1 billion as of March 31, 2012, as compared with $943 million as of December 31, 2011. We recorded a total provision for repurchase losses for our representation and warranty repurchase exposure of $169 million for the three months ended March 31, 2012, primarily driven by an increased reserve associated with a settlement between a subsidiary and a GSE to resolve present and future repurchase claims. This GSE settlement accounted for $95 million of the $169 million provision. The remainder of the provision is primarily driven by certain inactive insured securitizations becoming active insured securitizations in the first quarter.

During the first quarter of 2012, we had settlements of repurchase requests totaling $11 million that were charged against the reserve. The following table summarizes changes in our representation and warranty reserves for the three months ended March 31, 2012 and 2011, and for full year 2011:

Table 15: Changes in Representation and Warranty Reserve

(Dollars in millions)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Full Year 2011
Representation and warranty repurchase reserve, beginning of period[1]	**$ 943**	$ 816	$816
Provision for repurchase losses[2]	**169**	44	212
Net realized losses	**(11)**	(14)	(85)
Representation and warranty repurchase reserve, end of period[1]	**$ 1,101**	$ 846	$943

(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 $16 million and $5 million for the three months ended March 31, 2012 and 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 $153 million and $39 million, for the three months ended March 31, 2012 and 2011, respectively.

As indicated in the table below, most of the reserves relate to the $11 billion in original principal balance of mortgage loans sold directly to the GSEs and to the $16 billion in mortgage loans sold to purchasers who placed them into Active Insured Securitizations.

Table 16: Allocation of Representation and Warranty Reserve

(Dollars in millions, except for loans sold)	Reserve Liability March 31, 2012	Reserve Liability December 31, 2011	Loans Sold 2005 to 2008[1]
GSEs and Active Insured Securitizations	**$ 927**	$ 778	$ 27
Inactive Insured Securitizations and Others	**174**	165	84
Total	**$ 1,101**	$ 943	$ 111

(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).

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 possible but do not rise to the level of being both probable and reasonably estimable outcomes that would justify an incremental accrual under applicable accounting standards. We believe that the upper end of the reasonably possible future losses from representation and warranty claims beyond the current accrual levels, including reasonably possible future losses relating to the US Bank Litigation, DBSP Litigation and the FHLB of Boston Litigation, could be as high as $1.5 billion, which is unchanged from the estimate provided as of December 31, 2011. Notwithstanding our ongoing attempts to estimate a reasonably possible amount of 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 estimated upper end of the amount of reasonably possible losses. There is still significant uncertainty regarding the numerous factors that may impact the ultimate loss levels, including, but not limited to, litigation outcomes, future repurchase claims levels, ultimate repurchase success rates and mortgage loan performance levels.

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 $2.4 billion and $340 million, respectively, as of March 31, 2012, and our maximum exposure to loss was $2.5 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 OCC, respectively. The capital adequacy 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.

Table 17 provides a comparison of our capital ratios under the Federal Reserve s capital adequacy standards; and the capital ratios of the Banks under the OCC s capital adequacy standards as of March 31, 2012 and December 31, 2011. Table 18 provides the details of the calculation of our capital ratios.

Table 17: Capital Ratios Under Basel I[1]

(Dollars in millions)	March 31, 2012 Capital Ratio	March 31, 2012 Minimum Capital Adequacy	March 31, 2012 Well Capitalized	December 31, 2011 Capital Ratio	December 31, 2011 Minimum Capital Adequacy	December 31, 2011 Well Capitalized
Capital One Financial Corp.[2]						
Tier 1 common[3]	**11.9%**	**N/A**	**N/A**	9.7%	N/A	N/A
Tier 1 risk-based capital[4]	**13.9**	**4.0%**	**6.0%**	12.0	4.0%	6.0%
Total risk-based capital[5]	**16.5**	**8.0**	**10.0**	14.9	8.0	10.0
Tier 1 leverage[6]	**11.0**	**4.0**	**N/A**	10.1	4.0	N/A
Capital One Bank (USA) N.A.						
Tier 1 risk-based capital	**12.5%**	**4.0%**	**6.0%**	11.2%	4.0%	6.0%
Total risk-based capital	**16.5**	**8.0**	**10.0**	15.0	8.0	10.0
Tier 1 leverage	**10.9**	**4.0**	**5.0**	10.2	4.0	5.0
Capital One, N.A.						
Tier 1 risk-based capital	**11.9%**	**4.0%**	**6.0%**	11.0%	4.0%	6.0%
Total risk-based capital	**13.2**	**8.0**	**10.0**	12.2	8.0	10.0
Tier 1 leverage	**9.5**	**4.0**	**5.0**	8.7	4.0	5.0
ING Bank, fsb.						
Tier 1 risk-based capital	**31.5%**	**4.0%**	**6.0%**	N/A	N/A	N/A
Total risk-based capital	**31.5**	**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

(1) Calculated under capital standards and regulations based on the international capital framework commonly known as Basel I.
(2) The regulatory framework for prompt corrective action does not apply to Capital One Financial Corp. because it is a bank holding company.
(3) Tier 1 common ratio is a regulatory capital measure calculated based on Tier 1 common equity divided by risk-weighted assets.
(4) Calculated based on Tier 1 capital divided by risk-weighted assets.
(5) Calculated based on Total risk-based capital divided by risk-weighted assets.
(6) Calculated based on Tier 1 capital divided by quarterly average total assets, after certain adjustments.

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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 March 31, 2012. 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 March 31, 2012 and December 31, 2011.

Table 18: Risk-Based Capital Components Under Basel I[1]

(Dollars in millions)	March 31, 2012	December 31, 2011
Total stockholders equity	**$ 36,950**	$ 29,666
Less: Net unrealized gains recorded in AOCI[2]	**(328)**	(289)
Net losses on cash flow hedges recorded in AOCI[2]	**70**	71
Disallowed goodwill and other intangible assets[3]	**(14,057)**	(13,855)
Disallowed deferred tax assets	**(902)**	(534)
Other	**(2)**	(2)
Tier 1 common capital	**21,731**	15,057
Plus: Tier 1 restricted core capital items[4]	**3,636**	3,635
Tier 1 risk-based capital	**25,367**	18,692
Plus: Long-term debt qualifying as Tier 2 capital	**2,438**	2,438
Qualifying allowance for loan and lease losses	**2,314**	1,979
Other Tier 2 components	**17**	23
Tier 2 risk-based capital	**4,769**	4,440
Total risk-based capital	**$ 30,136**	$ 23,132
Risk-weighted assets[5]	**$ 182,697**	$ 155,657

(1) Calculated under capital standards and regulations based on the international capital framework commonly known as Basel I.
(2) Amounts presented are net of tax.
(3) Disallowed goodwill and other intangible assets are net of related deferred tax liability.
(4) Consists primarily of trust preferred securities.
(5) 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.

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.

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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, the Company was informed that the Federal Reserve had no objection to the capital actions contained in the Company s 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 $2.8 billion, $814 million and $196 million, respectively, as of March 31, 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.

Issuance of Shares to ING Sellers

In exchange for the equity interests and assets and liabilities associated with the ING Direct acquisition, we issued 54,028,086 shares of Capital One common stock with a fair value of $2.6 billion on February 17, 2012.

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 $1.24 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 consideration payable in connection with the acquisition of HSBC s U.S credit card business.

Settlement of Forward Sale Agreements

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. After underwriter s discounts and commissions, the net proceeds to the company were at a forward sale price per share of $48.17 for a total of approximately $1.9 billion.

HSBC Acquisition U.S. Credit Card Business

We completed the transaction in which we acquired substantially all of the assets and assumed liabilities of HSBC s credit card and private-label credit card business in the United States (the HSBC Transaction) for a purchase price of $31.3 billion on May 1, 2012. In the HSBC Transaction, we acquired $28.2 billion of credit card receivables and $0.6 billion in other net assets. We used the net proceeds from the equity and debt offerings described above, along with cash sourced from current liquidity, to fund the cash consideration payable in connection with the acquisition of HSBC s U.S credit card business.

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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.

We discuss below our overall risk management principles, roles and responsibilities, framework and risk appetite. Following this section, we address in more detail the specific procedures, measures and analysis of the major categories of risks that we manage.

Risk Management Principles

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.

For additional information on our risk management principles, see 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, please refer to the MD&A Credit Risk Profile section of our 2011 Form 10-K.

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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 19 presents the composition of our total loan portfolio, by business segments, as of March 31, 2012 and December 31, 2011.

Table 19: Loan Portfolio Composition

	March 31, 2012		December 31, 2011	
(Dollars in millions)	**Amount**	**% of Total Loans**	**Amount**	**% of Total Loans**
Credit Card business:				
Credit card loans:				
Domestic credit card loans	**$ 51,607**	**29.7%**	$ 54,682	40.3%
International credit card loans	**8,303**	**4.8**	8,466	6.2
Total credit card loans	**59,910**	**34.5**	63,148	46.5
Installment loans:				
Domestic installment loans	**1,566**	**0.9**	1,927	1.4
Total installment loans	**1,566**	**0.9**	1,927	1.4
Total credit card	**61,476**	**35.4**	65,075	47.9
Consumer Banking business:				
Auto	**23,568**	**13.5**	21,779	16.0
Home loan	**49,550**	**28.5**	10,433	7.7
Other retail	**4,182**	**2.4**	4,103	3.0
Total consumer banking	**77,300**	**44.4**	36,315	26.7
Commercial Banking business:[(1)]				
Commercial and multifamily real estate	**15,702**	**9.1**	15,736	11.6
Commercial and industrial	**17,761**	**10.2**	17,088	12.6
Total commercial lending	**33,463**	**19.3**	32,824	24.2
Small-ticket commercial real estate	**1,443**	**0.8**	1,503	1.1
Total commercial banking	**34,906**	**20.1**	34,327	25.3
Other:				
Other loans	**140**	**0.1**	175	0.1
Total loans	**$ 173,822**	**100.0%**	$ 135,892	100.0%

(1) Includes construction and land development loans totaling $2.1 billion and $2.2 billion as of March 31, 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. For information on our accounting policies regarding delinquencies, nonperforming status, charge-offs and TDRs for each of our loan categories, see Note 1 Summary of Significant Accounting Policies in our 2011 Form 10-K.

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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. See Note 5 Loans for additional information.

Delinquency Rates

Table 20 compares 30+ day performing loan delinquency rates, by loan category, as of March 31, 2012 and December 31, 2011. We also present total 30+ day delinquent 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.

The delinquency rates presented are calculated, by loan category, based on our total loan portfolio. We separately track and report the performance of acquired loans and exclude these loans from the numerator in calculating our net charge-off, delinquency, nonperforming loan and nonperforming asset rates.

Table 20: 30+ Day Delinquencies

	March 31, 2012				December 31, 2011			
	30+ Day Performing		30+ Day Total		30+ Day Performing		30+ Day Total	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]
Credit Card business:								
Domestic credit card and installment loans	**$ 1,730**	**3.25%**	**$ 1,730**	**3.25%**	$ 2,073	3.66%	$ 2,073	3.66%
International credit card	**427**	**5.14**	**427**	**5.14**	438	5.18	438	5.18
Total credit card	**2,157**	**3.51**	**2,157**	**3.51**	2,511	3.86	2,511	3.86
Consumer Banking business:								
Auto	**1,149**	**4.87**	**1,210**	**5.13**	1,498	6.88	1,604	7.36
Home loans[2]	**76**	**0.15**	**436**	**0.88**	93	0.89	478	4.58
Retail banking[2]	**34**	**0.80**	**92**	**2.20**	34	0.83	94	2.29
Total consumer banking[2]	**1,259**	**1.63**	**1,738**	**2.25**	1,625	4.47	2,176	5.99
Commercial Banking business:								
Commercial and multifamily real estate[2]	**232**	**1.48**	**401**	**2.55**	217	1.38	342	2.17
Commercial and industrial[2]	**162**	**0.91**	**226**	**1.27**	78	0.45	152	0.89
Small-ticket commercial real estate	**48**	**3.33**	**102**	**7.07**	104	6.94	141	9.38
Total commercial banking[2]	**442**	**1.27**	**729**	**2.09**	399	1.16	635	1.85
Other:								
Other loans	**17**	**12.09**	**48**	**34.29**	17	9.65	46	26.29
Total	**$ 3,875**	**2.23%**	**$ 4,672**	**2.69%**	$ 4,552	3.35%	$ 5,368	3.95%

(1) Delinquency rates are 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.

(2) The 30+ day performing delinquency rate, excluding acquired loans from the denominator, for home loan, retail banking, total consumer banking, commercial and multifamily real estate, commercial and industrial, and total commercial banking was 1.10%, 0.81%,3.63%,1.50%, 0.93% and 1.28%, respectively, as of March 31, 2012, compared with 1.47%, 0.84%, 5.06%, 1.40%, 0.46% and 1.18%, respectively, as of December 31, 2011.

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Table 21 presents an aging of 30+ day delinquent loans included in the above table.

Table 21: Aging of 30+ Day Delinquent Loans

	March 31, 2012		December 31, 2011	
(Dollars in millions)	Amount	% of Total Loans[1]	Amount	% of Total Loans[1]
Total loan portfolio	**$ 173,822**	**100.00%**	$ 135,892	100.00%
Delinquency status:				
30 59 days	**$ 2,047**	**1.18%**	$ 2,306	1.70%
60 89 days	**842**	**0.48**	1,092	0.80
90 + days	**1,783**	**1.03**	1,970	1.45
Total	**$ 4,672**	**2.69%**	$ 5,368	3.95%
Geographic region:				
Domestic	**$ 4,245**	**2.44%**	$ 4,930	3.63%
International	**427**	**0.25**	438	0.32
Total	**$ 4,672**	**2.69%**	$ 5,368	3.95%

[1] Calculated by dividing loans in each delinquency status category and geographic region as of the end of the period by the total loan portfolio.

Table 22 summarizes loans that were 90 days or more past due as to interest or principal and still accruing interest as of March 31, 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 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 22: 90+ Days Delinquent Loans Accruing Interest

	March 31, 2012		December 31, 2011	
(Dollars in millions)	Amount	% of Total Loans	Amount	% of Total Loans
Loan category:[1]				
Credit card[2]	**$ 1,070**	**1.74%**	$ 1,196	1.84%
Consumer	**1**	**0.00**	5	0.01
Commercial	**9**	**0.03**	41	0.12
Total	**$ 1,080**	**0.62%**	$ 1,242	0.91%
Geographic region:[3]				
Domestic	**$ 888**	**0.51%**	$ 1,047	0.77%
International	**192**	**0.11**	195	0.14
Total	**$ 1,080**	**0.62%**	$ 1,242	0.91%

(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.

(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 $123 million and $105 million in the first quarter of 2012 and 2011, respectively. The reserve for uncollectible billed finance charges and fees totaled $79 million as of March 31, 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.

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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 23 presents comparative information on nonperforming loans, by loan category, as of March 31, 2012 and December 31, 2011, and the ratio of nonperforming loans to our total loans. Nonperforming loans held for sale are excluded from nonperforming loans, as they are recorded at lower of cost or fair value.

Table 23: Nonperforming Loans and Other Nonperforming Assets[1][2]

	March 31, 2012[3]		December 31, 2011	
(Dollars in millions)	Amount	% of Total HFI Loans	Amount	% of Total HFI Loans
Nonperforming loans held for investment:				
Consumer Banking business:				
Auto	**$ 61**	**0.26%**	$ 106	0.48%
Home loans	**445**	**0.90**	456	4.37
Retail banking	**85**	**2.03**	90	2.18
Total consumer banking	**591**	**0.77**	652	1.79
Commercial Banking business:				
Commercial and multifamily real estate	**228**	**1.45**	207	1.32
Commercial and industrial	**113**	**0.64**	125	0.73
Total commercial lending	**341**	**1.02**	332	1.01
Small-ticket commercial real estate	**61**	**4.19**	40	2.63
Total commercial banking	**402**	**1.15**	372	1.08
Other:				
Other loans	**37**	**26.56**	35	20.42
Total nonperforming loans held for investment[4]	**$ 1,030**	**0.59%**	$ 1,059	0.78%
Other nonperforming assets:				
Foreclosed property[5]	**$ 326**	**0.19%**	$ 169	0.13%
Repossessed assets	**15**	**0.01**	20	0.01
Total other nonperforming assets	**341**	**0.20**	189	0.14
Total nonperforming assets	**$ 1,371**	**0.79%**	$ 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 6.29%, 2.05%, 1.70%, 1.47%, 0.65%, 1.17% and 0.79%, respectively, as of March 31, 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 1.05% and 0.95% as of March 31, 2012 and December 31, 2011, respectively.

(3) We recognized interest income for loans classified as nonperforming of $12 million for the three months ended March 31, 2012. Interest income foregone related to nonperforming loans was $22 million for the three months ended

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March 31, 2012. 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 0.92% and 1.50% as of March 31, 2012 and December 31, 2011, respectively.

(5) Includes $252 million and $86 million of foreclosed properties related to acquired loans, as of March 31, 2012 and December 31, 2011, respectively.

Total nonperforming loans included, TDRs totaling $176 million and $170 million as of March 31, 2012 and December 31, 2011, respectively. The decrease in our nonperforming loan ratio to 0.59% as of March 31, 2012, from 0.78% as of December 31, 2011 was primarily attributable to the improvement in the credit quality 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 24 presents our net charge-off amounts and rates, by business segment, for the three months ended March 31, 2012, and 2011. We provide information on charge-off amounts by loan category below in Table 26.

Table 24: Net Charge-Offs

	Three Months Ended March 31,			
	2012		2011	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]
Credit card[2]	**$ 645**	**4.14%**	$ 929	6.13%
Consumer banking[3]	**109**	**0.77**	134	1.57
Commercial banking[3]	**16**	**0.19**	60	0.80
Other	**10**	**23.30**	22	38.33
Total	**$ 780**	**2.04%**	$ 1,145	3.66%
Total excluding acquired loans	**780**	**2.40**	1,145	3.82
Average loans held for investment[4]	**$ 152,900**		$ 125,077	
Average loans held for investment (excluding acquired loans)[4]	**129,833**		119,772	

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

(2) Amounts attributable to Kohl s Department Stores (Kohl s) under the revenue and loss-sharing arrangement reduced interest income by $222 million, reduced the provision for credit losses by $193 million and reduced net charge-offs by $40 million in the first quarter of 2012. The expected loss reimbursement from Kohl s netted against our allowance for loan and lease losses was approximately $153 million and $139 million as of March 31, 2012 and December 31, 2011, respectively. See Note 2 Acquisitions for additional information.

(3) Excludes losses on acquired loans. We separately track and report these loans. We provide additional information on the acquired loans in Note 5 Loans.

(4) Loans held for investment includes loans acquired in the ING Direct and Chevy Chase Bank business combinations. The carrying value and outstanding unpaid principal balance of acquired loans accounted for based on expected cash flows at acquisition was $43.2 billion and $44.3 billion as of March 31, 2012, respectively, and $4.7 billion and $5.2 billion, respectively, as of December 31, 2011.

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

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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 25 presents the loan balances as of March 31, 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 25 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 25: Loan Modifications and Restructurings[1]

(Dollars in millions)	March 31, 2012	December 31, 2011
Modified and restructured loans:		
Credit card[2]	**$ 867**	$ 898
Auto	**70**	58
Home loans	**102**	104
Retail banking	**77**	80
Commercial	**440**	426
Total	**$ 1,556**	$ 1,566
Status of modified and restructured loans:		
Performing	**$ 1,380**	$ 1,396
Nonperforming	**176**	170
Total	**$ 1,556**	$ 1,566

[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 will 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.

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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 loans acquired because these loans were recorded at fair value upon acquisition.

Impaired loans, including TDRs, totaled $1.8 billion as of March 31, 2012 and December 31, 2011. TDRs accounted for $1.6 billion of impaired loans as of both March 31, 2012 and December 31, 2011. 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 ING Direct and Chevy Chase Bank transactions, which were recorded at fair value at the date of acquisition. Acquired loans increased to $43.2 billion as of March 31, 2012, from $4.7 billion as of December 31, 2011. Because these loans are recorded at fair value, no allowance for loan and lease losses was recorded for these loans as of the acquisition date. However, we regularly update 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 losses, with any remaining increase in expected cash flows recognized prospectively in interest income over the remaining estimated life of the underlying loans. We increased the allowance related to this pool of loans by $13 million for the three months ended March 31, 2012. We recorded impairment through our provision for credit losses of $13 million for the three months ended March 31, 2012. The cumulative impairment recognized on acquired loans totaled $40 million as of March 31, 2012 and $27 million as of December 31, 2011. 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.

The 30+ day performing delinquency rate for acquired loans, is calculated based on the contractual past due unpaid principal balance divided by the total outstanding unpaid principal balance of acquired loans as of the end of each period. The auto, home loan, retail banking and total consumer banking rates were 4.30%, 3.08%, 5.42% and 3.08%, respectively, as of March 31, 2012, compared with 5.31%, 2.93%, 2.20%, and 2.94%, respectively, as of December 31, 2011. The outstanding unpaid principal balance of the acquired loan portfolio as of March 31, 2012 was $44.3 billion compared with $5.2 billion as of December 31, 2011, respectively. We provide additional information on the 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 26, which displays changes in our allowance for loan and lease losses for the three months, ended March 31, 2012 and December 31, 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.

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Table 26: Summary of Allowance for Loan and Lease Losses

	Three Months Ended March 31,	
(Dollars in millions)	**2012**	**2011**
Balance at beginning of period, as reported	**$ 4,250**	$ 5,628
Provision for credit losses[1][2]	**579**	570
Charge-offs:		
Credit Card business:[2]		
Domestic credit card and installment	**(788)**	(1,091)
International credit card	**(167)**	(194)
Total credit card	**(955)**	(1,285)
Consumer Banking business:		
Auto	**(140)**	(141)
Home loan	**(24)**	(32)
Retail banking	**(20)**	(31)
Total consumer banking	**(184)**	(204)
Commercial Banking business:		
Commercial and multifamily real estate	**(9)**	(25)
Commercial and industrial	**(11)**	(11)
Total commercial lending	**(20)**	(36)
Small-ticket commercial real estate	**(16)**	(33)
Total commercial banking	**(36)**	(69)
Other loans	**(11)**	(22)
Total charge-offs	**(1,186)**	(1,580)
Recoveries:		
Credit Card business:		
Domestic credit card and installment	**257**	287
International credit card	**52**	69
Total credit card	**309**	356
Consumer Banking business:		
Auto	**61**	52
Home loans	**9**	10
Retail banking	**6**	7
Total consumer banking	**76**	69
Commercial Banking business:		
Commercial and multifamily real estate	**5**	5
Commercial and industrial	**14**	3
Total commercial lending	**19**	8
Small-ticket commercial real estate	**1**	1
Total commercial banking	**20**	9
Other loans	**1**	1
Total recoveries	**406**	435

Net charge-offs	**(780)**	(1,145)
Impact from loan sales and other changes[3]	**11**	14
Balance at end of period[2]	**$ 4,060**	$ 5,067
Allowance for loan and lease losses as a percentage of loans held for investment	**2.34**	4.08%
Allowance for loan and lease losses by geographic distribution:		
Domestic	**$ 3,594**	$ 4,498
International	**466**	569
Total allowance for loan and lease losses	**$ 4,060**	$ 5,067
Allowance for loan and lease losses by loan category:		
Domestic card	**$ 2,205**	$ 3,007
International card	**466**	569
Consumer banking	**718**	640
Commercial banking	**636**	785
Other	**35**	66
Allowance for loan and lease losses	**$ 4,060**	$ 5,067

(1) Excludes a negative provision for unfunded lending commitments of $6 million and $36 million for the three months ended March 31, 2012 and 2011, respectively.

(2) Amounts attributable to Kohl s Department Stores (Kohl s) under the revenue and loss-sharing arrangement reduced interest income by $222 million, reduced the provision for credit losses by $193 million and reduced net charge-offs by $40 million in the first quarter of 2012. The expected loss reimbursement from Kohl s netted against our allowance for loan and lease losses was approximately $153 million and $139 million as of March 31, 2012 and December 31, 2011, respectively. See Note 2 Acquisitions for additional information.

(3) Includes foreign translation adjustments of $11 million and $14 million for the three months ended March 31, 2012 and 2011, respectively.

Table 27 presents an allocation of our allowance for loan and lease losses by loan category as of March 31, 2012 and December 31, 2011.

Table 27: Allocation of the Allowance for Loan and Lease Losses

	March 31, 2012		December 31, 2011	
(Dollars in millions)	Amount	% of Total Loans[1]	Amount	% of Total Loans[1]
Credit Card:				
Domestic credit card and installment	**$ 2,205**	**4.15%**	$ 2,375	4.20%
International credit card	**466**	**5.61**	472	5.58
Total credit card	**2,671**	**4.34**	2,847	4.37
Consumer Banking:				
Auto	**459**	**1.95**	391	1.80
Home loan	**102**	**0.21**	98	0.94
Retail banking	**157**	**3.75**	163	3.97
Total consumer banking	**718**	**0.93**	652	1.80
Commercial Banking:				
Commercial and multifamily real estate	**375**	**2.39**	415	2.64
Commercial and industrial	**173**	**0.97**	199	1.17
Total commercial lending	**548**	**1.64**	614	1.87
Small-ticket commercial real estate	**88**	**6.13**	101	6.75
Total commercial banking	**636**	**1.82**	715	2.08
Other loans	**35**	**25.00**	36	20.57
Total	**$ 4,060**	**2.34%**	$ 4,250	3.13%
Total allowance coverage ratios:				
Period-end loans	**$ 173,822**	**2.34%**	$ 135,892	3.13%
Nonperforming loans[2]	**1,030**	**394.17**	1,059	401.32
Allowance coverage ratios by loan category:				
Credit card (30 + day delinquent loans)	**$ 2,157**	**123.83%**	$ 2,511	113.38%
Consumer banking (30 + day delinquent loans)	**1,738**	**41.31**	2,176	29.96
Commercial banking (nonperforming loans)	**402**	**158.20**	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 132.85% as of March 31, 2012 and 132.48% as of December 31, 2011.

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Our allowance for loan and lease losses decreased by $190 million during the first quarter of 2012 to $4.1 billion. The decrease in our allowance reflected the continued improvement in credit performance trends across our portfolios as a result of the slowly improving economy coupled with actions we have taken over the past several years to tighten our underwriting standards and exit certain portfolios. Our allowance as a percentage of our total loan portfolio also decreased to 2.34% as of March 31, 2012, from 3.13% as of December 31, 2011.

LIQUIDITY RISK PROFILE

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 28 below presents the composition of our liquidity reserves as of March 31, 2012 and December 31, 2011. Our liquidity reserves increased by $47.5 billion in the first quarter of 2012 to $83.3 billion as of March 31, 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 28: Liquidity Reserves

(Dollars in millions)	March 31, 2012	December 31, 2011
Cash and cash equivalents	**$ 30,656**	$ 5,838
Securities available-for-sale[1]	**60,810**	38,759
Less: Pledged available-for-sale securities	**(8,215)**	(8,762)
Unencumbered available-for-sale securities	**52,595**	29,997
Total liquidity reserves	**$ 83,251**	$ 35,835

[1] The weighted average life of our available-for-sale securities was approximately 3.0 and 2.9 years as of March 31, 2012 and December 31, 2011, respectively.

Deposits

Our deposits provide a stable and relatively low cost of funds and are our largest source of funding. We have expanded our opportunities for deposit growth through direct and indirect marketing channels, our existing branch network and branch expansion. These channels offer a broad range of deposit products that include demand deposits, money market deposits, negotiable order of withdrawal (NOW) accounts, savings accounts and certificates of deposit. Table 29 presents the composition of our deposits by type as of March 31, 2012 and December 31, 2011.

Table 29: Deposits

(Dollars in millions)	March 31, 2012	December 31, 2011
Non-interest bearing	**$ 19,274**	$ 18,281
NOW accounts	**35,117**	15,038

Money market deposit accounts	**109,448**	46,496
Savings accounts	**32,159**	31,433
Other consumer time deposits	**13,969**	11,471
Total core deposits	**209,967**	122,719
Public fund certificates of deposit $100,000 or more	**77**	85
Certificates of deposit $100,000 or more	**5,135**	4,501
Foreign time deposits	**1,349**	921
Total deposits	**$ 216,528**	$ 128,226

Total deposits increased by $88.3 billion, or 69%, in the first quarter of 2012 to $216.5 billion as of March 31, 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 $1.3 billion and $921 million were held in foreign banking offices as of March 31, 2012 and December 31, 2011, respectively. Large domestic denomination certificates of deposits of $100,000 or more represented $5.2 billion and $4.6 billion of our total deposits as of March 31, 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 29 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 March 31, 2012, and therefore permitted to maintain brokered deposits. Our brokered deposits totaled $12.5 billion, or 5.8% of total deposits, as of March 31, 2012. Brokered deposits totaled $13.0 billion, or 10% of total deposits, as of December 31, 2011. Based on our historical access to the brokered deposit market, 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 resale agreements, most of which are overnight borrowings. Other short-term borrowings do not represent a significant portion of our overall funding.

Other Funding Sources

We also access the capital markets to meet our funding needs through the use of federal funds purchased and securities loaned or sold under agreements to repurchase, the issuance of senior and subordinated notes and other borrowings and, to a lesser extent, loan securitization transactions. In addition, we utilize advances from the FHLB for our funding needs. FHLB advances are secured by certain of our loan portfolios and investment securities.

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 obligations, totaled $17.4 billion as of March 31, 2012, decreased from $23.0 billion as of December 31, 2011. We had no open committed loan securitization conduit lines as of March 31, 2012. The $5.6 billion decrease in our debt, excluding securitized debt obligations, was primarily attributable to a $6.5 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 daily to take advantage of attractive offers and to keep a visible presence in the market, 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 $802 million as of March 31, 2012.

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Table 30 presents our short-term borrowings and long-term debt and the maturity profile based on expected maturities as of March 31, 2012. We provide additional information on our short-term borrowings and long-term debt in Note 9 Deposits and Borrowings.

Table 30: 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	$ 770						770
Total short-term borrowings	770						770
Long-term debt:							
Securitized debt obligations	5,116	3,065	1,662	905	2,678	2,048	15,474
Senior and subordinated notes:							
Unsecured senior debt	0	580	3,288	410	1,000	2,772	8,050
Unsecured subordinated debt	354	517	106	0	1,186	1,735	3,898
Total senior and subordinated notes	354	1,097	3,394	410	2,186	4,507	11,948
Other long-term borrowings:							
Junior subordinated debt	0	0	0	0	0	3,641	3,641
FHLB advances	12	34	932	19	20	35	1,052
Other long-term borrowings	12	34	932	19	20	3,676	4,693
Total long-term debt[1]	5,482	4,196	5,988	1,334	4,884	10,231	32,115
Total short-term borrowings and long-term debt	$ 6,252	4,196	5,988	1,334	4,884	10,231	32,885
Percentage of total	19%	13%	18%	4%	15%	31%	100%

(1) Includes unamortized discounts, premiums and other cost basis adjustments of $28.9 million as of March 31, 2012.

Borrowing Capacity

As of March 31, 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 and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depository shares representing preferred stock, common stock, purchase contracts, warrants, units, trust preferred securities, junior subordinated debt securities, guarantees of trust preferred securities and certain back-up obligations. There is no limit under this shelf registration statement to the amount or number of such securities that we may offer and sell. Under SEC rules, the shelf registration statement, which we filed in May 2009, expires three years after filing. During the first quarter of 2012, we issued new senior notes in the total amount of $1.25 billion, due in 2015. We filed a new effective shelf registration statement with the SEC on April 30, 2012 which will expire three years from the filing date.

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 $29.3 billion as of March 31, 2012. We had $1.3 billion outstanding as of March 31, 2012, and $28.0 billion still available to us to borrow against under this program. 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.

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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 31 provides a summary of the credit ratings for the senior unsecured debt of Capital One Financial Corporation, COBNA and CONA as of March 31, 2012.

Table 31: Senior Unsecured Debt Credit Ratings

	March 31, 2012		
(Dollars or dollar equivalents in millions)	**Capital One Financial Corporation**	**Capital One Bank (USA), N.A.**	**Capital One, N.A.**
Moody s	**Baa1**	**A3**	**A3**
S&P	**BBB**	**BBB+**	**BBB+**
Fitch	**A-**	**A-**	**A-**
DBRS	**BBB****	**A***	**A***

* low
** high

As of April 30, 2012, Moody s and DBRS had us on a stable outlook, while S&P and Fitch 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 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 $49.7 billion as of March 31, 2012, from $73.2 billion as of December 31, 2011. This decrease was primarily attributable to the termination of interest-rate swaps 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.

From the date we entered into the agreement to acquire ING Direct to early August 2011, interest rates declined substantially, which resulted in an increase in the estimated fair value of the ING Direct net assets and liabilities. In order to capture some of the anticipated benefits to regulatory capital on the closing date attributable to this decline in interest rates, in early August 2011, we entered into various interest-rate swap transactions with a total notional principal amount of approximately $23.8 billion. We subsequently rebalanced the hedge in October 2011 adding an additional $1.0 billion in notional principal for a total combined notional principal amount of approximately $24.8 billion. These combined swap transactions were intended to mitigate 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 anticipated closing date of the ING Direct acquisition in early 2012. Although the interest-rate swaps represented economic hedges, they were not designated for hedge accounting under U.S. GAAP. Therefore, we recorded changes in the fair value of these interest-rate swaps in earnings.

In 2011, we recorded a mark-to-market loss of $277 million related to these interest-rate swaps, which was attributable to the decline in interest rates. In conjunction with the acquisition of ING Direct on February 17, 2012, we terminated the $24.8 billion in interest-rate swaps related to the acquisition and recorded an additional mark-to-market loss of $78 million in the first quarter of 2012 in our consolidated statement of income as a component of non-interest income. The cumulative mark-to-market loss on these interest-rate swaps from inception to termination totaled $355 million.

The fair value of the net assets acquired from ING Direct of $9.6 billion at acquisition exceeded the purchase price of $9.0 billion, resulting in the recognition of a bargain purchase gain of $594 million in the first quarter of 2012, which is reported separately under non-interest expense on our consolidated statement of income. 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 driven 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.

We believe the interest-rate swaps related to the ING Direct acquisition were effective in meeting our hedging objective. See Note 10 Derivative Instruments and Hedging Activities for additional information.

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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 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 first quarter of 2012. Given the level of short-term rates as of March 31, 2012 and December 31, 2011, a scenario where interest rates would decline by 200 basis points is not plausible. 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 34 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 March 31, 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.

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Table 32: Interest Rate Sensitivity Analysis

(Dollars in millions)	March 31, 2012	December 31, 2011 Excluding ING Direct Swaps[1]	December 31, 2011 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	**(0.3)**	(0.5)	(3.9)
Impact on adjusted projected base-line net interest income:			
+ 200 basis points	**(1.4)**	(1.0)	3.2
- 50 basis points	**(0.9)**	(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 March 31, 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 March 31, 2012 and December 31, 2011. As noted above, in conjunction with our close of the ING Direct acquisition on February 17, 2012, we terminated the ING Direct related swap transactions in February 2012.

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.

Limitations of Market Risk Measures

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

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 in our 2011 Form 10-K for information concerning recently issued accounting pronouncements, including those that we have not yet adopted and that will likely affect our consolidated financial statements.

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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 other financial measures for us; future financial and operating results; our plans, objectives, expectations and intentions; the projected impact and benefits of the acquisition of ING Direct and the HSBC Transaction (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;
- any significant disruption in our operations or technology platform;
- our ability to maintain a compliance infrastructure suitable for our size and complexity;
- 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.

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SUPPLEMENTAL TABLES

TABLE A RECONCILIATION OF NON-GAAP MEASURES AND CALCULATION OF REGULATORY CAPITAL MEASURES

(Dollars in millions) (unaudited)	March 31, 2012	December 31, 2011
Stockholders Equity to Non-GAAP Tangible Common Equity		
Total stockholders equity	**$ 36,950**	$ 29,666
Less: Intangible assets[1]	**(14,110)**	(13,908)
Tangible common equity	**$ 22,840**	$ 15,758
Total Assets to Tangible Assets		
Total assets	**$ 294,481**	$ 206,019
Less: Assets from discontinued operations	**(304)**	(305)
Total assets from continuing operations	**294,177**	205,714
Less: Intangible assets[1]	**(14,110)**	(13,908)
Tangible assets	**$ 280,067**	$ 191,806
Non-GAAP TCE Ratio		
Tangible common equity	**$ 22,840**	$ 15,758
Tangible assets	**280,067**	191,806
TCE ratio[2]	**8.2%**	8.2%
Regulatory Capital and Non-GAAP Tier 1 Common Equity Ratios		
Total stockholders equity	**$ 36,950**	$ 29,666
Less: Net unrealized gains recorded in AOCI[3]	**(328)**	(289)
Net losses on cash flow hedges recorded in AOCI[3]	**70**	71
Disallowed goodwill and other intangible assets[4]	**(14,057)**	(13,855)
Disallowed deferred tax assets	**(902)**	(534)
Other	**(2)**	(2)
Tier 1 common capital	**$ 21,731**	$ 15,057
Plus: Tier 1 restricted core capital items[5]	**3,636**	3,635
Tier 1 capital	**$ 25,367**	$ 18,692
Plus: Long-term debt qualifying as Tier 2 capital	**2,438**	2,438
Qualifying allowance for loan and lease losses	**2,314**	1,979
Other Tier 2 components	**17**	23
Tier 2 capital	**$ 4,769**	$ 4,440
Total risk-based capital[6]	**$ 30,136**	$ 23,132
Risk-weighted assets[7]	**$ 182,697**	$ 155,657

Tier 1 common ratio[8]	**11.9%**	9.7%
Tier 1 risk-based capital ratio[9]	**13.9%**	12.0%
Total risk-based capital ratio[10]	**16.5%**	14.9%

(1) Includes impact from related deferred taxes.
(2) Calculated based on tangible common equity divided by tangible assets.
(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) Total risk-based capital equals the sum of Tier 1 capital and Tier 2 capital.

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

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Item 1. Financial Information and Supplementary Data

CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in millions, except per share data)	March 31, 2012	December 31, 2011
Assets:		
Cash and due from banks	**$ 2,183**	$ 2,097
Interest-bearing deposits with banks	**28,165**	3,399
Federal funds sold and securities purchased under agreements to resell	**308**	342
Cash and cash equivalents	**30,656**	5,838
Restricted cash for securitization investors	**1,090**	791
Securities available for sale, at fair value	**60,810**	38,759
Loans held for investment:		
Unsecuritized loans held for investment, at amortized cost	**128,927**	88,242
Restricted loans for securitization investors	**44,895**	47,650
Total loans held for investment	**173,822**	135,892
Less: Allowance for loan and lease losses	**(4,060)**	(4,250)
Net loans held for investment	**169,762**	131,642
Loans held for sale, at lower-of-cost-or-fair value	**627**	201
Accounts receivable from securitizations	**96**	94
Premises and equipment, net	**3,062**	2,748
Interest receivable	**1,157**	1,029
Goodwill	**13,595**	13,592
Other	**13,626**	11,325
Total assets	**$ 294,481**	$ 206,019
Liabilities:		
Interest payable	**$ 384**	$ 466
Customer deposits:		
Non-interest bearing deposits	**19,274**	18,281
Interest bearing deposits	**197,254**	109,945
Total customer deposits	**216,528**	128,226
Securitized debt obligations	**15,474**	16,527
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	**770**	1,464
Senior and subordinated notes	**11,948**	11,034
Other borrowings	**4,693**	10,536
Total other debt	**17,411**	23,034
Other liabilities	**7,734**	8,100
Total liabilities	**257,531**	176,353
Stockholders equity:		
	0	0

Preferred stock, par value $.01 per share; authorized 50,000,000 shares; zero shares issued or outstanding as of March 31, 2012 and December 31, 2011		
Common stock, par value $.01 per share; authorized 1,000,000,000 shares; 629,802,435 and 508,594,308 issued as of March 31, 2012 and December 31, 2011, respectively	**6**	5
Paid-in capital, net	**25,136**	19,274
Retained earnings	**14,841**	13,462
Accumulated other comprehensive income	**253**	169
Less: Treasury stock, at cost; 49,576,117 and 48,647,091 shares as of March 31, 2012 and December 31, 2011, respectively	**(3,286)**	(3,244)
Total stockholders equity	**36,950**	29,666
Total liabilities and stockholders equity	**$ 294,481**	$ 206,019

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31,	
(Dollars in millions, except per share-related data)	**2012**	**2011**
Interest income:		
Loans held for investment, including past-due fees	**$ 3,655**	$ 3,417
Investment securities	**298**	316
Other	**26**	19
Total interest income	**3,979**	3,752
Interest expense:		
Deposits	**311**	322
Securitized debt obligations	**80**	140
Senior and subordinated notes	**88**	64
Other borrowings	**86**	86
Total interest expense	**565**	612
Net interest income	**3,414**	3,140
Provision for credit losses	**573**	534
Net interest income after provision for credit losses	**2,841**	2,606
Non-interest income:		
Service charges and other customer-related fees	**415**	525
Interchange fees, net	**328**	320
Total other-than-temporary losses	**(4)**	(23)
Portion of other-than-temporary losses recorded in AOCI	**(10)**	20
Net other-than-temporary impairment losses recognized in earnings	**(14)**	(3)
Bargain purchase gain	**594**	0
Other	**198**	100
Total non-interest income	**1,521**	942
Non-interest expense:		
Salaries and associate benefits	**891**	741
Marketing	**321**	276
Communications and data processing	**173**	164
Supplies and equipment	**150**	135
Occupancy	**123**	119
Other	**846**	727
Total non-interest expense	**2,504**	2,162
Income from continuing operations before income taxes	**1,858**	1,386
Income tax provision	**353**	354
Income from continuing operations, net of tax	**1,505**	1,032

Loss from discontinued operations, net of tax	**(102)**	(16)
Net income	**1,403**	1,016
Dividends and undistributed earnings allocated to participating securities	**(7)**	0
Net income available to common stockholders	**$ 1,396**	$ 1,016
Basic earnings per common share:		
Income from continuing operations	**$ 2.94**	$ 2.27
Loss from discontinued operations	**(0.20)**	(0.03)
Net income per basic common share	**$ 2.74**	$ 2.24
Diluted earnings per common share:		
Income from continuing operations	**$ 2.92**	$ 2.24
Loss from discontinued operations	**(0.20)**	(0.03)
Net income per diluted common share	**$ 2.72**	$ 2.21
Dividends paid per common share	**$ 0.05**	$ 0.05

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended March 31,	
(Dollars in millions)	**2012**	**2011**
Net income	**$ 1,403**	$ 1,016
Other comprehensive income (loss), net of taxes:		
Unrealized loss on securities, net of taxes of $4 million and $27 million as of March 31, 2012 and 2011, respectively	**(6)**	(50)
Other-than-temporary impairment not recognized in earnings, net of taxes of $(20) million and $2 million as of March 31, 2012 and 2011, respectively	**34**	(4)
Foreign currency translation adjustments	**55**	59
Unrealized gain (loss) on cash flow hedge net of taxes of $4 million as of March 31, 2011	**1**	(8)
Other comprehensive income (loss)	**84**	(3)
Comprehensive income	**$ 1,487**	$ 1,013

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

(Dollars in millions, except per share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders Equity
Balance as of December 31, 2011	508,594,308	$ 5	$ 19,274	$ 13,462	$ 169	$ (3,244)	$ 29,666
Comprehensive income				**1,403**	**84**		**1,487**
Cash dividends common stock $0.05 per share				**(24)**			**(24)**
Purchases of treasury stock						**(42)**	**(42)**
Issuances of common stock and restricted stock, net of forfeitures	**66,668,816**		**3,188**				**3,188**
Exercise of stock options and tax benefits of exercises and restricted stock vesting	**511,225**		**16**				**16**
Compensation expense for restricted stock awards and stock options			**21**				**21**
Issuance of common stock related to acquisition	**54,028,086**	**1**	**2,637**				**2,638**
Balance as of March 31, 2012	**629,802,435**	**$ 6**	**$ 25,136**	**$ 14,841**	**$ 253**	**$ (3,286)**	**$ 36,950**

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)	Three Months Ended March 31, 2012	2011
Operating activities:		
Income from continuing operations, net of tax	**$ 1,505**	$ 1,032
Loss from discontinued operations, net of tax	**(102)**	(16)
Net income	**1,403**	1,016
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	**573**	534
Depreciation and amortization, net	**234**	167
Net gains on sales of securities available for sale	**(11)**	(3)
Bargain purchase gain	**(594)**	0
Loans held for sale:		
Originations/Transfers in	**(860)**	(29)
(Gains) losses on sales	**(16)**	5
Proceeds from sales	**450**	135
Stock plan compensation expense	**63**	75
Changes in operating assets and liabilities, net of effects of acquisitions		
Decrease in interest receivable	**42**	45
(Increase) decrease in accounts receivable from securitizations	**(2)**	6
Decrease in other assets	**686**	474
Decrease in interest payable	**(82)**	(77)
Decrease in other liabilities	**(572)**	(506)
Net cash provided by operating activities attributable to discontinued operations	**152**	27
Net cash provided by operating activities	**1,466**	1,869
Investing activities:		
Increase in restricted cash for securitization investors	**(299)**	(954)
Purchases of securities available for sale	**(4,007)**	(3,582)
Proceeds from paydowns and maturities of securities available for sale	**4,839**	2,597
Proceeds from sales of securities available for sale	**7,337**	846
Net decrease in loans held for investment	**1,275**	1,713
Principal recoveries of loans previously charged off	**406**	435
Additions of premises and equipment	**(156)**	(67)
Net cash provided by (payment for) companies acquired, net of cash received	**13,740**	(1,444)
Net cash provided by (used in) investing activities	**23,135**	(456)
Financing activities:		
Net increase in deposits	**3,877**	3,236
Net decrease in securitized debt obligations	**(1,053)**	(2,409)
Net increase (decrease) in other borrowings	**(6,713)**	512
Maturities of senior notes	**(282)**	0
Issuance of senior and subordinated notes and junior subordinated debentures	**1,250**	0
Purchases of treasury stock	**(42)**	(38)
Dividends paid on common stock	**(24)**	(23)
Net proceeds from issuances of common stock	**3,188**	8
Proceeds from share-based payment activities	**16**	23

Net cash provided by financing activities	**217**	1,309
Increase in cash and cash equivalents	**24,818**	2,722
Cash and cash equivalents at beginning of the period	**5,838**	5,249
Cash and cash equivalents at end of the period	**$ 30,656**	$ 7,971
Supplemental cash flow information:		
Non-cash items:		
Excess of the net fair value of assets acquired over consideration transferred for acquired businesses	**$ (594)**	$ 3

See Notes to Consolidated Financial Statements.

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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.

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. 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 Report.

Basis of Presentation and Use of Estimates

The accompanying 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.

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.

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CAPITAL ONE FINANCIAL CORPORATION

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

Principles of Consolidation

The 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 Financial 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 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 evaluation 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 $13.6 billion in goodwill as of March 31, 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.

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

CAPITAL ONE FINANCIAL CORPORATION

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

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 and businesses to expand our distribution channels 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.

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

CAPITAL ONE FINANCIAL CORPORATION

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

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 brand and adds over seven million customers and approximately $84.4 billion in deposits to our Consumer Banking segment. 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 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 incurred direct costs, including attorney, investment banking, consulting and accounting fees, related to the public offering of our common stock of $73 million, which were offset against the net proceeds at settlement and deferred.

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.

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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 values 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	8,959
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[1]	2,854
Total assets	94,334
Liabilities:	
Interest payable	31
Interest-bearing deposits	84,410
Other borrowings	6
Other liabilities[3]	334
Total liabilities	84,781
Net assets acquired	$ 9,553
Bargain purchase gain	$ 594

(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.

The fair value of the net assets acquired from ING Direct of $9.6 billion at acquisition exceeded the purchase price of $9.0 billion, resulting in the recognition of a bargain purchase gain of $594 million, which is 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)

ING Direct Results

Our results for the first quarter of 2012 include the operations of ING Direct from the acquisition date of February 17, 2012, through the end of the quarter. The table below presents some of the impact of ING Direct on our results of operations for the first quarter 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 had been completed on January 1, 2011. Included in the 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 at acquisition is a nonrecurring item, it is excluded from the pro forma results to present the information on a more comparative basis.

(Dollars in millions)	ING Direct Impact[1] Three Months Ended March 31, 2012	Combined Pro Forma Results[2] Three Months Ended March 31, 2012	2011
Revenue[3]	**$ 237**	**$ 5,151**	$ 5,280
Income from continuing operations, net of tax	**37**	**948**	1,104

(1) Reflects the approximate half-quarter impact of ING Direct on our results of operations in the first quarter of 2012.
(2) Reflects the combined pro forma results of operations of ING Direct and Capital One assuming the acquisition had occurred on January 1, 2011.
(3) Consists of net interest income and non-interest income.

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 ING Direct been completed on January 1, 2011, nor is the information 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.

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 and wholesale banking unit have been accounted for as a discontinued operation and therefore not included in our results from continuing operations for the three months ended March 31, 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 March 31, 2012	2011
Net interest expense	**$ 0**	$ 0
Non-interest expense	**(161)**	(25)
Loss from discontinued operations before taxes	**(161)**	(25)
Income tax benefit	**59**	9
Loss from discontinued operations, net of taxes	**$ (102)**	$ (16)

CAPITAL ONE FINANCIAL CORPORATION

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

The loss from discontinued operations includes an expense of $153 million ($97 million net of tax) and $39 million ($29 million net of tax) for the three months ended March 31, 2012 and 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 due to the Government Sponsored Enterprise (GSE) settlement which is described in more detail in Note 15 Commitment, Contingencies, and Guarantees .

The discontinued mortgage origination operations of our wholesale home loan banking unit had remaining assets of $304 million as of both March 31, 2012 and December 31, 2011, which consisted primarily of income tax receivables. Liabilities totaled $832 million and $680 million as of March 31, 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 $60.8 billion and $38.8 billion, as of March 31, 2012 and December 31, 2011, respectively, consists of U.S. Treasury and U.S. agency debt obligations; agency and non-agency residential and commercial mortgage-backed securities; other asset-backed securities collateralized primarily by credit card loans, auto loans and leases, student loans, auto dealer floor plan inventory loans and leases, equipment loans, and other; municipal securities; foreign government/agency bonds; covered bonds; and limited Community Reinvestment Act (CRA) equity securities. Our investment securities increased by $22.1 billion, or 57%, in the first quarter of 2012 which was primarily attributable to the acquisition of ING Direct which included investment securities of $30.2 billion at acquisition. 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 and agency securities, based on fair value, represented 72% of our total investment securities portfolio as of March 31, 2012, compared with 69% as of December 31, 2011.

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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 March 31, 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 March 31, 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).

	March 31, 2012					
(Dollars in millions)	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	$ 2,048	$ 7	$ 0	$ (2)	$ (2)	$ 2,053
U.S. Agency debt obligations[3]	172	7	0	0	0	179
Residential mortgage-backed securities(RMBS):						
Agency[4]	36,781	525	0	(46)	(46)	37,260
Non-agency	4,069	36	(116)	(43)	(159)	3,946
Total RMBS	40,850	561	(116)	(89)	(205)	41,206
Commercial mortgage-backed securities (CMBS):						
Agency[4]	4,337	31	0	(3)	(3)	4,365
Non-agency	1,195	26	0	(1)	(1)	1,220
Total CMBS	5,532	57	0	(4)	(4)	5,585
Asset-backed securities (ABS[5])	10,207	47	0	(15)	(15)	10,239
Other[6]	1,508	42	0	(2)	(2)	1,548
Total securities available for sale	$ 60,317	$ 721	$ (116)	$ (112)	$ (228)	$ 60,810

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CAPITAL ONE FINANCIAL CORPORATION

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

	December 31, 2011					
(Dollars in millions)	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) Primarily consists of debt securities issued by Fannie Mae and Freddie Mac, which had an amortized cost of $130 million at both March 31, 2012 and December 31, 2011, and fair value of $136 million and $137 million, as of March 31, 2012 and December 31, 2011, respectively.

(4) Consists of mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae with an amortized cost of $15.5 billion, $10.4 billion and $15.2 billion and $12.3 billion, $8.9 billion and $4.5 billion, as of March 31, 2012 and December 31, 2011, respectively, and fair value of $15.7 billion, $10.6 billion and $15.3 billion and $12.6 billion, $9.1 billion and $4.5 billion, as of March 31, 2012 and December 31, 2011, respectively. The book value of Fannie Mae, Freddie Mac and Ginnie Mae investments exceeded 10% of our stockholders equity as of March 31, 2012 and December 31, 2011, respectively.

(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 75% credit card loans, 12% auto dealer floor plan inventory loans and leases, 6% auto loans, 2% student loans, 2% equipment loans, and 3% other as of March 31, 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 March 31, 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.

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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 March 31, 2012 and December 31, 2011.

	March 31, 2012					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Securities available for sale:						
US Treasury Debt Obligations	**$ 1,727**	**$ (2)**	**$ 0**	**$ 0**	**$ 1,727**	**$ (2)**
RMBS:						
Agency[1]	**12,108**	**(44)**	**312**	**(2)**	**12,420**	**$ (46)**
Non-agency	**893**	**(41)**	**1,063**	**(118)**	**1,956**	**(159)**
Total RMBS	**13,001**	**(85)**	**1,375**	**(120)**	**14,376**	**(205)**
CMBS:						
Agency[1]	**536**	**(3)**	**0**	**0**	**536**	**(3)**
Non-agency	**360**	**(1)**	**0**	**0**	**360**	**(1)**
Total CMBS	**896**	**(4)**	**0**	**0**	**896**	**(4)**
Total ABS	**1,626**	**(12)**	**233**	**(3)**	**1,859**	**(15)**
Other	**553**	**0**	**60**	**(2)**	**613**	**(2)**
Total securities available-for-sale in a gross unrealized loss position	**$ 17,803**	**$ (103)**	**$ 1,668**	**$ (125)**	**$ 19,471**	**$ (228)**

	December 31, 2011					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in millions)	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.

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

The gross unrealized losses on our available-for-sale securities of $228 million as of March 31, 2012 relate to 979 individual securities. Our investments in non-agency MBS and non-agency asset-backed securities accounted for $174 million, or 76%, of total gross unrealized losses as of March 31, 2012. Of the $228 million gross unrealized losses as of March 31, 2012, $125 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 March 31, 2012:

	March 31, 2012	
(Dollars in millions)	**Amortized Cost**	**Fair Value**
Due in 1 year or less	$ 4,764	$ 4,775
Due after 1 year through 5 years	8,589	8,631
Due after 5 years through 10 years	3,154	3,210
Due after 10 years[1]	43,810	44,194
Total	$ 60,317	$ 60,810

[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 March 31, 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.

	March 31, 2012									
	Due in 1 Year or Less		Due > 1 Year through 5 Years		Due > 5 Years through 10 Years		Due > 10 Years		Total	
(Dollars in millions)	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	$ 505	0.20%	$ 1,548	0.72%	$ 0	0%	$ 0	0%	$ 2,053	0.59%
U.S. Agency debt obligations[2]	30	4.43	134	4.38	0	0	15	3.48	179	4.31
RMBS:										
Agency[3]	1,695	3.87	33,221	2.54	2,344	2.52	0	0	37,260	2.60
Non-agency	181	7.42	1,535	8.44	2,130	7.34	100	6.35	3,946	7.75
Total RMBS	1,876	4.22	34,756	2.81	4,474	4.86	100	6.35	41,206	3.11%
CMBS:										
Agency[3]	137	2.47	3,249	1.74	932	2.60	47	0.87	4,365	1.94
Non-agency	392	3.43	417	4.20	411	3.81	0	0	1,220	3.82
Total CMBS	529	3.18	3,666	2.02	1,343	2.96	47	0.87	5,585	2.34
Total ABS	3,836	2.01	6,043	1.42	303	5.10	57	9.00	10,239	1.80
Other[4]	694	1.12	698	1.14	2	4.88	154	0.50	1,548	1.09
Total securities available for sale	$ 7,470	2.45%	$ 46,845	2.48%	$ 6,122	4.47%	$ 373	3.93%	$ 60,810	2.69%
Amortized cost of securities available-for-sale	$ 7,452		$ 46,369		$ 6,157		$ 339		$ 60,317	

(1) Average yields are calculated based on the amortized cost of each security.
(2) Consists of debt securities issued by Fannie Mae and Freddie Mac.
(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 purchase 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 months ended March 31, 2012 and 2011:

	Three Months Ended March 31,	
(Dollars in millions)	**2012**	**2011**
Total OTTI losses	**$ 4**	$ 23
Portion of OTTI impairment losses recorded in AOCI	**10**	(20)
Net OTTI losses recognized in earnings	**$ 14**	$ 3

As indicated in the table above, we recorded credit related losses in earnings totaling $14 million and $3 million for the three months ended March 31, 2012 and 2011, respectively. The cumulative non-credit related portion of OTTI on these securities recorded in AOCI totaled $116 million and $111 million for the three months ended March 31, 2012 and 2011, respectively. 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 $112 million and $57 million as of March 31, 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 months ended March 31, 2012 and 2011, related to the credit component of OTTI recognized in earnings on investment debt securities for which a portion of the OTTI losses, the non-credit component, was recorded in AOCI:

(Dollars in millions)	Three Months Ended March 31, 2012	2011
Credit loss component, beginning of period	**$ 68**	$ 49
Additions:		
Initial credit impairment	**1**	1
Subsequent credit impairment	**13**	2
Total additions	**14**	3
Reductions:		
Sales of credit-impaired securities	**(0)**	(2)
Total reductions	**(0)**	(2)
Ending balance	**$ 82**	$ 50

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 March 31, 2012	2011
Beginning balance AOCI related to securities available for sale, net of tax[1]	**$ 286**	$ 369
Net unrealized holding gains (losses), net of tax[2]	**14**	(55)
Net realized losses (gains) reclassified from AOCI into earnings, net of tax[3]	**10**	(3)
Ending balance AOCI related to securities available for sale, net of tax	**$ 310**	$ 311

(1) Net of tax benefit of $157 million and $203 million for the three months ended March 31, 2012 and 2011, respectively.
(2) Net of tax benefit (expense) of $8 million and $(30) million for the three months ended March 31, 2012 and 2011, respectively.
(3) Net of tax (benefit) expense of $5 million and $(2) for the three months ended March 31, 2012 and 2011, respectively.

CAPITAL ONE FINANCIAL CORPORATION

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

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 months ended March 31, 2012 and 2011. The gross realized investment losses presented below exclude credit losses recognized in earnings attributable to OTTI. We sold approximately $7.3 billion and $846 million of investment securities for the three months ended March 31, 2012 and 2011, respectively. These sales resulted in net gains of $11 million and $3 million for the three months ended March 31, 2012 and 2011, respectively.

	Three Months Ended March 31,	
(Dollars in millions)	**2012**	**2011**
Gross realized investment gains	**$ 17**	$ 5
Gross realized investment losses	**(6)**	(2)
Net realized gains	**$ 11**	$ 3
Total proceeds from sales	**$ 7,337**	$ 846

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 $8.2 billion and $8.8 billion as of March 31, 2012 and December 31, 2011, respectively.

Securities Acquired

In connection with the acquisition of ING Direct on February 17, 2012, we acquired debt securities with a fair value of $30.2 billion. We concluded that a portion of the 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 debt securities are considered credit impaired debt securities. The ING Direct 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 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.

CAPITAL ONE FINANCIAL CORPORATION

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

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 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 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 ING Direct credit-impaired debt securities we acquired. The table also displays the nonaccretable difference and the accretable yield at acquisition.

At Acquisition on February 17, 2012

	Purchased Credit-Impaired Securities
Contractually outstanding principal and interest at acquisition	**$ 5,646**
Less: Nonaccretable difference (expected principal losses of $1,103 million and foregone interest of $157 million)	**(1,260)**
Cash flows expected to be collected at acquisition[1]	**4,386**
Less: Accretable yield	**(1,474)**
Fair value of securities acquired	**$ 2,912**

[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 ING Direct credit-impaired debt securities as of March 31, 2012:

(Dollars in millions)	**March 31, 2012 Purchased Credit-Impaired Securities**

Contractual balance	$	**5,513**
Carrying value	$	**2,814**

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 ING Direct credit-impaired 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**

CAPITAL ONE FINANCIAL CORPORATION

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

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 March 31, 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.

(Dollars in millions)	March 31, 2012	December 31, 2011
Credit card business:		
Domestic credit card loans	**$ 51,607**	$ 54,682
International credit card loans	**8,303**	8,466
Total credit card loans	**59,910**	63,148
Domestic installment loans	**1,566**	1,927
Total installment loans	**1,566**	1,927
Total credit card	**61,476**	65,075
Consumer Banking business:		
Auto		