CAPITAL ONE FINANCIAL CORP
Form 10-K
February 29, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

December 31, 2011 For the fiscal year ended December 31, 2011

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 Incorporation or Organization)	**(I.R.S. Employer 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

Securities registered pursuant to section 12(b) of the act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock (par value $.01 per share)	New York Stock Exchange
Warrants (expiring November 14, 2018)	New York Stock Exchange
7.50% Enhanced Trust Preferred Securities (Enhanced TRUPS®)	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes ¨ No x

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 Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the close of business on June 30, 2011.

Common Stock, $.01 Par Value: $23,504,061,823*

* In determining this figure, the registrant assumed that the executive officers of the registrant and the registrant s directors are affiliates of the registrant. Such assumption shall not be deemed to be conclusive for any other purpose. The number of shares outstanding of the registrant s common stock as of the close of business on January 31, 2012.

Common Stock, $.01 Par Value: 459,408,409 shares

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the annual meeting of stockholders to be held on May 8, 2012, are incorporated by reference into Part III.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

INDEX OF MD&A TABLES AND SUPPLEMENTAL TABLES

Table of Contents

PART I

Item 1. Business

OVERVIEW

General

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 spectrum of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of December 31, 2011, our principal subsidiaries included:

- Capital One Bank (USA), National Association (COBNA), which currently offers credit and debit card products, other lending products and deposit products; and
- Capital One, National Association (CONA), which offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients.

The Company and its subsidiaries are hereafter collectively referred to as we , us or our. CONA and COBNA are collectively referred to as the Banks in this report.

We had $135.9 billion in total loans outstanding and $128.2 billion in deposits as of December 31, 2011, compared with $125.9 billion in total loans outstanding and $122.2 billion in deposits as of December 31, 2010. We serve banking customers through branch locations primarily in New York, New Jersey, Texas, Louisiana, Maryland, Virginia and the District of Columbia. In September 2010, we rebranded Chevy Chase Bank, F.S.B. (Chevy Chase Bank), strengthening the Capital One brand in the Washington, D.C. region. In addition to bank lending, treasury management and depository services, we offer credit and debit card products, auto loans and mortgage banking in markets across the United States. As of December 31, 2011, we were the fourth largest issuer of Visa® (Visa) and MasterCard® (MasterCard) credit cards in the United States based on the outstanding balance of credit card loans.

In June 2011, we entered into a purchase and sale agreement with ING Groep N.V., ING Bank N.V., ING Direct N.V., and 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). We closed the acquisition of ING Direct on February 17, 2012. Headquartered in Wilmington, Delaware, ING Direct is the largest direct bank in the United States. With the closing of the transaction and the addition of ING Direct s deposits, which totaled approximately $83.0 billion as of December 31, 2011, we become the sixth largest depository institution.

We also offer products outside of the United States principally through Capital One (Europe) plc (COEP), an indirect subsidiary of COBNA organized and located in the United Kingdom (U.K.), and through a branch of COBNA in Canada. COEP has authority, among other things, to provide credit card and installment loans. Our U.K. operations transitioned to an Authorized Payment Institution (API) effective December 1, 2010. As a result, we are no longer authorized to accept deposits in the U.K. Prior to November 19, 2010, COEP was referred to as Capital One Bank (Europe) plc (COBEP). Our branch of COBNA in Canada has the authority to provide credit card loans.

Recent Acquisition and Disposition Activity

We regularly explore and evaluate opportunities to acquire financial services companies and financial assets, including credit card and other loan portfolios, and enter into strategic partnerships as part of our growth strategy.

1

Table of Contents

As part of our evaluation, we analyze the values of, and regularly submit bids for, the acquisition of customer accounts and other liabilities and assets of financial institutions and other businesses. We also regularly consider the potential disposition of certain of our assets, branches, partnership agreements or lines of businesses. We may issue equity or debt in connection with acquisitions, including public offerings, to fund such acquisitions. Recent completed or pending acquisitions are discussed below.

Hudson s Bay Company Credit Card Portfolio

On January 7, 2011, we acquired the existing credit card loan portfolio of Hudson s Bay Company (HBC), one of the largest retailers in Canada, from GE Capital Retail Finance. The acquisition included outstanding credit card loan receivables with a fair value of approximately $1.4 billion and the transfer of approximately 400 employees directly involved in managing HBC s loan portfolio. The acquisition and partnership with HBC significantly expand our credit card customer base in Canada, tripling the number of customer accounts, and provide an additional distribution channel.

Kohl s Credit Card Portfolio

In August 2010, we entered into a private-label credit card partnership agreement with Kohl s Department Stores (Kohl s). In connection with the partnership agreement, we acquired Kohl s existing private-label credit card loan portfolio from JPMorgan Chase & Co. on April 1, 2011. The existing portfolio, which consists of more than 20 million Kohl s customer accounts, had an outstanding principal and interest balance of approximately $3.7 billion at acquisition. Under the terms of the partnership agreement and in conjunction with the acquisition, we began issuing Kohl s branded private-label credit cards to new and existing Kohl s customers on April 1, 2011. The partnership agreement has an initial seven-year term and an automatic one-year renewal thereafter unless either party delivers notice of an intent to terminate.

ING Direct

On June 16, 2011, we entered into a purchase and sale agreement with the ING Sellers to acquire ING Direct. On February 17, 2012, we closed the acquisition of ING Direct, which included (i) the acquisition of the equity interests of ING Bank, fsb (ING Bank), (ii) the acquisition of 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. The aggregate consideration was 54,028,086 shares of common stock and approximately $6.3 billion in cash. The ING Direct acquisition consists of assets, which include cash and cash equivalents, investment securities and loans with a total estimated fair value of $92.2 billion as of December 31, 2011 and deposits of approximately $83.0 billion as of December 31, 2011.

HSBC U.S. Credit Card Business

In August 2011, we entered into a purchase agreement with HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc. (collectively, HSBC), to acquire substantially all of the assets and assume liabilities of HSBC s credit card and private-label credit card business in the United States for a premium estimated at $2.6 billion as of June 30, 2011. We expect the acquisition of the HSBC U.S. credit card business to significantly expand and enhance our Credit Card franchise. We currently expect the HSBC acquisition to close in the second quarter of 2012, subject to customary closing conditions, including certain governmental clearances and approvals. Pursuant to the purchase agreement, we have the option, subject to certain conditions, to pay up to $750 million of the consideration to HSBC in the form of our common stock (valued at $39.23 per share).

Additional Information

Our common stock is listed on the NYSE and is traded under the symbol COF. As of January 31, 2012, there were 15,242 holders of record of our common stock. Our principal executive office is located at 1680 Capital One Drive, McLean, Virginia 22102 (telephone number (703) 720-1000). We maintain a Web site at *www.capitalone.com*. Documents available on our Web site include: (i) our Code of Business Conduct and Ethics

Table of Contents

for the Corporation; (ii) our Corporate Governance Principles; and (iii) charters for the Audit and Risk, Compensation, Finance and Trust Oversight, and Governance and Nominating Committees of the Board of Directors.

These documents also are available in print to any shareholder who requests a copy. In addition, we make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after electronically filing or furnishing such material to the Securities and Exchange Commission (SEC).

OPERATIONS AND BUSINESS SEGMENTS

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 and merchant interchange fees with respect to certain credit card transactions. Our expenses primarily consist of the cost of funding our assets, our provision for loan and lease losses, operating expenses (including associate salaries and benefits, infrastructure maintenance and enhancements and branch operations and expansion costs), marketing expenses and income taxes. We expect expenses associated with the integration of the ING Direct and the pending acquisition of the HSBC U.S. credit card business to represent a significant portion of our expenses in 2012.

Our principal operations are currently organized, for management reporting purposes, 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. 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 middle market customers. Our middle market customers typically include commercial and industrial companies with annual revenues between $10 million to $1.0 billion.

Customer usage and payment patterns, credit quality, levels of marketing expense and operating efficiency all affect our profitability. In our Credit Card business, we experience fluctuations in purchase volumes and the level of outstanding loan receivables due to higher seasonal consumer spending and payment patterns around the winter holiday season, summer vacations and back-to-school periods. Although there is some seasonal impact to purchase volumes and credit card loan balances in our Credit Card business, these seasonal trends have not caused significant fluctuations in our results of operations. No individual quarter in 2011 or 2010 accounted for more than 30% of our total revenues in either of these fiscal years. Delinquency rates in our consumer lending businesses also have historically exhibited seasonal patterns, with delinquency rates generally tending to decrease in the first two quarters of the year as customers use income tax refunds to pay down outstanding loan balances.

See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) Executive Summary and Business Outlook, MD&A Business Segment Financial Performance and Item 8. Financial Information and Supplementary Data Notes to Consolidated Financial Statements for additional information about our business segments.

3

Table of Contents

SUPERVISION AND REGULATION

General

Capital One Financial Corporation is a bank holding company (BHC) under Section 3 of the Bank Holding Company Act of 1956, as amended (12 U.S.C. § 1842) (the BHC Act) and is subject to the requirements of the BHC Act, including its capital adequacy standards and limitations on our nonbanking activities. We are also subject to supervision, examination and regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve).

Permissible activities for a BHC include those activities that are so closely related to banking as to be a proper incident thereto, such as consumer lending and other activities that have been approved by the Federal Reserve by regulation or order. Certain servicing activities are also permissible for a BHC if conducted for or on behalf of the BHC or any of its affiliates. Impermissible activities for BHCs include activities that are related to commerce such as retail sales of nonfinancial products. Under Federal Reserve policy, we are expected to act as a source of financial and managerial strength to any banks that we control, including the Banks and ING Bank, and to commit resources to support them.

On May 27, 2005, we became a financial holding company under the Gramm-Leach-Bliley Act amendments to the BHC Act (the GLBA). The GLBA removed many of the restrictions on the activities of BHCs that become financial holding companies. A financial holding company, and the nonbank companies under its control, are permitted to engage in activities considered financial in nature (including, for example, insurance underwriting, agency sales and brokerage, securities underwriting and dealing and merchant banking activities), incidental to financial activities or complementary to financial activities if the Federal Reserve determines that they pose no risk to the safety or soundness of depository institutions or the financial system in general.

Our election to become a financial holding company under the GLBA certifies that the depository institutions we control meet certain criteria, including capital, management and Community Reinvestment Act (CRA) requirements. Effective July 21, 2011, under amendments to the BHC Act enacted under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), Capital One Financial Corporation also must be well capitalized and well managed. If we were to fail to continue to meet the criteria for financial holding company status, we could, depending on which requirements we failed to meet, face restrictions on new financial activities or acquisitions or be required to discontinue existing activities that are not generally permissible for bank holding companies.

The Banks are national associations chartered under the laws of the United States, the deposits of which are insured by the Deposit Insurance Fund (the DIF) of the Federal Deposit Insurance Corporation (the FDIC) up to applicable limits. ING Bank is a federal savings bank chartered under the laws of the United States, the deposits of which are also insured by the DIF. In addition to regulatory requirements imposed as a result of COBNA s international operations (discussed below), the Banks and ING Bank are subject to comprehensive regulation and periodic examination by the Office of the Comptroller of the Currency (OCC), the FDIC and, effective July 21, 2011, by the Consumer Financial Protection Bureau (the CFPB).

We are also registered as a financial institution holding company under Virginia law and, as such, we are subject to periodic examination by Virginia s Bureau of Financial Institutions. We also face regulation in the international jurisdictions in which we conduct business (see below under Regulation of International Business by Non U.S. Authorities).

Regulation of Business Activities

The activities of the Banks and ING Bank as consumer lenders also are subject to regulation under various federal laws, including the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting

Table of Contents

Act (the FCRA), the CRA and the Servicemembers Civil Relief Act, as well as under various state laws. Depending on the underlying issue and applicable law, regulators are often authorized to impose penalties for violations of these statutes and, in certain cases, to order banks to compensate injured borrowers. Borrowers may also have a private right of action for certain violations. Federal bankruptcy and state debtor relief and collection laws also affect the ability of a bank to collect outstanding balances owed by borrowers. These laws may affect the ability of banks to collect outstanding balances.

New Regulations of Consumer Lending Activities

The Credit CARD Act (amending the Truth-In-Lending Act) enacted in May 2009, and related changes to Regulation Z, impose a number of restrictions on credit card practices impacting rates and fees and update the disclosures required for open-end credit. Overlimit fees may not be imposed without prior consent, and the number of such fees that can be charged for the same violation is constrained. The amount of any penalty fee or charge must be reasonable and proportional to the violation. The Credit CARD Act also significantly restricts the ability of a card issuer to increase rates charged on pre-existing card balances. Card issuers are generally prohibited from raising rates on pre-existing balances when generally prevailing interest rates change. Moreover, the circumstances under which a card issuer can raise the interest rate on pre-existing balances of a customer whose risk of default increases are restricted. Payments above the minimum payment must be allocated first to balances with the highest interest rate. The amount of fees charged to credit card accounts with lower credit lines is limited. A consumer s ability to pay must be taken into account before issuing credit or increasing credit limits.

State Consumer Financial Laws

The Dodd-Frank Act created a new independent supervisory body, the CFPB that is the primary regulator for federal consumer financial statutes. State attorneys general will be authorized to enforce new regulations issued by the CFPB. State consumer financial laws will continue to be preempted under the National Bank Act under the existing standard set forth in the Supreme Court decision in Barnett Bank of Marion County, N.A. v. Nelson, which preempts any state law that significantly interferes with or impairs banking powers. OCC determinations of such preemption, however, must be on a case-by-case basis, and courts reviewing the OCC s preemption determinations will now consider the appropriateness of those determinations under a different standard of judicial review. These laws may affect the ability of the Banks and ING Bank to collect outstanding balances.

Mortgage Lending

The Dodd-Frank Act prescribes additional disclosure requirements and substantive limitations on our mortgage lending activities. Most of these provisions require the issuance of regulations by the CFPB or other federal agencies before they become effective. Though we do not expect the resulting regulations to have a material impact on our operations, one new requirement under the Dodd-Frank Act, the requirement for mortgage loan securitizers to retain a portion of the economic risk associated with certain mortgage loans, could impact the type and amount of mortgage loans we offer, depending on the final regulations.

Debit Interchange Fees

The Dodd-Frank Act requires that the amount of any interchange fee received by a debit card issuer with respect to debit card transactions be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. In June 2011, the Federal Reserve adopted a final rule and an interim final rule implementing the portion of the Dodd-Frank Act that limits interchange fees received by a debit card issuer. The final rule limits interchange fees per debit card transaction to $.21 plus five basis points of the transaction amount and provides, through the interim final rule, for an additional $.01 fraud prevention adjustment to the interchange fee for issuers that meet certain fraud prevention requirements.

Table of Contents

Dividends, Stock Repurchases and Transfers of Funds

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 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.

Traditionally, dividends to us from our direct and indirect subsidiaries have represented a major source of funds for us to pay dividends on our stock, make payments on corporate debt securities and meet our other obligations. There are various federal law limitations on the extent to which the Banks and ING Bank can finance or otherwise supply funds to us through dividends and loans. These limitations include minimum regulatory capital requirements, federal banking law requirements concerning the payment of dividends out of net profits or surplus, Sections 23A and 23B of the Federal Reserve Act and Regulation W governing transactions between an insured depository institution and its affiliates, as well as general federal regulatory oversight to prevent unsafe or unsound practices. In general, federal and applicable state banking laws prohibit, without first obtaining regulatory approval, insured depository institutions, such as the Banks and ING Bank, from making dividend distributions if such distributions are not paid out of available earnings or would cause the institution to fail to meet applicable capital adequacy standards.

Capital Adequacy

The Banks and ING Bank are subject to capital adequacy guidelines adopted by federal banking regulators. For a further discussion of the capital adequacy guidelines, see MD&A Capital Management and Note 13 Regulatory and Capital Adequacy. The Banks and ING Bank exceeded minimum regulatory requirements under these guidelines as of December 31, 2011.

FDICIA and Prompt Corrective Action

In general, the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) subjects banks to significantly increased regulation and supervision. Among other things, FDICIA requires federal banking agencies to take prompt corrective action for banks that do not meet minimum capital requirements. FDICIA establishes five capital ratio levels: well capitalized; adequately capitalized; undercapitalized; significantly undercapitalized; and critically undercapitalized. Under applicable regulations, a bank is considered to be well capitalized if it maintains a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6%, 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 measure. A bank is considered to be adequately capitalized if it maintains a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4%, a Tier 1 leverage capital ratio of at least 4% (3% for certain highly rated institutions), and does not otherwise meet the well capitalized definition. The three undercapitalized categories are based upon the amount by which a bank falls below the ratios applicable to adequately capitalized institutions. The capital categories are determined solely for purposes of applying FDICIA s prompt corrective action provisions, and such capital categories may not constitute an accurate representation of the Banks or ING Bank s overall financial condition or prospects. As of December 31, 2011, each of the Banks and ING Bank met the requirements for a well-capitalized institution.

Table of Contents

As an additional means to identify problems in the financial management of depository institutions, FDICIA requires regulators to establish certain non-capital safety and soundness standards. The standards relate generally to operations and management, asset quality, interest rate exposure and executive compensation. The agencies are authorized to take action against institutions that fail to meet such standards.

Enhanced Prudential Standards and Other Requirements under the Dodd-Frank Act

With the enactment of the Dodd-Frank Act, because we are a bank holding company with consolidated assets of $50 billion or greater (a covered company), we are subject to certain enhanced prudential standards, including requirements that may be recommended by the Financial Stability Oversight Council (the Council) and implemented by the Federal Reserve and other regulators. As a result, we expect to be subject to more stringent standards and requirements than those applicable for smaller institutions, including risk-based capital requirements, leverage limits and liquidity requirements. The Council also may issue recommendations to the Federal Reserve or other primary financial regulatory agency to apply new or heightened standards to risky financial activities or practices. In December 2011, the Federal Reserve released proposed rules beginning to implement the enhanced prudential standards. If finalized as proposed, we will be subject to new requirements regarding liquidity management, risk management, single-counterparty credit limits and annual stress tests conducted by the Federal Reserve, and we will be required to conduct our own semiannual stress tests. The proposal also implements an early remediation framework, under which a covered company could be subject to enforcement actions, growth limits, prohibitions on capital distributions and other consequences if a triggering event were to occur. The Federal Reserve also indicates in the proposal that it intends to implement the Basel III capital surcharge framework, although the extent to which that would apply to the Company is unclear. Under rules proposed by the OCC in January 2012, each of the Banks and ING Bank would be required to conduct semiannual stress tests. In addition, in 2011, the Federal Reserve finalized rules requiring the Company to implement resolution planning for orderly resolution in the event of material financial distress or failure of the Company (often referred to as living wills). The FDIC has issued similar rules regarding resolution planning applicable to the Banks and ING Bank.

In addition to the provisions described throughout this Supervision and Regulation section, the Dodd-Frank Act imposes new, more stringent standards and requirements with respect to bank and nonbank acquisitions and mergers, affiliate transactions, and proprietary trading (the Volcker Rule). It is also possible that CONA will be designated as a swap dealer under the Dodd-Frank Act due to its derivative activities associated with commercial lending, which would result in oversight by the Commodity Futures Trading Commission and more requirements for our current and future derivative transactions. The Dodd-Frank Act also prohibits conflicts of interest relating to securitizations and generally requires securitizers to retain a 5% economic interest in the credit risk of assets sold through the issuance of asset-backed securitizations, with an exemption for traditionally underwritten residential mortgage loans. In addition, the Dodd-Frank Act includes provisions related to corporate governance and executive compensation and new fees and assessments, among others.

The federal agencies have significant discretion in drafting the implementing rules and regulations of the Dodd-Frank Act. These rules may result in modifications to our business models and organizational structure, and may subject us to escalating costs associated with any such changes. However, the full impact of the Dodd-Frank Act will not be known for many months or, in some cases, years. In addition, the Dodd-Frank Act requires various studies and reports to be delivered to Congress, which could result in additional legislative or regulatory action.

Basel II

U.S. Federal banking regulators finalized the Advanced version of Basel II in December 2007 and they issued a Notice of Proposed Rulemaking for the Standardized version in June 2008. The rules are mandatory for those institutions with consolidated total assets of $250 billion or more or consolidated total on-balance-sheet foreign exposure of $10 billion or more. We expect to become subject to these rules at the end of 2012 as a result of the ING Direct acquisition.

Table of Contents

Prior to full implementation of the Basel II framework, organizations must complete a qualification period of four consecutive quarters, known as the parallel run, during which they must meet the requirements of the rule to the satisfaction of their primary U.S. banking regulator. Based on current growth estimates, we would expect to enter parallel run January 1, 2015. This will require completing a written implementation plan and building processes and systems to comply with the rules. Compliance with the Basel II rules will require a material investment of resources.

The Collins Amendment within the Dodd-Frank Act and the U.S. banking regulators implementing final rules establish a risk-based capital floor so that organizations subject to Basel II rules may not hold less capital than would be required using Basel I capital calculations. Our current analysis suggests that our risk-weighted assets will increase under the Basel II framework, and therefore we would need to hold more regulatory capital in order to maintain a given capital ratio. We will continue to monitor regulators implementation of the new rules with respect to the institutions that are subject to them and assess the potential impact to us.

Basel III

In December 2009, the Basel Committee on Banking Supervision (the Basel Committee) released proposals for additional capital and liquidity requirements, which have been clarified and amended in recent pronouncements (Basel III). In September 2010, the Basel Committee announced a package of reforms that included detailed capital ratios and capital conservation buffers, subject to transition periods through 2018. In December 2010, the Basel Committee published a final framework on capital and liquidity, consistent in large part with the prior proposals. The liquidity framework included two standards for liquidity risk supervision, each subject to observation periods and transitional arrangements. One standard promotes short-term resilience by requiring sufficient high-quality liquid assets to survive a stress scenario lasting for 30 days; the other promotes longer-term resilience by requiring sufficient stable funding over a one-year period, based on the liquidity characteristics of assets and activities.

How U.S. banking regulations will be modified to reflect these international standards remains unclear, particularly given the capital surcharge regulations that the Federal Reserve intends to implement under the Dodd-Frank Act and the current Prompt Corrective Action framework. U.S. regulators have not yet implemented any portion of the Basel III framework, although we expect them to do so in the future. We expect that minimum capital and liquidity requirements for us and other institutions will increase as a result of Basel III, the Dodd-Frank Act and related activity. We will continue to monitor regulators implementation of the new rules with respect to the institutions that are subject to them and assess the potential impact to us.

Deposits and Deposit Insurance

Each of CONA, COBNA and ING Bank, as an insured depository institution, is a member of the DIF maintained by the FDIC. Through the DIF, the FDIC insures the deposits of insured depository institutions up to prescribed limits for each depositor. The DIF was formed on March 31, 2006, upon the merger of the Bank Insurance Fund and the Savings Association Insurance Fund in accordance with the Federal Deposit Insurance Reform Act of 2005 (the Reform Act). The Reform Act permits the FDIC to set a Designated Reserve Ratio (DRR) for the DIF. To maintain the DIF, member institutions may be assessed an insurance premium, and the FDIC may take action to increase insurance premiums if the DRR falls below its required level.

Prior to passage of the Dodd-Frank Act, the FDIC had established a plan to restore the DIF in the face of recent insurance losses and future loss projections, which resulted in several rules that generally increased deposit insurance rates and purported to improve risk differentiation so that riskier institutions bear a greater share of insurance premiums. The Dodd-Frank Act reformed the management of the DIF in several ways: raised the minimum DRR to 1.35% (from the former minimum of 1.15%) and removed the upper limit on the DRR; required that the reserve ratio reach 1.35% by September 30, 2020 (rather than 1.15% by the end of 2016); required that in setting assessments, the FDIC must offset the effect of meeting the increased reserve ratio on small insured depository institutions; and eliminated the requirement that the FDIC pay dividends from the DIF when the reserve ratio reaches certain levels. The FDIC has set the DRR at 2% and, in lieu of dividends, has established progressively lower assessment rate schedules as the reserve ratio meets certain trigger levels. The Dodd-Frank Act also required the FDIC to change the deposit insurance assessment base from deposits to average consolidated total assets minus average tangible equity. In February 2011, the FDIC finalized rules to implement this change that significantly modified how deposit insurance assessment rates are calculated for those banks with assets of $10 billion or greater.

Banks may accept brokered deposits as part of their funding. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), as discussed in MD&A Liquidity Risk, only well-capitalized and adequately-capitalized institutions may accept brokered deposits. Adequately-capitalized institutions, however, must first obtain a waiver from the FDIC before accepting brokered deposits, and such deposits may not pay rates that significantly exceed the rates paid on deposits of similar maturity from the institution s normal market area or, for deposits from outside the institution s normal market area, the national rate on deposits of comparable maturity.

The FDIC is authorized to terminate a bank s deposit insurance upon a finding by the FDIC that the bank s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the bank s regulatory agency. The termination of deposit insurance for a bank could have a material adverse effect on its liquidity and its earnings.

Overdraft Protection

The Federal Reserve amended Regulation E in November 2009 to limit the ability to assess overdraft fees for paying ATM and one-time debit card transactions that overdraw a consumer s account, unless the consumer opts in to such payment of overdrafts. The rule does not apply to overdraft services with respect to checks, ACH transactions, or recurring debit card transactions, or to the payment of overdrafts pursuant to a line of credit or a service that transfers funds from another account. We are required to provide to customers written notice describing our overdraft service, fees imposed and other information, and to provide customers with a reasonable opportunity to opt in to the service. Before we may assess fees for paying discretionary overdrafts, a customer must affirmatively opt in, which could negatively impact our deposit business revenue.

Source of Strength and Liability for Commonly-Controlled Institutions

Under the regulations issued by the Federal Reserve, a bank holding company must serve as a source of financial and managerial strength to its subsidiary banks (the so-called source of strength doctrine). The Dodd-Frank Act codified the source of strength doctrine, directing the Federal Reserve to require bank holding companies to serve as a source of financial strength to its subsidiary banks.

Under the cross-guarantee provision of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), insured depository institutions such as the Banks and ING Bank may be liable to the FDIC with respect to any loss incurred, or reasonably anticipated to be incurred, by the FDIC in connection with the default of, or FDIC assistance to, any commonly controlled insured depository institution. The Banks and ING Bank are commonly controlled within the meaning of the FIRREA cross-guarantee provision.

FDIC Orderly Liquidation Authority

The Dodd-Frank Act provided the FDIC with liquidation authority that may be used to liquidate a financial company if the Treasury Secretary, in consultation with the President, based on the recommendation of the Federal Reserve and another federal agency, determines that doing so is necessary to mitigate serious adverse effects on U.S. financial stability. Upon such a determination, the FDIC would be appointed receiver and must liquidate the company in a way that mitigates significant risks to financial stability and minimizes moral hazard. The costs of a liquidation of a financial company would be borne by shareholders and unsecured creditors and then, if necessary, by risk-based assessments on large financial companies. The FDIC has issued rules implementing this authority, and may issue additional rules in the future.

FFIEC Account Management Guidance

On January 8, 2003, the Federal Financial Institutions Examination Council (FFIEC) released Account Management and Loss Allowance Guidance (the Guidance). The Guidance applies to all credit lending of regulated financial institutions and generally requires that banks properly manage several elements of their lending programs, including line assignments, over-limit practices, minimum payment and negative amortization, workout and settlement programs, and the accounting methodology used for various assets and income items related to loans.

We believe that our account management and loss allowance practices are prudent and appropriate and, consistent with the Guidance. We caution, however, the Guidance provides wide discretion to bank regulatory agencies in the application of the Guidance to any particular institution and its account management and loss allowance practices. Accordingly, under the Guidance, bank examiners could require changes in our account management or loss allowance practices in the future, and such changes could have an adverse impact on our financial condition or results of operation.

Privacy and Fair Credit Reporting

The GLBA requires a financial institution to describe in a privacy notice certain of its privacy and data collection practices and requires that customers or consumers, before their nonpublic personal information is shared, be given a choice (through an opt-out notice) to limit the sharing of such information about them with nonaffiliated third parties unless the sharing is required or permitted under the GLBA as implemented. We, the Banks and ING Bank have written privacy notices that are available either through our website, the website of the relevant legal entity, or both, and are delivered to consumers and customers when required under the GLBA. In accordance with the privacy notices, we, the Banks and ING Bank protect the security of information about our customers, educate our employees about the importance of protecting customer privacy and allow our customers to remove their names from the solicitation lists used and shared with others by us and the Banks or ING Bank to the extent they use or share such lists. We, the Banks and ING Bank require business partners with whom we share such information to have adequate security safeguards and to abide by the redisclosure and reuse provisions of the GLBA. To the extent that the GLBA and the FCRA require us or one or more of the Banks or ING Bank to provide customers and consumers the opportunity to opt out of sharing information, then the relevant entity or entities provide such options in the privacy notice. In addition to adopting federal requirements regarding privacy, the GLBA also permits individual states to enact stricter laws relating to the use of customer information. To date, at least California and Vermont have done so by statute, regulation or referendum, and other states may consider proposals which impose additional requirements or restrictions on us, the Banks or ING Bank. If the federal or state regulators of the financial subsidiaries establish further guidelines for addressing customer privacy issues, we, one or more of the Banks, or ING Bank may need to amend our privacy policies and adapt our internal procedures.

Under Section 501(b) of the GLBA, among other sources of statutory authority, including state law, we are required to observe various data security-related requirements, including establishing information security and data security breach response programs and properly authenticating customers before processing or enabling certain types of transactions or interactions. The failure to observe any one or more of these requirements could subject us to enforcement action or litigation.

Like other financial institutions, the Banks and ING Bank rely upon consumer reports for prescreen marketing, underwriting new loans and for reviewing and managing risks associated with existing accounts. In addition, the

Table of Contents

Banks and ING Bank furnish customer account information to the major consumer reporting agencies. The use of consumer reports by the Banks and ING Bank and furnishing of account information to the consumer reporting agencies is regulated under the FCRA on a uniform, nationwide basis. This includes restrictions on the ability of the Banks and ING Bank to share consumer report information with affiliates and to use customer account information shared by affiliates for a marketing purpose. The Fair and Accurate Credit Transactions Act of 2003 (the FACT Act), extends the federal preemption of the FCRA permanently, although the law authorizes states to enact laws regulating certain subject matters so long as they are not inconsistent with the conduct required by the FCRA. The FACT Act also added new provisions to the FCRA designed to address the growing crime of identity theft and to improve the accuracy of consumer credit information. Generally, FCRA rulemaking and enforcement authority with respect to the Banks and ING Bank now resides with CFPB. In addition, the FCRA creates a limited private right of action for consumers to seek relief for certain violations for the FCRA.

Investment in the Company, the Banks and ING Bank

Certain acquisitions of our capital stock may be subject to regulatory approval or notice under federal or state law. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of our capital stock in excess of the amount that can be acquired without regulatory approval. Each of the Banks and ING Bank is an insured depository institution within the meaning of the Change in Bank Control Act.

Consequently, federal law and regulations prohibit any person or company from acquiring control of us without, in most cases, prior written approval of the Federal Reserve or the OCC, as applicable. Control is conclusively presumed if, among other things, a person or company acquires more than 25% of any class of our voting stock. A rebuttable presumption of control arises if a person or company acquires more than 10% of any class of voting stock and is subject to any of a number of specified control factors as set forth in the applicable regulations. Additionally, COBNA and CONA are banks within the meaning of Chapter 13 of Title 6.1 of the Code of Virginia governing the acquisition of interests in Virginia financial institutions (the Financial Institution Holding Company Act). The Financial Institution Holding Company Act prohibits any person or entity from acquiring, or making any public offer to acquire, control of a Virginia financial institution or its holding company without making application to, and receiving prior approval from, the Virginia Bureau of Financial Institutions. Because ING Bank is a federal savings bank located in Delaware, acquisitions of interests in ING Bank are governed by Chapter 8 of Title 5 of the Delaware Code (the Delaware Banking Code). The Delaware Banking Code prohibits any person or entity from acquiring ownership or control of a federal savings bank located in Delaware, or its holding company if its holding company is located in Delaware, without making application to, and receiving prior approval from, the Delaware State Bank Commissioner.

USA PATRIOT Act of 2001

The USA PATRIOT Act of 2001 (the Patriot Act) contains sweeping anti-money laundering and financial transparency laws as well as enhanced information collection tools and enforcement mechanisms for the U.S. government, including: due diligence requirements for private banking and correspondent accounts; standards for verifying customer identification at account opening; rules to promote cooperation among financial institutions, regulators, and law enforcement in identifying parties that may be involved in terrorism or money laundering; reporting requirements applicable to the receipt of coins and currency of more than $10,000 in nonfinancial trades or businesses; and more broadly applicable suspicious activity reporting requirements.

The Department of Treasury, in consultation with the Federal Reserve and other federal financial institution regulators, has promulgated rules and regulations implementing the Patriot Act that prohibit correspondent accounts for foreign shell banks at U.S. financial institutions; require financial institutions to maintain certain records relating to correspondent accounts for foreign banks; require financial institutions to produce certain records upon request of the appropriate federal banking agency; require due diligence with respect to private banking and correspondent banking accounts; facilitate information sharing between government and financial institutions; require verification of customer identification; and require financial institutions to have an anti-money laundering program in place.

Table of Contents

Non-Bank Activities

Our non-bank subsidiaries are subject to supervision and regulation by various other federal and state authorities. Our insurance agency subsidiaries, for example, are regulated by state insurance regulatory agencies in the states in which we operate. Capital One Agency LLC is a licensed insurance agency that provides both personal and business insurance services to retail and commercial clients and is regulated by the New York State Insurance Department in its home state and by the state insurance regulatory agencies in the states in which it operates.

Capital One Investment Services LLC, Capital One Southcoast Capital, Inc. and ING DIRECT Investment, Inc. are registered broker-dealers regulated by the SEC and the Financial Industry Regulatory Authority. Our broker-dealer subsidiaries are subject to, among other things, net capital rules designed to measure the general financial condition and liquidity of a broker-dealer. Under these rules, broker-dealers are required to maintain the minimum net capital deemed necessary to meet their continuing commitments to customers and others, and are required to keep a substantial portion of their assets in relatively liquid form. These rules also limit the ability of broker-dealers to transfer capital to parent companies and other affiliates. Broker-dealers are also subject to other regulations covering their business operations, including sales and trading practices, public offerings, publication of research reports, use and safekeeping of client funds and securities, capital structure, record-keeping and the conduct of directors, officers and employees.

Capital One Asset Management LLC, which provides investment advice to institutions, foundations, endowments and high net worth individuals, is a registered investment adviser regulated under the Investment Advisers Act of 1940. Capital One Financial Advisors LLC is a New York-state registered investment adviser. ShareBuilder Advisors, LLC is an SEC-registered investment adviser that provides investment advice to retail customers.

Regulation of International Business by Non U.S. Authorities

COBNA is subject to regulation in foreign jurisdictions where it operates, currently in the United Kingdom and Canada.

United Kingdom

In the United Kingdom, COBNA operates through Capital One (Europe) plc (COEP), which was established in 2000. Effective December 1, 2010, COEP became an authorized payment institution regulated by the Financial Services Authority (the FSA) under the Payment Services Regulations 2009. COEP is a member of the Lending Code, which sets standards of good lending practice in relation to loans, credit cards and current account overdrafts. COEP is not a retail deposit-taker. COEP s indirect parent, Capital One Global Corporation, is wholly-owned by COBNA and is subject to regulation as an agreement corporation under the Federal Reserve s Regulation K.

In 2010, the U.K. Government announced plans to change the structure of financial regulation by the end of 2012. As part of this change, the FSA will cease to exist in its current form. The U.K. Government will create a new Prudential Regulatory Authority (the PRA), responsible for the day-to-day prudential supervision of financial institutions and a new Financial Conduct Authority (the FCA), responsible for the conduct of all financial services firms. The FSA commenced during 2011 the implementation of a shadow structure in preparation for these changes. In addition, a new Financial Policy Committee (the FPC) of the Court of Directors of the Bank of England will be established, which will look across the economy at the macroeconomic and financial issues that may threaten stability and address the risks it identifies. An Interim FPC was established in February 2011 and first met in June 2011.

In preparation for these changes, the U.K. Government conducted a range of related consultation work during 2011, in particular focusing on the respective roles and approach of the new regulatory bodies. The consultations included consideration of whether, in addition to the establishment of the FCA, PRA and FPC, the U.K.

consumer credit regime currently regulated by the Office of Fair Trading (OFT) should become the responsibility of a single regulator and/or whether the existing underlying legislative framework for consumer credit regulation (under the Consumer Credit Act 1974) should be replaced with a model similar to regulation of other retail financial services (under the Financial Services and Markets Act 2000). The consultations suggest that the U.K. Government intends that the FCA be a more engaged regulator, with involvement earlier in a product s lifecycle. The U.K. Government has confirmed there is a consensus amongst consultation respondents in favor of transition to a single regulator of consumer credit (FCA being identified as the likely best regulatory body to perform this function). The U.K Government has also confirmed there was no clear consensus over potential changes to the underlying legislative framework regulating consumer credit. The U.K. Government has indicated that further policy development work is needed to enable it to make a determination on the future of consumer credit regulation.

Cross-border interchange fees are under scrutiny from the European Commission (EC) and the OFT. The timing of any final resolution of the matter by the EC or the OFT, which has suspended its own investigation into domestic interchange, is uncertain, but it is anticipated that the OFT will await the outcome of the EC court decision before concluding its own investigation, currently expected to be Spring 2012. If the EC decision is appealed to the European Court of Justice, we would expect the OFT to continue the suspension. An appeal to the European Court of Justice is unlikely to be decided before 2014.

In January 2012, the EC released a Green Paper that aims at identifying potential measures to create an integrated European market for card, internet and mobile payments. The current scope of the paper is broad and includes issues such as: market fragmentation; transparency and cost effective pricing of payment services; lack of standardization; interoperability between payment service providers; and security/privacy concerns of payment service users. The paper also looks at whether interchange arrangements create challenges for a fully integrated European market, which may increase the likelihood of further legislation in this area outside of the court process outlined above. The EC will review comments from interested parties, which are due April 2012, to decide next steps and what, if any, further regulation is required to create a single European market.

Following a referral by the OFT, the Competition Commission (the CC) launched a market investigation into the supply of Payment Protection Insurance (PPI) in the United Kingdom. The scope included PPI on mortgages, credit cards, unsecured loans (personal loans, motor loans and hire purchase) and secured loans. In October 2010, the CC published its final report on remedies, and the final Order was published in March 2011. Implementation of the main new remedies was split. The first phase was introduced in October 2011 and the second will be introduced in April 2012, with the April 2012 phase including a seven-day point of sale prohibition.

Following the dismissal of the British Bankers Association s judicial review, firms, including COEP, have had to comply with new rules introduced by the FSA in December 2010 governing the handling of PPI complaints. The new rules have resulted in changes to the way that the industry handles PPI complaints and the associated media attention has led to a significant increase in PPI complaint volumes.

Canada

In Canada, COBNA operates as an authorized foreign bank pursuant to the Bank Act (Canada) (the Bank Act) and is permitted to conduct its credit card business in Canada through its Canadian branch, Capital One Bank (Canada Branch) (Capital One Canada). The primary regulator of Capital One Canada is the Office of the Superintendent of Financial Institutions Canada (OSFI). Other regulators include the Financial Consumer Agency of Canada (FCAC), the Office of the Privacy Commissioner of Canada, and the Financial Transactions and Reports Analysis Centre of Canada. Capital One Canada is subject to regulation under various Canadian federal laws, including the Bank Act and its regulations, the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Personal Information Protection and Electronic Documents Act.

In 2011, four new regulatory developments that affect credit cards issued by federally regulated financial institutions in Canada became effective. These amendments could increase our operational and compliance costs and affect the types and terms of products that we offer in Canada.

In January 2011, amendments to the Personal Investigations Act of Manitoba came into force (Manitoba Amendments). The Manitoba Amendments require credit grantors to take certain steps to verify a credit applicant s identity before entering into or amending a credit agreement, following the placement of a security alert with a credit bureau.

In April 2011, the FCAC published its guidance on Consent for Increases in Credit Limits (FCAC Guidance). The FCAC Guidance sets out the FCAC Commissioner s interpretation of the requirement under the Credit Business Practices (Banks, Authorized Foreign Banks, Trust and Loan Companies, Retail Associations, Canadian Insurance Companies and Foreign Insurance Companies) Regulations to obtain express consent from a borrower prior to increasing the credit limit on a credit card. The FCAC s expectation is that credit card issuers obtain express consent from borrowers in each instance of a proposed credit limit increase by the issuer and that such consent is obtained at the time of the proposed credit limit increase. The FCAC Guidance became effective in July 2011.

In June 2011, the Bank Act was amended to allow for certain information that is to be provided in writing, to be satisfied by the provision of an electronic document. At the same time, the Electronic Documents (Banks and Bank Holding Companies) Regulations, which prescribe additional requirements for the provision of electronic documents, became effective. The additional requirements include obtaining customer consent to receive documents electronically and the provision of a notification to customers containing prescribed information. The amendments specify that customers may revoke consent at any time, and confirmations of such revocation must be provided without delay. The amendments also provide that if there is a reason to believe that a customer did not receive the electronic document, a paper document must be mailed.

In July 2010, amendments to the Financial Consumer Agency of Canada Act became effective, expanding the mandate of the FCAC to include monitoring and evaluating trends and consumer issues that may have an impact on consumers of financial products and services. In November 2011, the FCAC published a new Compliance Framework, which among other changes included amendments to the content, scope and frequency of existing reporting requirements and introduced a new requirement to self-report certain compliance issues. Some of the new reporting requirements were effective immediately, while others will be effective on April 1, 2012.

COMPETITION

Each of our business segments operates in a highly competitive environment, and we face competition in all aspects of our business from numerous bank and non-bank providers of financial services.

Our Credit Card business competes with international, national, regional and local issuers of Visa® and MasterCard® credit cards, as well as with American Express®, Discover Card® and, to a certain extent, issuers of debit cards. In general, customers are attracted to credit card issuers largely on the basis of price, credit limit and other product features, and customer loyalty is often limited.

Our Consumer Banking and Commercial Banking businesses compete with national and state banks and direct banks for deposits, auto loans, mortgages and trust accounts and with savings and loan associations and credit unions for loans and deposits. Our competitors also include automotive finance companies, mortgage banking companies and other financial services providers that provide loans, deposits, and other similar services and products. In addition, we compete against non-depository institutions that are able to offer these products and services. Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. Combinations of this type could significantly change the competitive environment in which we conduct business. The financial services industry is also likely to become more

Table of Contents

competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties. In addition, competition among direct banks is intense because online banking provides our customers the ability to rapidly deposit and withdraw funds and open and close accounts in favor of products and services offered by competitors.

Our businesses generally compete on the basis of the quality and range of their products and services, transaction execution, innovation and price. Competition varies based on the types of clients, customers, industries and geographies served. With respect to some of our products and geographies and products, we compete globally and with respect to others, we compete on a regional basis. Our ability to compete depends, in part, on our ability to attract and retain our professional and other associates and on our reputation. In the current environment, customers are generally attracted to depository institutions that are perceived as stable, with solid liquidity and funding.

We believe that we are able to compete effectively in our current markets. There can be no assurance, however, that our ability to market products and services successfully or to obtain adequate returns on our products and services will not be impacted by the nature of the competition that now exists or may later develop, or by the broader economic environment. For a discussion of the risks related to our competitive environment, please refer to Item 1A. Risk Factors.

EMPLOYEES

A central part of our philosophy is to attract and retain a highly capable staff. We had 31,542 employees, whom we refer to as associates, as of December 31, 2011. None of our associates are covered under a collective bargaining agreement, and management considers our employee relations to be satisfactory.

ADDITIONAL INFORMATION

Geographic Diversity

Our consumer loan portfolios, including credit cards, are diversified across the United States with modest concentration in California, Texas, New York, Florida, Louisiana and Illinois. We also have credit card loans in the U.K. and Canada. Our commercial loans are concentrated in New York, Texas, Louisiana and New Jersey. See MD&A Credit Risk Profile and Note 22 Significant Concentration of Credit Risk for additional information.

Technology/Systems

We leverage information technology to achieve our business objectives and to develop and deliver products and services that satisfy our customers needs. A key part of our strategic focus is the development of efficient, flexible computer and operational systems to support complex marketing and account management strategies, the servicing of our customers, and the development of new and diversified products. We believe that the continued development and integration of these systems is an important part of our efforts to reduce costs, improve quality and provide faster, more flexible technology services. Consequently, we continuously review capabilities and develop or acquire systems, processes and competencies to meet our unique business requirements.

As part of our continuous efforts to review and improve our technologies, we may either develop such capabilities internally or rely on third party outsourcers who have the ability to deliver technology that is of higher quality, lower cost, or both. Over time, we have increasingly relied on third party outsourcers to help us deliver systems and operational infrastructure. These relationships include (but are not limited to): Total System Services Inc. (TSYS) for processing services for our North American and United Kingdom portfolios of consumer and small business credit card accounts, Fidelity National Information Services (Fidelity) for the Capital One banking systems and IBM Corporation for management of our North American data centers.

Table of Contents

To protect our systems and technologies, we employ security, backup and recovery systems and generally require the same of our third-party service providers. In addition, we perform, or cause to be performed, a variety of vulnerability and penetration testing on the platforms, systems and applications used to provide our products and services in an effort to ensure that any attacks on these platforms, systems and applications are unlikely to succeed. To date, to our knowledge, we have not been targeted with a direct, material cyber attack. We do not believe that the direct attacks we have seen have resulted in outside entities successfully penetrating our security controls.

Intellectual Property

As part of our overall and ongoing strategy to protect and enhance our intellectual property, we rely on a variety of protections, including copyrights, trademarks, trade secrets, patents and certain restrictions on disclosure, solicitation, and competition. We also undertake other measures to control access to and distribution of our other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use certain intellectual property or proprietary information without authorization. Our precautions may not prevent misappropriation or infringement of our intellectual property or proprietary information. In addition, our competitors and other third parties also file patent applications for innovations that are used in our industry. The ability of our competitors and other third parties to obtain such patents may adversely affect our ability to compete. Conversely, our ability to obtain such patents may increase our competitive advantage. There can be no assurance that we will be successful in such efforts, or that the ability of our competitors to obtain such patents may not adversely impact our financial results.

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 (the ING Direct Transaction) and the pending acquisition of HSBC s U.S. credit card business (the HSBC Transaction and, with the ING Direct Transaction, 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 regulatory and other approvals and conditions to the HSBC Transaction are not obtained or satisfied on a timely basis or at all;
- the possibility that modifications to the terms of the HSBC Transaction may be required in order to obtain or satisfy such approvals or conditions;

the possibility that we will not receive third-party consents necessary to fully realize the anticipated benefits of the HSBC Transaction;

the possibility that we may not fully realize the projected cost savings and other projected benefits of the Transactions;

Table of Contents

changes in the anticipated timing for closing the HSBC Transaction;

difficulties and delays in integrating the assets and businesses acquired in the Transactions;

business disruption during the pendency of or 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

Table of Contents

other risk factors listed from time to time in reports that we file with the SEC.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do 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 set forth under Part I Item 1A. Risk Factors in this Annual Report on Form 10-K.

Item 1A. Risk Factors

Business Risks

This section highlights specific risks that could affect our business. Although we have tried to discuss all material risks of which we are aware at the time this Annual Report on Form 10-K has been filed, other risks may prove to be important in the future, including those that are not currently ascertainable. In addition to the factors discussed elsewhere in this Annual Report, other factors that could cause actual results to differ materially from our forward looking statements include:

The Current Business Environment, Including A Slow or Delayed Economic Recovery, May Adversely Affect Our Industry, Business, Results Of Operations And Capital Levels.

The recent global recession resulted in a general tightening in the credit markets, lower levels of liquidity, reduced asset values (including commercial properties), sharp and prolonged declines in residential home values and sales volumes, reduced business profits, increased rates of business and consumer repayment delinquency, increased rates of business and consumer bankruptcy, and increased and prolonged unemployment, some of which have had a negative impact on our results of operation. Although the overall economic recovery seems to be underway, it has remained modest and fragile. A recovery that is only shallow and very gradual, marked by continued elevated unemployment rates and reduced home prices, or another downturn, may have a material adverse effect on our financial condition and results of operations as customers default on their loans or maintain lower deposit levels or, in the case of credit card accounts, carry lower balances and reduce credit card purchase activity.

In particular, we may face the following risks in connection with these events:

Adverse macroeconomic conditions may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which could have a negative impact on our results of operations. In addition, changes in consumer behavior, including decreased consumer spending and a shift in consumer payment behavior towards avoiding late fees, over-limit fees, finance charges and other fees, could have an adverse impact on our results of operations.

Increases in bankruptcies could cause increases in our charge-off rates, which could have a negative impact on our results of operations.

Our ability to recover debt that we have previously charged-off may be limited, which could have a negative impact on our results of operations.

The processes and models we use to estimate inherent losses may no longer be reliable because they rely on complex judgments, including assumptions and forecasts of economic conditions which may no longer be capable of accurate estimation in an unpredictable economic environment, which could have a negative impact on our results of operations.

Our ability to assess the creditworthiness of our customers may be impaired if the criteria or models we use to underwrite and manage our customers become less predictive of future losses, which could cause our losses to rise and have a negative impact on our results of operations.

Table of Contents

Significant concern regarding the creditworthiness of some of the governments in Europe has contributed to volatility in the financial markets and led to greater economic uncertainty worldwide. Sovereign debt concerns in Europe could diminish economic recovery and lead to further stress in the financial markets, both globally and in the United States, which could have a negative impact on our financial results.

Our ability to borrow from other financial institutions or to engage in funding transactions on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, which could limit our access to funding. The interest rates that we pay on our securities are also influenced by, among other things, applicable credit ratings from recognized rating agencies. A downgrade to any of these credit ratings could affect our ability to access the capital markets, increase our borrowing costs and have a negative impact on our results of operations. Increased charge-offs, rising LIBOR and other events may cause our securitization transactions to amortize earlier than scheduled, which could accelerate our need for additional funding from other sources.

We have increased our reliance on deposit funding over the past several years, in particular with the acquisition of ING Direct, and an inability to accept or maintain deposits or to obtain other sources of funding could materially affect our liquidity position and our ability to fund our business. Many other financial institutions have also increased their reliance on deposit funding and, as such, we expect continued competition in the deposit markets. We cannot predict how this competition will affect our costs. If we are required to offer higher interest rates to attract or maintain deposits, our funding costs will be adversely impacted.

Regulators, rating agencies or investors could change their standards regarding appropriate capital levels for banks in general or us in particular. If the new standards call for capital levels higher than the capital we have or that we anticipate, it could have negative impacts on our ability to lend or to grow deposits and on our business results.

Interest rates have remained at historically low levels for a prolonged period of time, and the flat yield curve associated with current interest rates generally leads to lower revenue and reduced margins because it limits our opportunity to increase the spread between asset yields and funding costs. The continued presence of a flat yield curve for a sustained period of time could have a material adverse effect on our earnings and our net interest margin.

The historically low interest rate environment also increases our exposure to prepayment risk, particularly with respect to the originated mortgage portfolio we acquired from ING Direct. Increased prepayments, refinancing or other factors would reduce expected revenue associated with mortgage assets and could also lead to a reduction in the value of our mortgage servicing rights, which could have a negative impact on our financial results.

Compliance With New And Existing Laws And Regulations May Increase Our Costs, Reduce Our Revenue, Limit Our Ability To Pursue Business Opportunities, And Increase Compliance Challenges.

There has been increased legislation and regulation with respect to the financial services industry in the last few years, and we expect that oversight of our business will continue to expand in scope and complexity. A wide and increasing array of banking and consumer lending laws apply to almost every aspect of our business. Failure to comply with these laws and regulations could result in financial, structural and operational penalties, including receivership, and could result in negative publicity or damage to our reputation with regulators or the public. In addition, establishing systems and processes to achieve compliance with these laws and regulations may increase our costs and limit our ability to pursue certain business opportunities.

In July 2010, President Obama signed into law the Dodd-Frank Act. The Dodd-Frank Act, as well as the related rules and regulations adopted by various regulatory agencies, could have a significant adverse impact on our business, results of operations or financial condition. The Dodd-Frank Act is a comprehensive financial reform act that requires, among other things, enhanced prudential standards (including capital and liquidity

Table of Contents

requirements), enhanced supervision (including stress testing), recovery and resolution planning (often referred to as living wills), prohibitions on proprietary trading and increased transparency and regulation of derivatives trading. The Dodd-Frank Act also provides heightened expectations for risk management and regulatory oversight of all aspects of large financial institutions, including us. Many aspects of the law remain to be implemented under the rulemaking and regulatory authority of the SEC, the CFTC and federal banking regulators. Although it is clear that the Dodd-Frank Act will materially impact large financial institutions like us, the ultimate effect and scope of that impact may not be understood for years. Though some aspects of the Dodd-Frank Act will clearly have a significant impact on our financial condition or results of operations, other aspects of the law may not apply to us. Nevertheless, the law will increase our need to build new compliance processes and infrastructure and to otherwise enhance our risk management throughout all aspects of our business. The cumulative impact will include higher expectations for capital and liquidity, as discussed in more detail below under the header We May Not Be Able to Maintain Adequate Capital Levels or Liquidity, Which Could have a Negative Impact on Our Financial Results, and higher operational costs once regulators fully implement the law. In addition, U.S. government agencies charged with adopting rules and regulations under the Dodd-Frank Act may do so in an unforeseen manner, including ways that potentially expand the reach of the legislation more than as initially contemplated.

There are a number of other provisions in the Dodd-Frank act that will impact our business, including:

The Dodd-Frank Act created a new independent supervisory body, the Consumer Financial Protection Bureau (the CFPB) that became the primary regulator for federal consumer financial statutes on July 21, 2011. Rule writing authority for specified consumer financial statutes transferred to CFPB from other federal regulators. In addition, supervisory authority for consumer compliance over various institutions, including us, was transferred to the CFPB. State attorneys general will be authorized to enforce new regulations issued by the CFPB. Although state consumer financial laws will continue to be preempted under the National Bank Act under the existing standard set forth in the Supreme Court decision in *Barnett Bank of Marion County, N.A. v. Nelson*, OCC determinations of such preemption must be on a case-by-case basis, and courts reviewing the OCC s preemption determinations will now consider the appropriateness of those determinations under a different standard of judicial review. As a result, state consumer financial laws enacted in the future that might previously have been preempted may be held to apply to our business activities. The cost of complying with these additional laws could have a negative impact on our financial results.

The Dodd-Frank Act requires that the amount of any interchange fee received by a debit card issuer with respect to debit card transactions be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. On June 29, 2011, the Federal Reserve adopted a final rule and an interim final rule implementing the portion of the Dodd-Frank Act that limits interchange fees received by a debit card issuer. The final rule limits interchange fees per debit card transaction to $.21 plus five basis points of the transaction amount and provides, through the interim final rule, for an additional $.01 fraud prevention adjustment to the interchange fee for issuers that meet certain fraud prevention requirements. These rules will negatively impact revenue from our debit card business.

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. Also, the Dodd-Frank Act will most likely subject us to the supervision of regulatory agencies that historically have not regulated our businesses, such as the Commodity Futures Trading Commission with respect to our derivatives activities. These provisions could have an adverse impact on our results of operations or financial condition by increasing our cost of funding, our cost of capital or our cost of complying with applicable laws and regulations.

The Credit CARD Act (amending the Truth-in-Lending Act) and related changes to Regulation Z impose a number of restrictions on credit card practices impacting rates and fees and also update the disclosures required for open-end credit. Overlimit fees may not be imposed without prior consent of the customer, and the number of such fees that can be charged for the same violation is constrained. The amount of any penalty fee or charge must be reasonable and proportional to the violation. In addition, the ability of a card issuer to increase rates charged

Table of Contents

on pre-existing card balances has been significantly restricted. Card issuers are generally prohibited from raising rates on pre-existing balances when generally prevailing interest rates change. Moreover, the circumstances under which a card issuer can raise the interest rate on pre-existing balances of a customer whose risk of default increases are restricted. As a result, the rules implementing the Credit CARD Act could make the card business generally less resilient in future economic downturns.

Under the various state and federal statutes and regulations, we are required to observe various data security and privacy-related requirements, including establishing information security and data security breach response programs and properly authenticating customers before processing or enabling certain types of transactions or interactions. Future federal and state legislation and regulation could further restrict how we collect, use, share and secure customer information. The failure to observe any one or more of these requirements could subject us to litigation or enforcement actions and impact some of our current or planned business initiatives.

Certain laws and regulations, and any interpretations and applications with respect thereto, may benefit consumers, borrowers and depositors, but not stockholders. The legislative and regulatory environment is beyond our control, may change rapidly and unpredictably and may negatively influence our revenue, costs, earnings, growth and capital levels. Our success depends on our ability to maintain compliance with both existing and new laws and regulations. For a description of the laws and regulations to which we are subject, please refer to Supervision and Regulation in Item 1. Business.

We May Experience Increased Delinquencies And Credit Losses.

Like other lenders, we face the risk that our customers will not repay their loans. Rising losses or leading indicators of rising losses (such as higher delinquencies, higher rates of non-performing loans, higher bankruptcy rates, lower collateral values or elevated unemployment rates) may require us to increase our allowance for loan and lease losses, which may degrade our profitability if we are unable to raise revenue or reduce costs to compensate for higher losses. In particular, we face the following risks in this area:

Missed Payments. Our customers may miss payments. Loan charge-offs (including from bankruptcies) are generally preceded by missed payments or other indications of worsening financial condition for our customers. Customers are more likely to miss payments during an economic downturn or prolonged periods of slow economic growth. In addition, we face the risk that consumer and commercial customer behavior may change (for example, an increase in the unwillingness or inability of customers to repay debt), causing a long-term rise in delinquencies and charge-offs.

Estimates of Inherent losses. The credit quality of our portfolio can have a significant impact on our earnings. We allow for and reserve against credit risks based on our assessment of credit losses inherent in our loan portfolios. This process, which is critical to our financial results and condition, requires complex judgments, including forecasts of economic conditions. We may underestimate our inherent losses and fail to hold a loan loss allowance sufficient to account for these losses. Incorrect assumptions could lead to material underestimates of inherent losses and inadequate allowance for loan and lease losses. In addition, our estimate of inherent losses impacts the amount of allowances we build to account for those losses. In cases where we modify a loan, if the modifications do not perform as anticipated we may be required to build additional allowance on these loans. The increase or release of allowances impacts our current financial results.

Underwriting. Our ability to assess the credit worthiness of our customers may diminish. If the models and approaches we use to select, manage and underwrite our consumer and commercial customers become less predictive of future charge-offs (due, for example, to rapid changes in the economy, including the unemployment rate), our credit losses may increase and our returns may deteriorate.

Business Mix. Our business mix could change in ways that could adversely affect credit losses. We engage in a diverse mix of businesses with a broad range of credit loss characteristics. Consequently, changes in our business mix may change our charge-off rate.

Charge-off Recognition. The rules governing charge-off recognition could change. We record charge-offs according to accounting and regulatory guidelines and rules. These guidelines and rules, including the FFIEC Account Management Guidance, could require changes in our account management or loss allowance practices and cause our charge-offs to increase for reasons unrelated to the underlying performance of our portfolio. Such changes could have an adverse impact on our financial condition or results of operation.

Industry Practices. Our charge-off and delinquency rates may be negatively impacted by industry developments, including new regulations applicable to our industry.

Collateral. Collateral, when we have it, could be insufficient to compensate us for loan losses. When customers default on their loans and we have collateral, we attempt to seize it where permissible and appropriate. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan, and we may be unsuccessful in recovering the remaining balance from our customers. Particularly with respect to our commercial lending and home loan activities, decreases in real estate values adversely affect the value of property used as collateral for our loans and investments. Thus, the recovery of such property could be insufficient to compensate us for the value of these loans. Borrowers may be less likely to continue making payments on loans if the value of the property used as collateral for the loan is less than what the borrower owes, even if the borrower is still financially able to make the payments.

New York Concentration. Although our lending is geographically diversified, approximately 48% of our commercial loan portfolio is concentrated in the New York metropolitan area. The regional economic conditions in the New York area affect the demand for our commercial products and services as well as the ability of our customers to repay their commercial loans and the value of the collateral securing these loans. An economic downturn or prolonged period of slow economic growth in the New York region could have a material adverse effect on the performance of our commercial loan portfolio and our results of operations.

We May Experience Increased Losses Associated With Mortgage Repurchases and Indemnification Obligations.

Certain of our subsidiaries, including GreenPoint Mortgage Funding, Inc. (GreenPoint), Capital One Home Loans and Capital One, N.A., as successor to Chevy Chase Bank, may be required to repurchase mortgage loans that have been sold to investors in the event there are certain breaches of certain representations and warranties contained within the sales agreements. We may be required to repurchase mortgage loans that we sell to investors in the event that there was improper underwriting or fraud or in the event that the loans become delinquent shortly after they are originated. These subsidiaries also may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, including securities fraud claims, and the amount of such losses could exceed the repurchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans.

We have established reserves in our consolidated financial statements for potential losses that are considered to be both probable and reasonably estimable related to the mortgage loans sold by our originating subsidiaries. The adequacy of the reserve and the ultimate amount of losses incurred will depend on, among other things, the actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rate of claimants, developments in litigation related to us and the industry, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices). Due to uncertainties relating to these factors, there can be no assurance that our reserves will be adequate or that the total amount of losses incurred will not have a material adverse effect upon our financial condition or results of operations. For additional information related to our mortgage loan repurchase and indemnification obligations and related reserves and our estimate of the upper end of the reasonably possible future losses from representation and warranty claims beyond the current accrual levels as of December 31, 2011, see Note 21 Commitments, Contingencies and Guarantees.

Table of Contents

We May Not Be Able to Maintain Adequate Capital Levels or Liquidity, Which Could Have a Negative Impact on Our Financial Results.

As a result of the Dodd-Frank Act and international accords, financial institutions will become subject to new and increased capital and liquidity requirements. Although it is not yet clear what form these requirements will take or how they will apply to us, it is possible that we could be required to increase our capital levels above the levels in our current financial plans. These new requirements could have a negative impact on our ability to lend, grow deposit balances or make acquisitions and on our ability to make capital distributions in the form of increased dividends or share repurchases. Higher capital levels could also lower our return on equity.

Recent developments in capital and liquidity requirements that may impact us include the following:

In December 2010, the Basel Committee on Banking Supervision published a final framework (commonly known as Basel III) on capital and liquidity. The key elements of the capital proposal include: raising the quality, consistency and transparency of the capital base; strengthening the risk coverage of the capital framework; introducing a leverage ratio that is different from the U.S. leverage ratio measures; promoting the build-up of capital buffers; and imposing a capital surcharge for global systemically important institutions. The liquidity framework includes two standards for liquidity risk supervision, one standard promoting short-term resilience and the other promoting longer-term resilience. How U.S. banking regulations will be modified to reflect these international standards remains unclear, particularly given the forthcoming capital and other prudential requirement regulations under the Dodd-Frank Act and the current Prompt Corrective Action framework. We expect, however, that minimum capital and liquidity requirements for us and other institutions will increase as a result of Basel III, the Dodd-Frank Act and related activity.

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 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.

Because we are a consolidated bank holding company with consolidated assets of $50 billion or greater, we are subject to certain heightened prudential standards under the Dodd-Frank Act, including requirements that may be recommended by the Financial Stability Oversight Council and implemented by the Federal Reserve. As a result, we expect to be subject to more stringent standards and requirements than those applicable for smaller institutions, including risk-based capital requirements, leverage limits and liquidity requirements. In December 2011, the Federal Reserve released proposed rules beginning to implement the enhanced prudential requirements, including a detailed liquidity framework. If finalized as proposed, these requirements would increase our liquidity requirements and associated compliance and operational costs.

The Basel II final rules as implemented in the United States are mandatory for those institutions with consolidated total assets of $250 billion or more or consolidated total on-balance-sheet foreign exposure of $10 billion or more. We expect to become subject to these rules at the end of 2012 as a result of the acquisition of ING Direct. Prior to full implementation of the Basel II framework, organizations must complete a qualification period of four consecutive quarters, known as the parallel run, during which they must meet the requirements of the rule to the satisfaction of their primary U.S. banking regulator. Based on current growth estimates, we would expect to enter parallel run January 1, 2015. This will require completing a written implementation plan and building processes and systems to comply with the rules. Compliance with the Basel II rules will require a material investment of resources. In addition, our current analysis suggests that our risk-weighted assets will increase under the Basel II framework, and therefore we would need to hold more regulatory capital in order to maintain a given capital ratio.

See Item 1. Business Supervision and Regulation for additional information.

We Face Risk Related To Our Operational, Technological And Organizational Infrastructure.

Our ability to grow and compete is dependent on our ability to build or acquire necessary operational, technological and organizational infrastructure. We are in the process of completing significant development projects to complete the systems integration of prior acquisitions and to build a scalable infrastructure in both our Retail Banking and Commercial Banking businesses. We anticipate making additional infrastructure changes and upgrades in connection with the integration of ING Direct and the pending acquisition of HSBC s U.S. credit card business. Our pending acquisition of the HSBC U.S. credit card business in particular involves the transfer of intellectual property, servicing platforms, infrastructure, contact centers and a significant number of employees. We expect that decoupling and transitioning these assets, infrastructure and systems from HSBC s current systems and operations and integrating them into our own business operations will be a highly complex process. These infrastructure changes, upgrades and integrations may cause disruptions to our existing and acquired businesses, including, but not limited to, systems interruptions, transaction processing errors, interruptions to collection processes and system conversion delays, all of which could have a negative impact on us. In addition, we expect to enter into numerous transitional service arrangements with HSBC entities that will provide for services associated with the decoupling and transition of the business. Under these arrangements, HSBC will provide certain services to us and we will provide certain services to HSBC. These transitional service arrangements will continue for various dates until the separation of the business from HSBC is complete, and during that time we will rely on the ability of the applicable HSBC entities to provide these services. The complexities and requirements of these arrangements will increase the operational risk associated with the transition and integration of the business, and this increased risk could lead to unanticipated expenses, disruptions to our operations or other adverse consequences.

While we expect the pending acquisition of HSBC s U.S. credit card business will close in the second quarter of 2012, the complexities of the decoupling and transition could present risks of delay to our anticipated closing timing. Any significant delay in closing the acquisition could have a negative impact on our results of operations due to increased costs or a delay in our realization of the anticipated benefits of the acquisition.

Similar to other large corporations, we are exposed to operational risk that can manifest itself in many ways, such as errors related to failed or inadequate processes, faulty or disabled computer systems, fraud by employees or persons outside of our company and exposure to external events. In addition, we are heavily dependent on the strength and capability of our technology systems which we use to manage our internal financial and other systems, interface with our customers and develop and implement effective marketing campaigns. Our ability to develop and deliver new products that meet the needs of our existing customers and attract new ones and to run our business in compliance with applicable laws and regulations depends on the functionality and reliability of our operational and technology systems. Any disruptions or failures of our operational and technology systems, including those associated with improvements or modifications to such systems, could cause us to be unable to market and manage our products and services or to report our financial results in a timely and accurate manner, all of which could have a negative impact on our results of operations.

In some cases, we and the businesses we are acquiring outsource the maintenance and development of operational and technological functionality to third parties. These third parties may experience errors or disruptions that could adversely impact us and over which we may have limited control. Any increase in the amount of our infrastructure that we outsource to third parties may increase our exposure to these risks.

Table of Contents

In addition, our on-going investments in infrastructure, which may be necessary to maintain a competitive business, integrate newly acquired businesses such as ING Direct and HSBC s U.S. credit card business and establish scalable operations, may increase our expenses. Further, as our business develops, changes or expands, additional expenses can arise as a result of a reevaluation of business strategies, management of outsourced services, asset purchases or other acquisitions, structural reorganization, compliance with new laws or regulations or the integration of newly acquired businesses. If we are unable to successfully manage our expenses, our financial results will be negatively affected.

We Could Incur Increased Costs or Reductions In Revenue Or Suffer Reputational Damage In the Event Of The Theft, Loss or Misuse Of Information, Including As A Result Of A Cyber-Attack.

Our products and services involve the gathering, storage and transmission of sensitive information regarding our customers and their accounts. Our ability to provide such products and services, many of which are web-based, relies upon the management and safeguarding of information, software, methodologies and business secrets. To provide these products and services, we use information systems and infrastructure that we and third party service providers operate. We also have arrangements in place with retail partners and other third parties where we share and receive information about their customers who are or may become our customers. As a financial institution, we also are subject to and examined for compliance with an array of data protection laws, regulations and guidance, as well as to our own internal privacy and information security policies and programs. If unauthorized persons were somehow to get access to personal, confidential or proprietary information, including customer information, in our possession or to our proprietary information, software, methodologies and business secrets, it could result in significant legal and financial exposure, supervisory liability, damage to our reputation or a loss of confidence in the security of our systems, products and services that could adversely affect our business.

Information security risks for large financial institutions like us have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists, activists and other external parties. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our businesses rely on our digital technologies, computer and email systems, software and networks to conduct their operations. In addition, to access our products and services, our customers may use computers, personal smartphones, tablet PC s and other mobile devices that are beyond our security control systems. Although we believe we have a robust suite of authentication and layered information security controls, our technologies, systems, networks and our customers devices may become the target of cyber-attacks or other attacks that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers confidential, proprietary or other information, including their access credential to accounts with online functionality, or that could result in disruptions to the business operations of us or our customers or other third parties. Further, a breach or attack affecting one of our third-party service providers or partners could impact us through no fault of our own.

Because the methods and techniques employed by perpetrators of fraud and others to attack, disable, degrade or sabotage platforms, systems and applications change frequently and often are not fully recognized or understood until after they have been launched, we and our third-party service providers and partners may be unable to anticipate certain attack methods in order to implement effective preventative measures. Should a cyber-attack against us succeed on any material scale, market perception of the effectiveness of our security measures could be harmed, and we could face the aforementioned risks. Though we have insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event.

The Growth Of Our Online Banking Business Presents Certain Risks.

As a result of our strategic decisions and recent acquisitions, including ING Direct, we have grown our online banking business significantly over the past few years. Today, we operate one of the largest online banking businesses in the world, with over $128 billion in deposits as of December 31, 2011. While online banking represents a significant opportunity for customers in terms of greater and more flexible access to banking services at reduced costs, it also presents significant risks. In addition to the software, infrastructure and cyber-attack risks discussed above, we face risks related to online banking, including:

We face strong competition in the online banking market. Aggressive pricing throughout the industry may adversely affect the retention of existing balances and the cost-efficient acquisition of new deposit funds and may affect our growth and profitability. When general economic conditions improve, new competitors may forcefully enter the market and pursue a discount pricing strategy in order to attract loan origination volume, particularly if the new entrants target high quality loans. In addition, the effects of a competitive environment may be exacerbated by the flexibility of online banking and the increasing financial and technological sophistication of our customer base. Customers could close their online accounts or reduce balances or deposits in favor of products and services offered by competitors. These shifts, which could be rapid, could result from general dissatisfaction with our products or services, including concerns over pricing, online security or our reputation. For example, once we transition from the ING Direct brand for the online banking business we recently acquired, the new brand may not be as readily accepted by customers as we anticipate, and these customers may not accept our branding, image, name, reputation, policies or level of service or may be dissatisfied with perceived differences regarding how they manage their online accounts after the transition, and as a result may transfer their accounts and business to a competitor.

Our online businesses are dependent on our ability to process, record and monitor a large number of complex transactions. If any of our financial, accounting, or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. Third parties with which we do business could also be sources of operational risk, particularly in the event of breakdowns or failures of such parties own systems. Any of these occurrences could diminish our ability to operate one or more of our online banking businesses, or result in potential liability to clients, reputational damage and regulatory intervention, any of which could result in a material adverse effect. We may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, computer viruses or electrical or telecommunications outages, cyber-attacks, as discussed above, natural disasters, other damage to property or physical assets or events arising from local or larger scale politics, including terrorist acts. Such disruptions may give rise to losses in service to customers and loss or liability to us.

We May Fail To Realize All Of The Anticipated Benefits Of Our Mergers And Acquisitions, Which Failure Could Result in Adverse Effects On Our Results Of Operations or Dilution Of Our Common Stockholders.

We have engaged in merger and acquisition activity over the past several years and may continue to engage in such activity in the future. We have explored, and expect to continue to explore, opportunities to acquire financial services companies and financial assets and to enter into strategic partnerships as part of our growth strategy. For example, as described under Recent Acquisition and Disposition Activity ING Direct, we announced the ING Direct acquisition in June 2011 and the acquisition of HSBC s U.S. credit card business in August 2011. In addition, we entered into credit card partnership agreements with, Kohl s Corp., Sony Corporation and Hudson s Bay Company during the past two years, including the acquisition of the related credit card loan portfolios, and we acquired Chevy Chase Bank in February 2009. We continue to evaluate and anticipate engaging in, among other merger and acquisition activity, additional strategic partnerships and selected acquisitions of financial institutions and other financial assets, including credit card and other loan portfolios.

Any merger, acquisition or strategic partnership we undertake will entail certain risks, which may materially and adversely affect our results of operations. If we experience greater than anticipated costs to integrate acquired businesses into our existing operations or are not able to achieve the anticipated benefits of any merger, acquisition or strategic partnership, including cost savings and other synergies, our business could be negatively affected. In addition, it is possible that the ongoing integration processes could result in the loss of key

Table of Contents

employees, errors or delays in systems implementation, the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of any merger, acquisition or strategic partnership. Integration efforts also may divert management attention and resources. These integration matters may have an adverse effect on us during any transition period.

In addition, we may face the following risks in connection with any merger, acquisition or strategic partnership, including the ING Direct acquisition and the pending acquisition of HSBC s U.S. credit card businesses:

New Businesses and Geographic or Other Markets. Our merger, acquisition or strategic partnership activity may involve our entry into new businesses and new geographic areas or other markets which present risks resulting from our relative inexperience in these new businesses or markets. These new businesses or markets may change the overall character of our consolidated portfolio of businesses and could react differently to economic and other external factors. We face the risk that we will not be successful in these new businesses or in these new markets.

Identification and Assessment of Merger and Acquisition Targets and Deployment of Acquired Assets. We cannot assure you that we will identify or acquire suitable financial assets or institutions to supplement our organic growth through acquisitions or strategic partnerships. In addition, we may incorrectly assess the asset quality and value of the particular assets or institutions we acquire. Further, our ability to achieve the anticipated benefits of any merger, acquisition or strategic partnership will depend on our ability to assess the asset quality and value of the particular assets or institutions we partner with, merge with or acquire. We may be unable to profitably deploy any assets we acquire.

Regulatory Approval. Any future and pending merger or acquisition may be subject to regulatory or governmental approvals, which will require, among other things, review of our resulting financial condition, our ability to manage our resulting size, competitive considerations and our service to the community. We cannot assure you that we will receive any regulatory or governmental approvals. If such regulatory approvals of a merger or acquisition are not granted or are granted with conditions that become applicable to the parties, delayed or failed implementation of our strategic objectives could result, including failure to realize the anticipated benefits of the proposed merger or acquisition. In addition, governmental authorities from which approvals are typically required frequently have broad discretion in administering governing regulations. These governmental authorities may impose requirements, limitations or costs, or require divestitures or place restrictions on the conduct of our or another party s business after the completion of merger or acquisition transaction.

Dilutive Issuances. We may issue common stock, other equity securities or debt in connection with future mergers and acquisitions, including in public offerings to fund such mergers and acquisitions or to provide adequate capital for the additional assets acquired. Issuances of our common stock, other equity securities or debt, whether as consideration for such mergers or acquisitions or to raise necessary funds or capital, may have a dilutive effect on earnings per share and our common stockholders equity.

Accuracy of Assumptions. In connection with any merger, acquisition or strategic partnership, we may make certain assumptions relating to the proposed merger or acquisition that may be, or may prove to be, inaccurate, including as the result of the failure to realize the expected benefits of any merger, acquisition or strategic partnership. The inaccuracy of any assumptions we may make could result in unanticipated consequences that could have a material adverse effect on our results of operations or financial condition. Assumptions we might make when considering a proposed merger, acquisition or strategic partnership may relate to numerous matters, including:

projections of a target or partner company s future net income and our earnings per share;

our ability to issue equity and debt to complete any merger or acquisition;

our expected capital structure and capital ratios after any merger, acquisition or strategic partnership;

projections as to the amount of future loan losses in any target or partner company s portfolio;

Table of Contents

- the amount of goodwill and intangibles that will result from any merger, acquisition or strategic partnership;
- certain purchase accounting adjustments that we expect will be recorded in our financial statements in connection with any merger, acquisition or strategic partnership;
- cost, deposit, cross-selling and balance sheet synergies in connection with any merger, acquisition or strategic partnership;
- merger, acquisition or strategic partnership costs, including restructuring charges and transaction costs;
- our ability to maintain, develop and deepen relationships with customers of a target or partner company;
- our ability to grow a target or partner company s customer deposits and manage a target or partner company s assets and liabilities;
- higher than expected transaction and integration costs and unknown liabilities as well as general economic and business conditions that adversely affect the combined company following any merger or acquisition transaction;
- the extent and nature of regulatory oversight over a target or partner company;
- projected or expected tax benefits or assets;
- accounting matters related to the target or partner company, including accuracy of assumptions and estimates used in preparation of financial statements such as those used to determine allowance for loan losses, fair value of certain assets and liabilities, securities impairment and realization of deferred tax assets;
- our expectations regarding macroeconomic conditions, including the unemployment rate, housing prices, the interest rate environment, the shape of the yield curve, inflation and other economic indicators; and other financial and strategic risks associated with any merger or acquisition.

Target Specific Risk. Assets and companies that we acquire will have their own risks that are specific to a particular asset or company. These risks include, but are not limited to, particular or specific regulatory, accounting, operational, reputational and industry risks, any of which could have a material adverse effect on our results of operations or financial condition. Indemnification rights, if any, may be insufficient to compensate us for any losses or damages resulting from such risks. In addition to regulatory approvals discussed above, certain of our merger, acquisitions or partnership activity may require third-party consents in order for us to fully realize the anticipated benefits of any such transaction.

Termination Fees. Termination of agreements relating to the acquisition of an entity or assets, or merger with another entity, may, under certain circumstances, result in termination fees that could have a material adverse effect on our results of operations or financial condition.

Reputational Risk and Social Factors May Impact Our Results.

Our ability to originate and maintain accounts is highly dependent upon the perceptions of consumer and commercial borrowers and deposit holders and other external perceptions of our business practices or our financial health. Adverse perceptions regarding our reputation in the consumer, commercial and funding markets could lead to difficulties in generating and maintaining accounts as well as in financing them. In particular, negative perceptions regarding our reputation could lead to decreases in the levels of deposits that consumer and commercial customers and potential customers choose to maintain with us. Negative public opinion could also result from actual or alleged conduct in any number of activities or circumstances, including lending practices, regulatory compliance, inadequate protection of customer information, or sales and marketing, and from actions taken by regulators or other persons in response to such conduct.

In addition, a variety of social factors may cause changes in borrowing activity, including credit card use, payment patterns and the rate of defaults by accountholders and borrowers domestically and internationally. These social factors include changes in consumer confidence levels, the public s perception regarding consumer debt, including credit card use, and changing attitudes about the stigma of bankruptcy. If consumers develop or maintain negative attitudes about incurring debt, or if consumption trends decline, our business and financial results will be negatively affected.

Damage To Our Brands Could Impact Our Financial Performance.

Our brands have historically been very important to us. As with many financial services institutions, maintaining and enhancing our brand will depend largely on our ability to be a technology leader and to continue to provide high-quality products and services. Negative public perception of our brands could result from actual or alleged conduct in any number of activities, including lending practices, corporate governance, regulatory compliance and the use and protection of customer information, as well as from actions taken by government regulators and community organizations in response to that conduct. If we fail to maintain and enhance our brands, or if we incur excessive expenses in this effort, our business, results of operations and financial condition could be materially and adversely affected. Our online banking brands may also be negatively impacted by a number of factors, including service outages, product malfunctions, data privacy, lack of training, security issues and integration difficulties from recent acquisitions.

We Face Intense Competition in All of Our Markets.

We operate in a highly competitive environment, and we expect competitive conditions to continue to intensify. We face intense competition both in making loans and attracting deposits. We compete on the basis of the rates we pay on deposits and the rates and other terms we charge on the loans we originate or purchase, as well as the quality of our customer service. Price competition for loans might result in origination of fewer loans or earning less on our loans. We expect that competition will continue to increase with respect to most of our products. Some of our competitors are substantially larger than we are, which may give those competitors advantages, including a more diversified product and customer base, the ability to reach out to more customers and potential customers, operational efficiencies, more versatile technology platforms, broad-based local distribution capabilities, lower-cost funding and larger existing branch networks. In addition, some of our competitors are not subject to the same regulatory requirements or legislative scrutiny to which we are subject, which also could place us at a competitive disadvantage.

We have recently expanded our partnership business with the addition of Kohl s, Hudson s Bay Company and Sony, and we expect to add a significant number of partnerships with the pending acquisition of HSBC s U.S. credit card business. The market for key business partners, especially in the Card business, is very competitive, and we cannot assure you that we will be able to grow or maintain these partner relationships. We face the risk that we could lose partner relationships, even after we have invested significant resources, time and expense in acquiring and developing the relationships. The loss of any of our business partners could have a negative impact on our results of operations, including lower returns, excess operating expense and excess funding capacity.

In such a competitive environment, we may lose entire accounts or may lose account balances to competing firms, or we may find it more costly to maintain our existing customer base. Customer attrition from any or all of our lending products, together with any lowering of interest rates or fees that we might implement to retain customers, could reduce our revenues and therefore our earnings. Similarly, customer attrition from our deposit products, in addition to an increase in rates or services that we may offer to retain those deposits, may increase our expenses and therefore reduce our earnings.

If We Do Not Adjust to Rapid Changes in the Financial Services Industry, Our Financial Performance May Suffer.

Our ability to deliver to stockholders strong financial performance and returns on investment will depend in part on our ability to expand the scope of available financial services to meet the needs and demands of our customers. With our recent acquisition of ING Direct and our pending acquisition of HSBC s U.S. credit card business, we expect to market new products to our growing customer base. Our ability to sell more products to customers is a key part of our strategy to grow revenue and earnings. Many of our competitors are also focusing on cross-selling, which could limit our ability to execute our cross-sell strategy or require lower interest rates or fees on our lending products or offer higher interest rates on deposits, as well as affect our ability to maintain existing customers. This increasingly competitive environment is primarily a result of changes in regulation, changes in technology and product delivery systems, as well as the accelerating pace of consolidation among financial service providers.

Fluctuations in Market Interest Rates Or Volatility in the Capital Markets Could Adversely Affect Our Revenue and Expense, the Value of Assets and Obligations, Our Cost of Capital or Our Liquidity.

Like other financial institutions, our business may be sensitive to market interest rate movement and the performance of the capital markets. Changes in interest rates or in valuations in the debt or equity markets could directly impact us. For example, we borrow money from other institutions and depositors, which we use to make loans to customers and invest in debt securities and other earning assets. We earn interest on these loans and assets and pay interest on the money we borrow from institutions and depositors. Fluctuations in interest rates, including changes in the relationship between short-term rates and long-term rates and in the relationship between our funding basis rate and our lending basis rate, may have negative impacts on our net interest income and therefore our earnings. In addition, interest rate fluctuations and competitor responses to those changes may affect the rate of customer prepayments for mortgage, auto and other term loans and may affect the balances customers carry on their credit cards. These changes can reduce the overall yield on our earning asset portfolio. Changes in interest rates and competitor responses to these changes may also impact customer decisions to maintain balances in the deposit accounts they have with us. In addition, changes in valuations in the debt and equity markets could have a negative impact on the assets we hold in our investment portfolio. Finally, such market changes could also have a negative impact on the valuation of assets for which we provide servicing.

We assess our interest rate risk by estimating the effect on our earnings under various scenarios that differ based on assumptions about the direction and the magnitude of interest rate changes. We take risk mitigation actions based on those assessments. We face the risk that changes in interest rates could materially reduce our net interest income and our earnings, especially if actual conditions turn out to be materially different than those we assumed. See MD&A Market Risk Management for additional information.

Our Business Could Be Negatively Affected If It Is Unable to Attract, Retain and Motivate Skilled Senior Leaders.

Our success depends, in large part, on our ability to retain key senior leaders, and competition for such senior leaders can be intense in most areas of our business. The executive compensation provisions of the Dodd-Frank Act and the regulations issued thereunder, and any further legislation, regulation or regulatory guidance restricting executive compensation, may limit the types of compensation arrangements that we may enter into with our most senior leaders and could have a negative impact on our ability to attract, retain and motivate such leaders in support of our long-term strategy. These laws and regulations may not apply in the same manner to all financial institutions, and we therefore may face more restrictions than other institutions and companies with whom we compete for talent. If we are unable to retain talented senior leadership, our business could be negatively affected.

Our Businesses are Subject to the Risk of Increased Litigation.

Our businesses are subject to increased litigation risks as a result of a number of factors and from various sources, including the highly regulated nature of the financial services industry, the focus of state and federal prosecutors on banks and the financial services industry, the structure of the credit card industry and business practices in the mortgage lending business. Substantial legal liability against us could have a material adverse effect or cause significant reputational harm to us, which could seriously harm our business. For a description of the litigation risks that we face, see Note 21 Commitments, Contingencies and Guarantees.

We Face Risks from Unpredictable Catastrophic Events.

Despite our substantial business contingency plans, the impact from natural disasters and other catastrophic events, including terrorist attacks, may have a negative effect on our business and infrastructure, including our information technology systems. The impact of such events and other catastrophes on the overall economy may also adversely affect our financial condition and results of operations.

We Face Risks from the Use of Estimates in Our Financial Statements.

Pursuant to United States Generally Accepted Accounting Principles, we are required to use certain assumptions and estimates in preparing our financial statements, including, but not limited to, estimating our allowance for loan and lease losses and the fair value of certain assets and liabilities. If the assumptions or estimates underlying our financial statements are incorrect, we may experience unexpected material losses. For a discussion of our use of estimates in the preparation of our consolidated financial statements, see Note 1 Summary of Significant Accounting Policies.

Our Ability To Receive Dividends From Our Subsidiaries Could Affect Our Liquidity And Ability To Pay Dividends.

We are a separate and distinct legal entity from our subsidiaries. Dividends to us from our direct and indirect subsidiaries, including our bank subsidiaries, have represented a major source of funds for us to pay dividends on our common stock, make payments on corporate debt securities and meet other obligations. There are various federal law limitations on the extent to which the Banks can finance or otherwise supply funds to us through dividends and loans. These limitations include minimum regulatory capital requirements, federal banking law requirements concerning the payment of dividends out of net profits or surplus, Sections 23A and 23B of the Federal Reserve Act and Regulation W governing transactions between an insured depository institution and its affiliates, as well as general federal regulatory oversight to prevent unsafe or unsound practices. If our subsidiaries earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, our liquidity may be affected and we may not be able to make dividend payments to our common stockholders, to make payments on outstanding corporate debt securities or meet other obligations, each and any of which could have a material adverse impact on our results of operations, financial position or perception of financial health.

The Soundness of Other Financial Institutions Could Adversely Affect Us.

Our ability to engage in routine funding and other transactions could be adversely affected by the stability and actions of other financial services institutions. Financial services institutions are interrelated as a result of trading, clearing, servicing, counterparty and other relationships. With our recent acquisition of ING Direct and our pending acquisition of HSBC s U.S. credit card businesses, we have exposure to increasing numbers of financial institutions and counterparties. These counterparties include institutions and counterparties that may be exposed to various risks over which we have little or no control, including European or U.S. sovereign debt that is currently or may become in the future subject to significant price pressure, rating agency downgrade or default risk.

Table of Contents

In addition, we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant credit concentration with respect to the financial services industry overall. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions.

Likewise, adverse developments affecting the overall strength and soundness of our competitors, the financial services industry as a whole and the general economic climate or sovereign debt could have a negative impact on perceptions about the strength and soundness of our business even if we are not subject to the same adverse developments. In addition, adverse developments with respect to third parties with whom we have important relationships also could negatively impact perceptions about us. These perceptions about us could cause our business to be negatively affected and exacerbate the other risks that we face.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate real estate portfolio is used to support our business segments. We own our 587,000 square foot headquarters building in McLean, Virginia which houses our executive offices and northern Virginia staff. We own approximately 316 acres of land in Goochland County, Virginia which contains nearly 1.2 million square feet of office space to house various business and staff groups. Additionally, we own 139 acres of land in Plano, Texas which includes nearly 600,000 square feet of office space to support our Auto Finance business and other functions.

Our Commercial and Consumer Banking segments utilize approximately 3.1 million square feet in owned properties and 3.0 million square feet in leased locations across the District of Columbia, Louisiana, New Jersey, Maryland, New York, Texas and Virginia for office and branch operations.

Our corporate real estate portfolio also includes leased or owned space totaling, in the aggregate, 3.4 million square feet in Richmond, Toronto, Melville, New York City and various other locations.

Item 3. Legal Proceedings

The information required by Item 3 is included in Note 21 Commitments, Contingencies and Guarantees.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Market Information

Our common stock is listed on the NYSE and is traded under the symbol COF. As of January 31, 2012, there were 15,242 holders of record of our common stock. The table below presents the high and low closing sales prices of our common stock as reported by the NYSE and cash dividends per common share declared by us during each quarter indicated.

Quarter Ended	Sales Price High	Sales Price Low	Cash Dividends
2011:			
December 31	**$ 47.07**	**$ 37.75**	**$ 0.05**
September 30	**54.31**	**37.63**	**0.05**
June 30	**56.21**	**47.87**	**0.05**
March 31	**52.76**	**43.68**	**0.05**
2010:			
December 31	$ 42.78	$ 36.55	$ 0.05
September 30	45.00	37.12	0.05
June 30	46.73	38.02	0.05
March 31	43.02	34.63	0.05

Dividend Restrictions

For information regarding our ability to pay dividends, see the discussion under Item 1. Business Supervision and Regulation Dividends and Transfers of Funds, MD&A Capital Management Dividend Policy, and Note 13 Regulatory and Capital Adequacy, which we incorporate herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

Information relating to compensation plans under which our equity securities are authorized for issuance is presented in Part III of this report under Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Table of Contents

Common Stock Performance Graph

The following graph shows the cumulative total stockholder return on our common stock compared with an overall stock market index, the S&P Composite 500 Stock Index (S&P 500 Index), and a published industry index, the S&P Financial Composite Index (S&P Financial Index), over the five-year period commencing December 31, 2006, and ending December 31, 2011. The stock performance graph assumes that $100 was invested in our common stock and each index and that all dividends were reinvested. The stock price performance on the graph below is not necessarily indicative of future performance.

Comparison of 5-Year Cumulative Total Return

(Capital One, S&P 500 Index and S&P Financial Index)

	2006	2007	2008	2009	2010	2011
Capital One	$ 100.00	$ 61.62	$ 43.02	$ 53.30	$ 59.47	$ 59.35
S&P 500 Index	100.00	103.53	63.69	78.62	88.67	88.67
S&P Financial Index	100.00	79.16	34.08	39.12	43.36	35.38

Recent Sales of Unregistered Securities

We did not have any sales of unregistered equity securities in 2011. On June 16, 2011, we entered into a purchase and sale agreement with the ING Sellers to acquire ING Direct. On February 17, 2012, in connection with the closing of the acquisition, we issued 54,028,086 shares of common stock to ING Bank N.V. as partial consideration for the acquisition in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

Table of Contents

Issuer Purchases of Equity Securities

The following table presents information related to repurchases of shares of our common stock during the fourth quarter of 2011.

	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Amount That May Yet be Purchased Under the Plan or Program
October 1-31, 2011	**22,309**	**$ 45.44**		$
November 1-30, 2011				
December 1-31, 2011	**2,313**	**46.07**		
Total	**24,622**	**$ 45.50**		

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

Item 6. Selected Financial Data

We prepare our consolidated financial statements using generally accepted accounting principles in the U.S. (U.S. GAAP), which we refer to as our reported results. Below we present selected consolidated financial data from our reported results of operations for the five-year period ended December 31, 2011, as well as selected consolidated balance sheet data as of the end of each year within this five-year period. Certain prior period amounts have been reclassified to conform to the current period presentation. The historical financial information presented may not be indicative of our future performance.

Prior to January 1, 2010, we also presented and analyzed our results on a non-GAAP managed basis. Our managed presentation assumed that securitized loans accounted for as sales and reported as off-balance sheet in accordance with applicable accounting guidance in effect prior to January 1, 2010, remained on balance sheet, and the earnings from the loans underlying these trusts are reported in our results of operations in the same manner as the earnings from loans that we own. While our managed presentation resulted in differences in the classification of revenues in our income statement, net income on a managed basis was the same as reported net income.

Effective January 1, 2010, we prospectively adopted two new accounting standards related to the transfer and servicing of financial assets and consolidations that changed how we account for our securitization trusts. The adoption of these new accounting standards, which we refer to in this Report as new consolidation accounting standards, resulted in the consolidation of substantially all of our securitization trusts. As a result, our reported and managed based presentations are generally comparable for periods beginning after January 1, 2010. See MD&A Supplemental Tables and Exhibit 99.1 for additional information on our non-GAAP measures.

Table of Contents

Five-Year Summary of Selected Financial Data

(Dollars in millions, except per share data)	2011	2010	2009[1]	2008	2007	Change 2011 vs. 2010	Change 2010 vs. 2009
		Year Ended December 31,					
Income statement							
Interest income	**$ 14,987**	$ 15,353	$ 10,664	$ 11,112	$ 11,078	**(2)%**	44%
Interest expense	**2,246**	2,896	2,967	3,963	4,548	**(22)**	(2)
Net interest income	**12,741**	12,457	7,697	7,149	6,530	**2**	62
Non-interest income	**3,538**	3,714	5,286	6,744	8,054	**(5)**	(30)
Total revenue	**16,279**	16,171	12,983	13,893	14,584	**1**	25
Provision for loan and lease losses	**2,360**	3,907	4,230	5,101	2,636	**(40)**	(8)
Non-interest expense[2]	**9,332**	7,934	7,417	8,210	8,078	**18**	7
Income from continuing operations before income taxes	**4,587**	4,330	1,336	582	3,870	**6**	224
Income tax provision	**1,334**	1,280	349	497	1,278	**4**	267
Income from continuing operations, net of tax	**3,253**	3,050	987	85	2,592	**7**	209
Loss from discontinued operations, net of tax[3]	**(106)**	(307)	(103)	(131)	(1,022)	**(65)**	198
Net income (loss)	**3,147**	2,743	884	(46)	1,570	**15**	210
Preferred stock dividends, accretion of discount and other[4]	**(26)**		(564)	(33)		**100**	(100)
Net income (loss) available to common stockholders	**$ 3,121**	$ 2,743	$ 320	$ (79)	$ 1,570	**15%**	757%
Common share statistics							
Basic earnings per common share:							
Income from continuing operations, net of tax	**$ 7.08**	$ 6.74	$ 0.99	$ 0.14	$ 6.64	**5%**	581%
Loss from discontinued operations, net of tax[3]	**(0.23)**	(0.67)	(0.24)	(0.35)	(2.62)	**66**	179
Net income (loss) per common share	**$ 6.85**	$ 6.07	$ 0.75	$ (0.21)	$ 4.02	**13%**	709%
Diluted earnings per common share:							
Income from continuing operations, net of tax	**$ 7.03**	$ 6.68	$ 0.98	$ 0.14	$ 6.55	**5%**	582%
Loss from discontinued operations, net of tax[3]	**(0.23)**	(0.67)	(0.24)	(0.35)	(2.58)	**(66)**	179
Net income (loss) per common share	**$ 6.80**	$ 6.01	$ 0.74	$ (0.21)	$ 3.97	**13%**	712%
Dividends per common share	**$ 0.20**	$ 0.20	$ 0.53	$ 1.50	$ 0.11	**%**	(62)%
Common dividend payout ratio	**2.92%**	3.32%	66.80%	722.06%	2.68%	**(40)bps**	6,348bps
Stock price per common share at period end	**$ 42.29**	$ 42.56	$ 38.34	$ 31.89	$ 47.26	**(1)%**	11%
Book value per common share at period end	**64.51**	58.62	59.04	68.38	65.18	**10**	(1)

Total market capitalization at period end	**19,301**	19,271	17,268	12,412	17,623	**	12

37

Table of Contents

	Year Ended December 31,					Change	
	2011	2010	2009(1)	2008	2007	2011 vs. 2010	2010 vs. 2009
Average balances							
Loans held for investment	**$ 128,424**	$ 128,526	$ 99,787	$ 98,971	$ 93,542	****%**	29%
Interest-earning assets	**175,341**	175,741	145,310	133,084	121,420	**	21
Total assets	**199,718**	200,114	171,598	156,292	148,983	**	17
Interest-bearing deposits	**109,644**	104,743	103,078	82,736	73,765	**5**	2
Total deposits	**126,694**	119,010	115,601	93,508	85,212	**6**	3
Borrowings	**38,022**	49,620	23,522	31,096	30,102	**(23)**	111
Stockholders equity	**28,579**	24,941	26,606	25,278	25,203	**15**	(6)
Performance metrics							
Purchase volume(5)	**$ 135,120**	$ 106,912	$ 102,068	$ 113,835	$ 115,181	**26%**	5%
Revenue margin(6)	**9.28%**	9.20%	8.94%	10.44%	12.01%	**8bps**	26bps
Net interest margin(7)	**7.27**	7.09	5.30	5.38	5.38	**18**	179
Net charge-off rate(8)	**2.94**	5.18	4.58	3.51	2.10	**(224)**	60
Return on average assets(9)	**1.63**	1.52	0.58	0.05	1.74	**11**	94
Return on average total stockholders equity(10)	**11.38**	12.23	3.71	0.34	10.28	**(85)**	852
Non-interest expense as a % of average loans held for investment(11)	**7.27**	6.17	7.43	8.30	8.64	**110**	(126)
Efficiency ratio(12)	**57.33**	49.06	56.21	52.29	54.44	**827**	(715)
Effective income tax rate	**29.08**	29.56	26.16	85.47	33.02	**(48)**	340
Full-time equivalent employees (in thousands), period end	**30.5**	25.7	25.9	23.7	27.0	**19%**	(1)%

	December 31,					Change	
	2011	2010	2009(1)	2008	2007	2011 vs. 2010	2010 vs. 2009
Balance sheet							
Loans held for investment	**$ 135,892**	$ 125,947	$ 90,619	$ 101,018	$ 101,805	**8%**	39%
Interest-earning assets	**179,817**	172,024	139,724	141,386	128,725	**5**	23
Total assets	**206,019**	197,503	169,646	165,913	150,590	**4**	16
Interest-bearing deposits	**109,945**	107,162	102,370	97,327	71,715	**3**	5
Total deposits	**128,226**	122,210	115,809	108,621	82,761	**5**	6
Borrowings	**39,561**	41,796	21,014	23,178	37,526	**(5)**	99
Stockholders equity	**29,666**	26,541	26,590	26,612	24,294	**12**	**
Credit quality metrics							
Period-end loans held for investment	**$ 135,892**	$ 125,947	$ 90,619	$ 101,018	$ 101,805	**8%**	39%
Allowance for loan and lease losses	**4,250**	5,628	4,127	4,524	2,963	**(24)**	36
Allowance as a % of loans held for investment	**3.13%**	4.47%	4.55%	4.48%	2.91%	**(134)bps**	(8)bps
30+ day performing delinquency rate	**3.35**	3.52	3.98	4.21	3.50	**(17)**	(46)
Capital ratios							
Tier 1 common equity ratio(13)	**9.7%**	8.8%	10.6%	12.5%	8.8%	**90bps**	(180)bps
Tier 1 risk-based capital ratio(14)	**12.0**	11.6	13.8	13.8	10.1	**40**	(220)
Total risk-based capital ratio(15)	**14.9**	16.8	17.7	16.7	13.1	**(190)**	(90)
Tangible common equity (TCE) ratio(16)	**8.2**	6.9	8.0	5.6	5.8	**130**	(110)

38

[Table of Contents](#)

	2011	2010	December 31, 2009(1)	2008	2007	Change 2011 vs. 2010	2010 vs. 2009
Managed metrics(17)							
Average loans held for investment	**$ 128,424**	$ 128,622	$ 143,514	$ 147,812	$ 144,727	****%**	(10)%
Average interest-earning assets	**175,341**	175,815	185,976	179,348	170,496	******	(5)
Period-end loans:							
Period-end on-balance sheet loans held for investment	**$ 135,892**	$ 125,947	$ 90,619	$ 101,018	$ 101,805	**8**	39
Period-end off-balance sheet securitized loans			46,184	45,919	49,557		(100)
Total period-end managed loans	**$ 135,892**	$ 125,947	$ 136,803	$ 146,937	$ 151,362	**8**	(8)
Period-end total loan accounts (in millions)	**70.0**	37.4	37.8	45.4	49.1	**87**	(1)
30+ day performing delinquency rate	**3.35%**	3.52%	4.62%	4.38%	3.77%	**(17)bps**	(110)bps
Net charge-off rate	**2.94**	5.18	5.87	4.35	2.88	**(224)**	(69)
Non-interest expense as a % of average loans held for investment(11)	**7.27**	6.17	5.17	5.01	5.58	**110**	100
Efficiency ratio	**57.33**	49.06	43.35	43.14	47.30	**827**	571

** Change is less than one percent.

(1) Effective February 27, 2009, we acquired Chevy Chase Bank. Our financial results subsequent to February 27, 2009 include the operations of Chevy Chase Bank. While our 2011 and 2010 results include the full year impact of the Chevy Chase Bank acquisition, our 2009 results include only a partial year impact.

(2) Non-interest expense for 2008 includes goodwill impairment of $811 million related to the Auto Finance division of our Consumer Banking business.

(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) Preferred stock dividends in 2009 and 2008 were attributable to our participation in the U.S. Department of Treasury s Troubled Asset Relief Program (TARP). See Note 12 Stockholders Equity for additional information.

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

(6) Calculated based on total revenue for the period divided by average interest-earning assets for the period.

(7) Calculated based on net interest income for the period divided by average interest-earning assets for the period.

(8) Calculated based on net charge-offs for the period divided by average loans held for investment for the period. Average loans held for investment include purchased credit-impaired loans acquired as part of the Chevy Chase Bank acquisition

(9) Calculated based on income from continuing operations, net of tax, for the period divided by average total assets for the period.

(10) Calculated based on income from continuing operations, net of tax, for the period divided by average stockholders equity for the period.

(11) Calculated based on non-interest expense, excluding restructuring and goodwill impairment charges, for the period divided by average loans held for investment for the period.

(12) Calculated based on non-interest expense, excluding restructuring and goodwill impairment charges, for the period divided by total revenue for the period.

(13) Tier 1 common equity ratio is a non-GAAP measure calculated based on Tier 1 common equity divided by risk-weighted assets. See MD&A Capital Management and MD&A Supplemental Tables Table F: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for `additional information, including the calculation of this ratio.

(14) Tier 1 risk-based capital ratio is a regulatory measure calculated based on Tier 1 capital divided by risk-weighted assets. See MD&A Capital Management and MD&A Supplemental Tables Table F: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information, including the calculation of this ratio.

Table of Contents

(15) Total risk-based capital ratio is a regulatory measure calculated based on total risk-based capital divided by risk-weighted assets. See MD&A Capital Management and MD&A Supplemental Tables Table F: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information, including the calculation of this ratio.

(16) Tangible common equity ratio (TCE ratio) is a non-GAAP measure calculated based on tangible common equity divided by tangible assets. See MD&A Supplemental Tables Table F: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for the calculation of this measure and reconciliation to the comparative GAAP measure.

(17) See MD&A Supplemental Tables in this report and Exhibit 99.1 for a reconciliation of non-GAAP managed measures to comparable U.S. GAAP measures.

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

This MD&A should be read in conjunction with our audited consolidated financial statements as of December 31, 2011 and related notes. 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 Item 1. Business 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 Item 1A. Risk Factors.

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. We continue to deliver on our strategy of combining the power of national scale lending and local scale banking.

We had $135.9 billion in total loans outstanding and $128.2 billion in deposits as of December 31, 2011, compared with $125.9 billion in total loans outstanding and $122.2 billion in deposits as of December 31, 2010.

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 loan and lease losses, operating expenses (including associate salaries and benefits, infrastructure maintenance and enhancements and branch operations and expansion costs), marketing expenses and income taxes. We expect expenses associated with the integration of the ING Direct and the pending acquisition of the HSBC U.S. credit card business to represent a significant portion of our expenses in 2012.

Our principal operations are currently organized, for management reporting purposes, 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. 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 middle market customers. Our middle market customers typically include commercial and industrial companies with annual revenues between $10 million to $1.0 billion.

Table 1 summarizes our business segment results, which we report based on income from continuing operations, net of tax, for 2011, 2010 and 2009. We provide a reconciliation of our total business segment results to our consolidated results using U.S. GAAP in Note 20 Business Segments of this Report.

Table of Contents

Table 1: Business Segment Results

	Year Ended December 31,											
	2011				2010				2009			
	Total Revenue[1]		Net Income (Loss)[2]		Total Revenue[1]		Net Income (Loss)[2]		Total Revenue[1]		Net Income (Loss)[2]	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	**$ 10,431**	**64%**	**$ 2,277**	**70%**	$ 10,614	66%	$ 2,274	75%	$ 11,289	67%	$ 978	99%
Consumer Banking	**4,956**	**31**	**809**	**25**	4,597	28	905	30	3,986	24	244	25
Commercial Banking	**1,647**	**10**	**532**	**16**	1,473	9	160	5	1,316	8	(213)	(22)
Other[3]	**(755)**	**(5)**	**(365)**	**(11)**	(507)	(3)	(289)	(10)	245	1	(22)	(2)
Total from continuing operations	**$ 16,279**	**100%**	**$ 3,253**	**100%**	$ 16,177	100%	$ 3,050	100%	$ 16,836	100%	$ 987	100%

(1) Total revenue consists of net interest income and non-interest income. Total revenue displayed for 2009 is based on our non-GAAP managed basis results. For a reconciliation of this non-GAAP measure to the comparable U.S. GAAP measure, see Exhibit 99.1.

(2) Net income (loss) for our business segments is 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 20 Business Segments.

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

We continued to operate in an environment of elevated economic and regulatory uncertainty during 2011. The overall economic recovery remained modest and fragile. The unemployment rate remained persistently high and the housing market continued to struggle, due in part to the large backlog of homes in the foreclosure process and high rate of delinquent loans. The ongoing and expected development of new regulations and regulatory organizations resulting from the Dodd-Frank Act contributed to continued regulatory uncertainty. Despite the challenges presented by these conditions, we experienced loan growth and stabilization in credit performance during 2011.

Financial Highlights

We reported net income of $3.1 billion ($6.80 per diluted share) in 2011, with each of our three business segments contributing to our earnings. In comparison, we reported net income of $2.7 billion ($6.01 per diluted share) in 2010.

Our capital levels continued to increase during 2011, with total stockholders equity up $3.1 billion from year-end 2010. Our Tier 1 risk-based capital ratio under Basel I was 12.0% as of December 31, 2011, up 40 basis points from December 31, 2010, and our Tier 1 common equity ratio, a non-GAAP measure, was 9.7% as of December 31, 2011, up 90 basis points from the prior year period, reflecting strong internal capital generation as well as the continued decline in the amount of disallowed deferred tax assets. Our stockholders equity and capital ratios as of December 31, 2011 do not reflect any impact from the equity forward sale agreements executed in July 2011 referenced below, as they had not been settled in whole or in part as of that date. We present the calculation of our regulatory capital ratios and a reconciliation of our supplemental non-GAAP capital measures below under MD&A Supplemental Tables.

In 2011, we acquired HBC s existing $1.4 billion credit card loan portfolio and Kohl s existing $3.7 billion private-label credit card loan portfolio. In June 2011, we entered into a definitive agreement with the ING Sellers to acquire ING Direct and closed the acquisition on February 17, 2012. In addition, in August 2011 we entered into a purchase agreement with HSBC to acquire substantially all of the assets and assume liabilities of HSBC s credit card and private-label credit card business in the United States for an estimated cash premium of $2.6 billion as of June 30, 2011. We provide additional information on the ING Direct and HSBC acquisitions below.

We took several actions during the year 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 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. This $277 million loss was largely offset by a gain of $259 million related to the sale of approximately $9.2 billion of investment securities, consisting predominantly of agency mortgage-backed securities (MBS). 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. At termination, the fair value of the swaps was a net loss of $355 million. Based on current estimates, we believe the interest-rate swaps related to the acquisition were effective in meeting our hedging objective. For additional information, see Market Risk Profile and Note 11 Derivative Instruments and Hedging Activities.

Below are additional highlights of our performance for 2011. These highlights generally are based on a comparison between our 2011 and 2010 results. The changes in our financial condition and credit performance are generally based on our financial condition and credit performance as of December 31, 2011, compared with our financial condition and credit performance as of December 31, 2010. We provide a more detailed discussion of our financial performance in the sections following this Executive Summary and Business Outlook.

Total Company

Earnings: Our earnings of $3.1 billion in 2011 increased by $404 million, or 15%, from 2010. The increase in net income was primarily attributable to significantly lower credit costs due to improvements in loan credit quality. The increase in net income for 2011 also reflected a substantial reduction in the provision for mortgage repurchase losses for legacy mortgage-related representation and warranty claims. These factors were partially offset by higher operating expenses primarily due to continued investment in growing our businesses, accelerating the building of our infrastructure and increased marketing expenditures.

Total Loans: Period-end loans held for investment increased by $10.0 billion, or 8%, in 2011, to $135.9 billion as of December 31, 2011, from $125.9 billion as of December 31, 2010. The increase was primarily attributable to growth in our Credit Card, Commercial Banking, and Auto Finance businesses, which included the additions of the $1.4 billion HBC credit card loan portfolio in the first quarter of 2011 and the $3.7 billion Kohl s private-label credit card loan portfolio in the second quarter of 2011. Excluding the impact of the additions of the HBC and Kohl s credit card loan portfolios, total loans increased by $4.9 billion, or 4%, in 2011, due to strong purchase volume growth across the Domestic Card business, a significant increase in auto loan originations and steady loan growth in our Commercial Banking business. The impact from these factors was partially offset by the continued expected run-off of installment loans in our Credit Card business and legacy home loans in our Consumer Banking business, other loan paydowns and charge-offs.

Charge-off and Delinquency Statistics: Our net charge-off rate declined by 224 basis points to 2.94% in 2011, from 5.18% in 2010. The 30+ day delinquency rate also declined during the year to 3.95% as of December 31, 2011, from 4.23% as of December 31, 2010. The improvement in overall credit trends reflected the impact from strong underlying credit performance and tighter underwriting standards.

Allowance for Loan and Lease Losses: We reduced our allowance by $1.4 billion in 2011 to $4.3 billion as of December 31, 2011. In comparison, after taking into consideration the allowance build resulting from the January 1, 2010 adoption of the new consolidation accounting standards, we reduced our allowance by $2.8 billion in 2010. The significant reduction in the allowance release in 2011 from the allowance release in 2010 reflected the impact of stabilizing credit trends in 2011. While our net-charge off rate improved by 224 basis points in 2011 from 2010, the allowance coverage ratio decreased by only 134 basis points to 3.13% as of December 31, 2011, from 4.47% as of December 31, 2010.

Representation and Warranty Reserve: Our representation and warranty reserve totaled $943 million as of December 31, 2011, compared with $816 million as of December 31, 2010. This reserve, which relates to our mortgage loan repurchase exposure for legacy mortgage loans sold by our subsidiaries to various parties under contractual provisions that include various representations and warranties, reflects losses as of each balance sheet date that we consider to be both probable and reasonably estimable. We recorded a provision for this exposure of $212 million in 2011, compared with a provision of $636 million in 2010.

Business Segments

Credit Card: Our Credit Card business generated net income from continuing operations of $2.3 billion in 2011, the same level as net income from continuing operations in 2010. Our Credit Card business results for

2011 reflected the benefit from improved credit performance, which resulted in a significant decrease in the provision for loan and lease losses. The provision decrease, however, was offset by an increase in non-interest expense attributable to increased operating and integration costs related to the acquisitions of the credit card loan portfolios of Sony, HBC and Kohl s and increased marketing expenditures. New account originations have continued to grow in our Credit Card business, due in part to these acquisitions.

Consumer Banking: Our Consumer Banking business generated net income from continuing operations of $809 million in 2011, compared with net income from continuing operations of $905 million in 2010. The decrease in net income for 2011 reflected the impact of the absence of a one-time pre-tax gain of $128 million recorded in the first quarter of 2010 from the deconsolidation of certain option-adjustable rate mortgage trusts and an increase in the provision for loan and lease losses primarily attributable to growth in auto loans. These factors were partially offset by an increase in total revenue resulting from a shift in our loan product mix toward higher priced auto loans, coupled with lower cost deposit growth through our retail banking branches. Strong growth in auto loan originations during 2011 more than offset a continued run-off in legacy home loans.

Commercial Banking: Our Commercial Banking business generated net income from continuing operations of $532 million in 2011, compared with net income from continuing operations of $160 million in 2010. The improvement in results for our Commercial Banking business reflected an increase in revenues, a modest decrease in non-interest expense and a decrease in the provision for loan and lease losses due to the improvement in credit quality. As a result of the improvement in credit quality, we reduced the allowance for loan and lease losses for our Commercial Banking business by $146 million during 2011 to $711 million as of December 31, 2011. We continued to experience steady loan and deposit growth in our Commercial Banking business.

Business Environment and Significant Recent Developments

Recent Business and Regulatory Developments

The challenging economic environment continued through 2011 due to concerns about the U.S. debt ceiling and subsequent downgrade of the U.S. debt, the continued elevated U.S. unemployment rate and the European debt crisis. These concerns resulted in increased economic uncertainty and market volatility. We believe 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. As a result, we believe our internal portfolio credit metrics remain strong, and expect normal seasonality to re-emerge after a long period of cyclical improvement in 2011. We provide more information on recent regulatory developments in Supervision and Regulation in Item 1. Business of this Report.

Acquisition-Related Developments

ING Direct

We completed the acquisition of ING Direct on February 17, 2012. The aggregate consideration paid was 54,028,086 shares of common stock and approximately $6.3 billion in cash. The ING Direct acquisition consists of assets, which include cash and cash equivalents, investment securities and loans with a total estimated fair value of $92.2 billion as of December 31, 2011 and deposits of approximately $83.0 billion as of December 31, 2011.

Equity and Debt Offerings

On July 19, 2011, we closed a public offering of four different series of our senior notes, for total proceeds of approximately $3.0 billion. The offering of senior notes included $250 million aggregate principal amount of our Floating Rate Senior Notes due 2014, $750 million aggregate principal amount of our 2.125% Senior Notes due 2014, $750 million aggregate principal amount of our 3.150% Senior Notes due 2016 and $1.25 billion aggregate principal amount of our 4.750% Senior Notes due 2021.

Table of Contents

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. 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.

We used the net proceeds of these offerings, along with cash sourced from current liquidity, to fund the $6.3 billion in cash consideration paid in connection with the ING Direct acquisition.

HSBC Acquisition U.S. Credit Card Business

In August 2011, we entered into a purchase agreement to acquire substantially all of the assets and assume liabilities of HSBC s credit card and private-label credit card business in the United States for a premium estimated at $2.6 billion as of June 30, 2011. We currently expect the HSBC acquisition to close in the second quarter of 2012, subject to customary closing conditions, including certain governmental clearances and approvals. Pursuant to the purchase agreement, we have the option, subject to certain conditions, to pay up to $750 million of the consideration to HSBC in the form of our common stock (valued at $39.23 per share).

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 Annual Report on Form 10-K. 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 Item 1. Business and MD&A of this report. 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 ING Direct acquisition or the pending acquisition 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 Item 1. Business of this report 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, long-term 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 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 opportunities and adjust, where we believe appropriate, to changing market conditions. Our existing loan portfolio returned to growth in the second half of 2011, reflecting seasonal consumer spending trends and increasing balances in our private-label partnerships. We expect loan balances to increase in 2012 with the addition of the ING Direct and HSBC loan portfolios. The timing and pace of expected loan growth, excluding growth from acquired loans, will depend on broader economic trends that impact overall consumer and commercial demand.

The growth in non-interest expenses in the 2011, which was more pronounced in the fourth quarter of 2011, was primarily due to the continued investment in growing our businesses and building our infrastructure. In 2012, we expect that operating expenses will increase significantly as a result of integration and direct operating costs associated with the acquisition of ING Direct and the pending acquisition of HSBC s U.S. credit card business. We believe our marketing investments in 2011 were in equilibrium with current market opportunities. We expect that any changes in marketing expenditures in 2012 would be driven by changes in the level and attractiveness of market opportunities.

As noted above, we closed the acquisition of ING Direct in the first quarter of 2012 and expect to close the acquisition of the U.S. credit card business of HSBC in the second quarter of 2012. We expect these acquisitions will have a material impact on our reported results of operations and financial condition. While we continue to expect that the combined acquisitions will deliver compelling financial performance and strategic benefit in 2013 and beyond, we anticipate a potentially significant negative impact from the acquisitions to our 2012 earnings per share. The expected negative impact will result from, among other things, the impact to common shares outstanding resulting from our settlement of the equity forward sale agreements and the issuance of common stock to the ING Sellers in the first quarter of 2012 as well as an additional planned equity issuance of approximately $1.25 billion discussed below under Capital Management Pending HSBC U.S. Credit Card Business Acquisition, integration and other merger related expenses, purchase accounting impacts and provision for loan losses as we build allowance for acquired current revolving credit accounts. Purchase accounting impacts include, for example, amortization of acquired intangible assets (such as core deposit intangibles, purchased credit card relationships and contract intangibles) and the amortization of fair value marks.

Business Segment Expectations

Credit Card Business

In Domestic Card, we returned to modest growth with expected seasonal patterns in the second half of 2011. New account growth is a leading indicator of future growth in loans and revenues as spending and balances build on these accounts over time. Because of the strong growth trends in purchase volumes and new accounts, we expect that our Domestic Card business will continue to post strong returns in 2012, with modest underlying growth reflecting seasonal patterns. We expect to add significant new customer relationships and loan portfolios with the acquisition of the HSBC U.S. credit card business, which we expect to close in the second quarter of 2012. After this initial increase in loan volumes, the HSBC U.S. credit card business acquisition may diminish our Domestic Card growth trajectory due to the expected run-off of portions of the HSBC credit card portfolio.

Consumer Banking Business

In our Consumer Banking business, we expect the strong 2011 trajectory in loans and revenues will continue in our Auto Finance business in 2012. We also believe we have reached a cyclical low point for Auto Finance charge-offs, and that seasonal patterns will drive quarterly credit trends in 2012. Our Retail Banking business added significant new customer relationships, loans and deposits with the acquisition of ING Direct, and we expect the acquisition will have a significant impact on Consumer Banking loan and deposit growth trajectories. 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 our legacy home loan portfolio, which will drive a declining trend in Consumer Banking loan volumes.

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. Commercial Banking credit metrics improved and stabilized in 2011. Although we anticipate some quarterly fluctuations in nonperforming loan and charge-off rates, we expect our Commercial Banking business to continue the strong and steady performance trends it delivered throughout 2011.

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.

We have 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. These critical accounting policies govern:

- 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 these policies with the Audit and Risk Committee of the Board of Directors.

Loan Loss Reserves

We maintain an allowance for loan and lease losses that represents management s estimate of incurred credit losses inherent in our held-for investment loan portfolio as of each balance sheet date. We maintain a separate reserve for the uncollectible portion of billed finance charges and fees on credit card loans.

Allowance for Loan and Lease Losses

We have an established process, using analytical tools, benchmarks and management judgment, to determine our allowance for loan and lease losses. We calculate the allowance for loan and lease losses by estimating incurred losses for segments of our loan portfolio with similar risk characteristics. The allowance totaled $4.3 billion as of December 31, 2011, compared with $5.6 billion as of December 31, 2010.

We generally review and assess our allowance methodologies and adequacy of the allowance for loan and lease losses on a quarterly basis. Our assessment involves evaluating many factors including, but not limited to, historical loss and recovery experience, recent trends in delinquencies and charge-offs, risk ratings, the impact of bankruptcy filings, the value of collateral underlying secured loans, account seasoning, changes in our credit evaluation, underwriting and collection management policies, seasonality, general economic conditions, changes in the legal and regulatory environment and uncertainties in forecasting and modeling techniques used in estimating our allowance for loan and lease losses. Key factors that have a significant impact on our allowance for loan and lease losses include assumptions about unemployment rates, home prices, and the valuation of commercial properties, consumer real estate, and autos.

Although we examine a variety of externally available data, as well as our internal loan performance data, to determine our allowance for loan and lease losses, our estimation process is subject to risks and uncertainties, including a reliance on historical loss and trend information that may not be representative of current conditions and indicative of future performance. Accordingly, our actual credit loss experience may not be in line with our expectations. For example, as a result of improving credit performance trends during 2011 and 2010, charge-offs

48

Table of Contents

began to decrease and we recorded significant allowance releases of $1.4 billion in 2011 and $2.8 billion in 2010. We provide additional information on the methodologies and key assumptions used in determining our allowance for loan and lease losses for each of our loan portfolio segments in Note 1 Summary of Significant Accounting Policies. We provide information on the components of our allowance, disaggregated by impairment methodology, and changes in our allowance in Note 6 Allowance for Loan and Lease Losses.

Finance Charge and Fee Reserve

We recognize finance charges and fees on credit card loans as revenue when the amounts are billed to the customer and include these amounts in the loan balance, net of the estimated uncollectible amount of finance charges and fees. We continue to accrue finance charges and fees on credit card loans until the account is charged-off; however, when we do not expect full payment of billed finance charges and fees, we reduce the balance of our credit card loan receivables by the amount of finance charges billed but not expected to be collected and exclude this amount from revenue. Revenue was reduced by $371 million, $950 million and $2.1 billion in 2011, 2010 and 2009, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled $74 million as of December 31, 2011, compared with $211 million as of December 31, 2010.

Our methodology for estimating the uncollectible portion of billed finance charges and fees is consistent with the methodology we use to estimate the allowance for incurred principal losses on our credit card loan receivables. Accordingly, the estimation process is subject to similar risks and uncertainties, including a reliance on historical loss and trend information that may not be representative of current conditions and indicative of future performance. Changes in key assumptions may have a material impact on the amount of billed finance charges and fees we estimate as uncollectible in each period.

We determine the adequacy of the uncollectible finance charge and fee reserve on a quarterly basis, primarily based on the use of a roll-rate methodology. We refine our estimation process and key assumptions used in determining our loss reserves as additional information becomes available. In the third quarter of 2011, we revised the manner in which we estimate expected recoveries of finance charge and fee amounts previously considered to be uncollectible. Our revised recovery assumptions better reflect the post-recession pattern of relatively low delinquency roll-rates combined with increased recoveries of finance charges and fees previously considered uncollectible. This change in assumptions resulted in reduction in our uncollectible finance charge and fee reserves of approximately $83 million as of September 30, 2011, and in a corresponding increase in revenues. We also applied these revised assumptions to the estimated recovery of principal charge-offs in determining our allowance for loan and lease losses. The revision, however, had an insignificant impact on the overall determination of our allowance for lease and loan losses.

Representation and Warranty Reserve

In connection with their sales of mortgage loans, certain 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. We may be required to repurchase the mortgage loan, indemnify the investor or insurer, or reimburse the investor for credit losses incurred on the loan in the event of a material breach of contractual representations or warranties.

We have established representation and warranty reserves for losses that we consider to be both probable and reasonably estimable associated with the mortgage loans sold by each subsidiary, including both litigation and non-litigation liabilities. The reserve-setting process relies heavily on estimates, which are inherently uncertain, and requires the application of judgment. In establishing the representation and warranty reserves, we consider a variety of factors, depending on the category of purchaser and rely on historical data. We evaluate these estimates on a quarterly basis.

Table of Contents

During 2010, we made significant refinements to our process for estimating our representation and warranty reserve, due primarily to increased counterparty activity and our ability to extend the timeframe, in most instances, over which we estimate the repurchase liability for mortgage loans sold by our subsidiaries to GSEs and those mortgage loans placed into Active Insured Securitizations to the full life of the mortgage loans. Prior to the second quarter of 2010, we generally estimated the amount of probable repurchase requests to be received over the next 12 months. As a result of these refinements, we recorded a substantial increase in our representation and warranty repurchase reserve in the first and second quarters of 2010. Approximately $407 million of the provision for representation and warranty reserves of $636 million recorded in 2010 resulted from the extension of our repurchase liability estimates to the full life of the loan effective in the second quarter of 2010. The remaining $229 million related primarily to changing counterparty activity in the form of updated estimates around active and probable litigation, most of which occurred in the first quarter of 2010.

Our aggregate representation and warranty mortgage repurchase reserves, which we report as a component of other liabilities in our consolidated balance sheets, totaled $943 million as of December 31, 2011, compared with $816 million as of December 31, 2010. The adequacy of the reserves and the ultimate amount of losses incurred by us or one of our subsidiaries will depend on, among other things, actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rates of claimants, developments in litigation, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices). See Consolidated Balance Sheet Analysis Potential Mortgage Representation & Warranty Liabilities below and Note 21 Commitments, Contingencies and Guarantees for additional information.

Asset Impairment

We review other assets for impairment on a regular basis. This process requires significant management judgment and involves various estimates and assumptions. Our investment securities and goodwill and intangible assets represent a significant portion of our other assets. Accordingly, below we describe our process for assessing impairment of these assets and the key estimates and assumptions involved in this process.

Investment Securities

We regularly review investment securities for other-than-temporary impairment using both quantitative and qualitative criteria. If we intend to sell a security in an unrealized loss position or it is more likely than not we will be required to sell a security before its anticipated recovery, the entire difference between the amortized cost basis of the security and its fair value is recognized in earnings. If we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of our amortized cost, we evaluate other qualitative criteria to determine whether a credit loss exists. Our evaluation requires significant management judgment and a consideration of many factors, including, but not limited to, the extent and duration of the impairment; the health of and specific prospects for the issuer, including whether the issuer has failed to make scheduled interest or principal payments; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings; the value of underlying collateral and current market conditions. Quantitative criteria include assessing whether there has been an adverse change in expected future cash flows. For equity securities, our evaluation criteria include the length of time and magnitude of the amount that each security is in an unrealized loss position. See Note 4 Investment Securities for additional information.

Goodwill and Other Intangible Assets

As a result of our acquisitions, principally Hibernia Corporation in 2005, North Fork Bancorporation in 2006, and Chevy Chase Bank in 2009, we have goodwill and other intangible assets. Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. We had goodwill of $13.6 billion recorded on our consolidated balance sheets as of December 31, 2011 and 2010, respectively. Other intangible assets consist primarily of core deposit intangibles. Other intangible assets, which we report on our consolidated balance sheets as a component of other assets, totaled $610 million and $733 million as of December 31, 2011 and 2010, respectively. Goodwill and other intangible assets together represented 7% of our total assets as of December 31, 2011 and 2010.

Goodwill is not amortized but must be allocated to reporting units and tested for impairment on an annual basis or in interim periods if events or circumstances indicate potential impairment. A reporting unit is a business segment or one level below. Our reporting units for purposes of goodwill impairment testing are Domestic Card, International Card, Auto Finance, other Consumer Banking and Commercial Banking. We perform our annual goodwill impairment test for all reporting units as of October 1 each year using a two-step process. First, we compare the fair value of each reporting unit to its current carrying amount, including goodwill. If the fair value of the reporting unit is in excess of the carrying value, the related goodwill is considered not to be impaired and no further analysis is necessary. If, however, the carrying value of the reporting unit exceeds the fair value, there is an indication of potential impairment and a second step of testing is performed to measure the amount of impairment, if any, for that reporting unit.

Estimating the fair value of reporting units and the assets, liabilities and intangible assets of a reporting unit is a subjective process that involves the use of estimates and judgments, particularly related to cash flows, the appropriate discount rates and an applicable control premium. Management judgment is required to assess whether the carrying value of the reporting unit can be supported by the fair value of the individual reporting unit. There are widely accepted valuation methodologies, such as the market approach (earnings multiples and/or transaction multiples) and/or discounted cash flow methods, that are used to estimate the fair value of reporting units. In applying these methodologies, we utilize a number of factors, including actual operating results, future business plans, economic projections, and market data. We also may engage an independent valuation specialist to assist in our valuation process.

In estimating the fair value of the reporting units in step one of the goodwill impairment analyses, fair values can be sensitive to changes in the projected cash flows and assumptions. In some instances, minor changes in the assumptions could impact whether the fair value of a reporting unit is greater than its carrying amount. Furthermore, a prolonged decrease or increase in a particular assumption could eventually lead to the fair value of a reporting unit being less than its carrying amount. Also, to the extent step two of the goodwill analyses is required, changes in the estimated fair values of individual assets and liabilities may impact other estimates of fair value for assets or liabilities and result in a different amount of implied goodwill, and ultimately the amount of goodwill impairment, if any.

In conducting our goodwill impairment test for 2011, we determined the fair value of our reporting units using a discounted cash flow analysis, a form of the income approach. Our discounted cash flow analysis required management to make judgments about future loan and deposit growth, revenue growth, credit losses, and capital rates. We relied on each reporting unit s internal cash flow forecast and calculated a terminal value using a growth rate that reflected the nominal growth rate of the economy as a whole and appropriate discount rates for the respective reporting units. We adjusted cash flows as necessary to maintain each reporting unit s equity capital requirements. The cash flows were discounted to present value using reporting unit specific discount rates that were largely based on our external cost of equity, adjusted for risks inherent in each reporting unit. We corroborated the key inputs used in our discounted cash flow analysis with market data, where available, to validate that our assumptions were within a reasonable range of observable market data.

Based on the results of step one of our 2011 goodwill impairment test, we determined that the fair value of each of our reporting units, including goodwill, significantly exceeded the carrying value for each reporting unit. Fair value as a percentage of carrying value for our five reporting units ranged from 118% to 243%, with the

Table of Contents

International reporting unit being at the low end of this range. As such, none of our reporting units was at risk of failing step one of the impairment test. Accordingly, the goodwill for each of our reporting units was considered not impaired. Therefore, the second step of impairment testing was not required.

As part of the annual goodwill impairment test, we assessed our market capitalization based on the average market price relative to the aggregate fair value of our reporting units and determined that any excess fair value in our reporting units at that time could be attributed to a reasonable control premium compared to historical control premiums seen in the industry. Continued market volatility and uncertainty regarding overall economic conditions have led to a decline in market capitalization in recent years resulting in significantly higher control premiums than what had been seen historically. We will continue to regularly monitor our market capitalization in 2012, overall economic conditions and other events or circumstances that may result in an impairment of goodwill in the future.

Intangible assets with definite useful lives are amortized over their estimated lives and evaluated for potential impairment whenever events or changes in circumstances suggest that an asset s or asset group s carrying value may not be fully recoverable. An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value. We did not recognize impairment on our other intangible assets in 2011, 2010 or 2009.

We provide additional information on the nature of and accounting for goodwill and intangible assets, including the process and methodology used to conduct goodwill impairment testing, in Note 8 Goodwill and Other Intangible Assets.

Fair Value

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

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

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted prices in active markets or observable market parameters. When quoted prices and observable data in active markets are not fully available, management judgment is necessary to estimate fair value. Changes in market conditions, such as reduced liquidity in the capital markets or changes in secondary market activities, may reduce the availability and reliability of quoted prices or observable data used to determine fair value.

We have developed policies and procedures to determine when markets for our financial assets and liabilities are inactive if the level and volume of activity has declined significantly relative to normal conditions. If markets are determined to be inactive, it may be appropriate to adjust price quotes received. When significant adjustments are required to price quotes or inputs, it may be appropriate to utilize an estimate based primarily on unobservable inputs.

Significant judgment may be required to determine whether certain financial instruments measured at fair value are included in Level 2 or Level 3. In making this determination, we consider all available information that market participants use to measure the fair value of the financial instrument, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs used. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the Level 3 inputs to the instruments fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions.

Our financial instruments recorded at fair value on a recurring basis represented approximately 20% of our total reported assets of $206.0 billion as of December 31, 2011, compared with 22% of our total reported assets of $197.5 billion as of December 31, 2010. Financial assets for which the fair value was determined using significant Level 3 inputs represented approximately 2% of these financial instruments (less than 1% of total assets) as of December 31, 2011 and 2010.

We discuss changes in the valuation inputs and assumptions used in determining the fair value of our financial instruments, including the extent to which we have relied on significant unobservable inputs to estimate fair value and our process for corroborating these inputs, in Note 19 Fair Value of Financial Instruments.

Key Controls Over Fair Value Measurement

We have a governance framework and a number of key controls that are intended to ensure that our fair value measurements are appropriate and reliable. Our governance framework provides for independent oversight and segregation of duties. Our control processes include review and approval of new transaction types, price verification and review of valuation judgments, methods, models, process controls and results.

Groups independent from our trading and investing functions, including our Valuations Group and Valuations Advisory Committee, participate in the review and validation process. The Valuation Advisory Committee includes senior representation from business areas, our Enterprise Risk Oversight division and our Finance division.

Our Valuations Group performs monthly independent verification of fair value measurements by comparing the methodology driven price to other market source data (to the extent available), and uses independent analytics to determine if assigned fair values are reasonable. For example, in cases where we rely on third party pricing services to obtain fair value measures, we analyze pricing variances among different pricing sources and validate the pricing used by comparing the information to additional sources, including dealer pricing indications in transaction results and other internal sources. The Valuations Advisory Committee regularly reviews and approves our valuation methodologies to ensure that our methodologies and practices are consistent with industry standards and adhere to regulatory and accounting guidance.

Derivative Instruments and Hedging Activities

We primarily use derivative instruments to manage our exposure to interest rate risk, and to a lesser extent, foreign currency risk. Our derivatives are designated as either qualifying accounting hedges or free-standing derivatives. Free-standing derivatives consist of customer-accommodation derivatives and economic hedges that we enter into for risk management purposes that are not linked to specific assets or liabilities or to forecasted transactions and, therefore, do not qualify for hedge accounting. Qualifying accounting hedges are designated as fair value hedges, cash flow hedges or net investment hedges. Although all derivative financial instruments, whether designated for hedge accounting or not, are reported at their fair value on our consolidated balance sheets, the accounting for changes in the fair value of derivative instruments differs based on whether the derivative has been designated as a qualifying accounting hedge and the type of accounting hedge.

To obtain and maintain hedge accounting, we must be able to establish at hedge inception and throughout the hedge term that the hedging instrument is highly effective at offsetting exposures to the hedged risk attributable to the hedged item both retrospectively and prospectively and ensure documentation meets stringent requirements. We apply critical and complex judgment regarding the data and values used in assessing hedge effectiveness and in interpreting the results of tests performed to assess hedge effectiveness especially when the regression analysis method is used. Without hedge accounting, we may experience significant volatility in our earnings as we would be required to recognize all changes in the fair value of our derivative instruments in earnings. We provide detail on derivatives gains and losses recognized in our earnings in 2011, 2010 and 2009 and amounts related to cash flow hedges recorded in AOCI as of December 31, 2011 and 2010 in Note 11 Derivative Instruments and Hedging Activities.

Income Taxes

Our annual provision for income tax expense is based on our income, statutory tax rates and other provisions of tax law applicable to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions, including evaluating uncertainties. We review our tax positions quarterly and adjust the balances as new information becomes available.

Our income tax expense consists of two components: current and deferred taxes. Our current income tax expense approximates taxes to be paid or refunded for the current period. It also includes income tax expense related to our uncertain tax positions and revisions of our estimate of accrued income taxes resulting from the resolution of income tax controversies. Our deferred income tax expense results from changes in our deferred tax assets and liabilities between periods.

Deferred tax assets and liabilities represent decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. Deferred tax assets are recognized subject to management s judgment that realization is more likely than not. We evaluate the recoverability of these future tax deductions by assessing the adequacy of expected taxable income from all sources, including taxable income in carryback years, reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely heavily on estimates. We use our historical experience and our short and long-range business forecasts to provide insight.

At December 31, 2011, we have recorded deferred tax assets, net of deferred tax liabilities and valuation allowances, of approximately $2.3 billion, a decrease of $399 million from $2.7 billion at December 31, 2010. We have recorded a valuation allowance of $89 million and $130 million as of December 31, 2011 and 2010, respectively. We expect to fully realize the net deferred tax asset amounts at the end of 2011. If changes in circumstances lead us to change our judgment about our ability to realize deferred tax assets in future years, we will adjust our valuation allowances in the period that our change in judgment occurs and record a corresponding increase or charge to income.

We provide additional information on income taxes in Consolidated Results of Operations and in Note 18 Income Taxes.

CONSOLIDATED RESULTS OF OPERATIONS

As indicated above under Item 6. Selected Financial Data, our reported results prior to January 1, 2010 are not presented on a basis consistent with our reported results subsequent to January 1, 2010 as a result of our adoption of the new consolidation accounting standards. Our reported results subsequent to January 1, 2010 are more comparable to our managed results because we assumed for our managed based reporting that our securitized loans had not been sold and that the earnings from securitized loans were classified in our results of operations in the same manner as the earnings on loans that we owned. Accordingly, the section below provides a comparative discussion between our reported results of operations for 2011 and 2010 and between our reported results of operations for 2010 and our managed results for 2009. Our net income on a managed basis for 2009 is the same as our reported net income; however, there are differences in the classification of certain amounts in our managed income statement, which we identify in our discussion. See MD&A-Supplemental Tables for a reconciliation of our non-GAAP managed based information for periods prior to January 1, 2010 to the most comparable reported U.S. GAAP information.

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. Prior to the adoption of the new consolidation accounting standards on January 1, 2010, our reported net interest income did not include interest income from loans in our off-balance sheet securitization trusts or the interest expense on third-party debt issued by these securitization trusts. Beginning January 1, 2010, servicing fees, finance charges, other fees, net charge-offs and interest paid to third party investors related to consolidated securitization trusts are included in net interest income. 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 2 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 in 2011, 2010 and 2009 based on our reported results. Table 3 presents this information based on our managed results, which are the same as our reported results for 2011 and 2010.

Table of Contents

Table 2: Average Balances, Net Interest Income and Net Interest Yield (Reported Basis)[1]

	Year Ended December 31,								
		2011			2010			2009	
(Dollars in millions)	Average Balance	Interest Income/ Expense[2]	Yield/ Rate	Average Balance	Interest Income/ Expense[2]	Yield/ Rate	Average Balance	Interest Income/ Expense[2]	Yield/ Rate
Assets:									
Interest-earning assets:									
Consumer loans:[3]									
Domestic[4]	**$ 88,769**	**$ 10,948**	**12.33%**	$ 91,451	$ 11,228	12.28%	$ 67,160	$ 6,901	10.28%
International	**8,645**	**1,360**	**15.73**	7,499	1,212	16.16	2,613	348	13.32
Total consumer loans[4]	**97,414**	**12,308**	**12.63**	98,950	12,440	12.57	69,773	7,249	10.39
Commercial loans[4]	**31,010**	**1,466**	**4.73**	29,576	1,494	5.06	30,014	1,508	5.02
Total loans held for investment	**128,424**	**13,774**	**10.73**	128,526	13,934	10.84	99,787	8,757	8.78
Investment securities	**39,513**	**1,137**	**2.88**	39,489	1,342	3.40	36,910	1,610	4.36
Other interest-earning assets:									
Domestic	**6,756**	**63**	**0.93**	7,140	75	1.05	7,506	290	3.86
International	**648**	**13**	**2.01**	586	2	0.34	1,107	7	0.63
Total other interest earning assets	**7,404**	**76**	**1.03**	7,726	77	1.00	8,613	297	3.45
Total interest-earning assets	**$ 175,341**	**$ 14,987**	**8.55%**	$ 175,741	$ 15,353	8.74%	$ 145,310	$ 10,664	7.34%
Cash and due from banks	**1,926**			2,132			3,481		
Allowance for loan and lease losses	**(4,865)**			(7,257)			(4,470)		
Premises and equipment, net	**2,731**			2,718			2,718		
Other assets	**24,585**			26,780			24,559		
Total assets	**$ 199,718**			$ 200,114			$ 171,598		
Liabilities and Equity:									
Interest-bearing liabilities:									
Deposits:									
Domestic	**$ 109,644**	**$ 1,187**	**1.08%**	$ 104,743	$ 1,465	1.40%	$ 102,337	$ 2,070	2.02%
International[5]							741	23	3.10
Total deposits	**109,644**	**1,187**	**1.08**	$ 104,743	$ 1,465	1.40	$ 103,078	$ 2,093	2.03
Securitized debt obligations:									
Domestic	**17,012**	**348**	**2.05**	29,275	686	2.34	5,516	282	5.11
International	**3,703**	**74**	**2.00**	4,910	123	2.51			
Total securitized debt obligations	**20,715**	**422**	**2.04**	34,185	809	2.37	5,516	282	5.11
Senior and subordinated notes	**9,244**	**300**	**3.25**	8,571	276	3.22	8,607	260	3.02
Other borrowings:									
Domestic	**4,226**	**306**	**7.24**	5,092	333	6.54	7,958	321	4.03
International	**3,837**	**31**	**0.81**	1,772	13	0.73	1,441	11	0.76

Total other borrowings	**8,063**	**337**	**4.18**	6,864	346	5.04	9,399	332	3.53
Total interest-bearing liabilities	**$ 147,666**	**$ 2,246**	**1.52%**	$ 154,363	$ 2,896	1.88%	$ 126,600	$ 2,967	2.34%
Non-interest bearing deposits	**17,050**			14,267			12,523		
Other liabilities	**6,423**			6,543			5,869		
Total liabilities	**171,139**			175,173			144,992		
Stockholders equity[6]	**28,579**			24,941			26,606		
Total liabilities and stockholders equity	**$ 199,718**			$ 200,114			$ 171,598		
Net interest income/spread		**$ 12,741**	**7.03%**		$ 12,457	6.86%		$ 7,697	5.00%
Impact of non-interest bearing funding			**0.24**			0.23			0.30
Net interest margin			**7.27%**			7.09%			5.30%

56

(1) Certain prior period amounts have been reclassified to conform to the current period presentation.

(2) Past due fees included in interest income totaled approximately $1.1 billion, $1.1 billion and $652 million for 2011, 2010 and 2009, respectively.

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

(4) In the first quarter of 2011, we revised previously reported interest income on interest-earning assets and average yield on loans held for investment for 2010 to conform to the internal management accounting methodology used in our segment reporting. The interest income and average loan yields presented reflect this revision. The previously reported interest income and average yields for 2010 were as follows: domestic consumer loans ($11.4 billion and 12.51%); total consumer loans ($12.7 billion and 12.79%); and commercial loans ($1.3 billion and 4.32%).

(5) The U.K. deposit business, which was included in international deposits, was sold during the third quarter of 2009.

(6) Includes a reduction of $2.9 billion recorded on January 1, 2010, in conjunction with the adoption of the new consolidation accounting guidance.

Table of Contents

Table 3: Average Balances, Net Interest Income and Net Interest Yield (Managed Basis)[1]

	Year Ended December 31,								
	2011			2010			2009		
(Dollars in millions)	Average Balance	Interest Income/ Expense[2]	Yield/ Rate	Average Balance	Interest Income/ Expense[2]	Yield/ Rate	Average Balance	Interest Income/ Expense[2]	Yield/ Rate
Assets:									
Interest-earning assets:									
Consumer loans:[3]									
Domestic[4]	**$ 88,769**	**$ 10,948**	**12.33%**	$ 91,547	$ 11,234	12.27%	$ 105,095	$ 11,778	11.21%
International	**8,645**	**1,360**	**15.73**	7,499	1,212	16.16	8,405	1,149	13.67
Total consumer loans[4]	**97,414**	**12,308**	**12.63**	99,046	12,446	12.57	113,500	12,927	11.39
Commercial loans[4]	**31,010**	**1,466**	**4.73**	29,576	1,496	5.06	30,014	1,508	5.02
Total loans held for investment	**128,424**	**13,774**	**10.73**	128,622	13,942	10.84	143,514	14,435	10.06
Investment securities	**39,513**	**1,137**	**2.88**	39,489	1,342	3.40	36,910	1,610	4.36
Other interest-earning assets:									
Domestic	**6,756**	**63**	**0.93**	7,118	75	1.05	4,938	65	1.32
International	**648**	**13**	**2.01**	586	2	0.34	614	3	0.49
Total other interest earning assets	**7,404**	**76**	**1.03**	7,704	77	1.00	5,552	68	1.22
Total interest-earning assets	**$ 175,341**	**$ 14,987**	**8.55%**	$ 175,815	$ 15,361	8.74%	$ 185,976	$ 16,113	8.66%
Cash and due from banks	**1,926**			2,133			3,481		
Allowance for loan and lease losses	**(4,865)**			(7,257)			(4,470)		
Premises and equipment, net	**2,731**			2,718			2,718		
Other assets	**24,585**			26,776			24,953		
Total assets	**$ 199,718**			$ 200,185			$ 212,658		
Liabilities and Equity:									
Interest-bearing liabilities:									
Deposits:									
Domestic	**$ 109,644**	**$ 1,187**	**1.08%**	$ 104,743	$ 1,465	1.40%	$ 102,337	$ 2,070	2.02%
International[5]							741	23	3.10
Total deposits	**109,644**	**1,187**	**1.08**	$ 104,743	$ 1,465	1.40	$ 103,078	$ 2,093	2.03
Securitized debt obligations:									
Domestic	**17,012**	**348**	**2.05**	29,354	690	2.35	40,931	1,191	2.91
International	**3,703**	**74**	**2.00**	4,910	123	2.51	5,686	148	2.60
Total securitized debt obligations	**20,715**	**422**	**2.04**	34,264	813	2.37	46,617	1,339	2.87
Senior and subordinated notes	**9,244**	**300**	**3.25**	8,571	276	3.22	8,607	260	3.02
Other borrowings:									
Domestic	**4,226**	**306**	**7.24**	5,093	333	6.54	7,957	321	4.03
International	**3,837**	**31**	**0.81**	1,772	13	0.73	1,441	11	0.76

Total other borrowings	**8,063**	**337**	**4.18**	6,865	346	5.04	9,398	332	3.53
Total interest-bearing liabilities	**$ 147,666**	**$ 2,246**	**1.52%**	$ 154,443	$ 2,900	1.88%	$ 167,700	$ 4,024	2.40%
Non-interest bearing deposits	**17,050**			14,267			12,523		
Other liabilities	**6,423**			6,534			5,829		
Total liabilities	**171,139**			175,244			186,052		
Stockholders equity[6]	**28,579**			24,941			26,606		
Total liabilities and stockholders equity	**$ 199,718**			$ 200,185			$ 212,658		
Net interest income/spread		**$ 12,741**	**7.03%**		$ 12,461	6.86%		$ 12,089	6.26%
Impact of non-interest bearing funding			**0.24**			0.23			0.24
Net interest margin			**7.27%**			7.09%			6.50%

(1) Certain prior period amounts have been reclassified to conform to the current period presentation.
(2) Past due fees included in interest income on a managed basis totaled approximately $1.1 billion, $1.1 billion and $1.4 billion for 2011, 2010 and 2009, respectively.
(3) Interest income on credit card, auto, home and retail banking loans is reflected in consumer loans. Interest income generated from small business credit cards also is included in consumer loans.
(4) In the first quarter of 2011, we revised previously reported interest income on interest-earning assets and average yield on loans held for investment for 2010 to conform to the internal management accounting methodology used in our segment reporting. The interest income and average loan yields presented reflect this revision. The previously reported interest income and average yields for 2010 were as follows: domestic consumer loans ($11.5 billion and 12.51%); total consumer loans ($12.7 billion and 12.79%); and commercial loans ($1.3 billion and 4.32%).
(5) The U.K. deposit business, which was included in international deposits, was sold during the third quarter of 2009.
(6) Includes a reduction of $2.9 billion recorded on January 1, 2010, in conjunction with the adoption of the new consolidation accounting guidance.

Table 4 presents the variances between our net interest income for 2011, 2010 and 2009, 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]

	Reported						Managed		
	2011 vs. 2010			2010 vs. 2009[2]			2010 vs. 2009[2]		
	Total	Variance Due to		Total	Volume		Total	Variance Due to	
(Dollars in millions)	**Variance**	**Volume**	**Rate**	**Variance**	**Volume**	**Rate**	**Variance**	**Volume**	**Rate**
Interest income:									
Loans held-for-investment:									
Consumer loans	**$ (132)**	**$ (194)**	**$ 62**	$ 5,191	$ 3,455	$ 1,736	$ (481)	$ (1,740)	$ 1,259
Commercial loans	**(28)**	**71**	**(99)**	(14)	(22)	8	(12)	(22)	10
Total loans held for investment, including past-due fees	**(160)**	**(123)**	**(37)**	5,177	3,433	1,744	(493)	(1,762)	1,269
Investment securities	**(205)**		**(205)**	(268)	107	(375)	(268)	107	(375)
Other	**(1)**	**(3)**	**2**	(220)	(27)	(193)	9	23	(14)
Total interest income	**(366)**	**(126)**	**(240)**	4,689	3,513	1,176	(752)	(1,632)	880
Interest expense:									
Deposits	**(278)**	**66**	**(344)**	(628)	33	(661)	(628)	33	(661)
Securitized debt obligations	**(387)**	**(286)**	**(101)**	527	752	(225)	(526)	(318)	(208)
Senior and subordinated notes	**24**	**22**	**2**	16	(1)	17	16	(1)	17
Other borrowings	**(9)**	**55**	**(64)**	14	(103)	117	14	(104)	118
Total interest expense	**(650)**	**(143)**	**(507)**	(71)	681	(752)	(1,124)	(390)	(734)
Net interest income	**$ 284**	**$ 17**	**$ 267**	$ 4,760	$ 2,832	$ 1,928	$ 372	$ (1,242)	$ 1,614

(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.
(2) Certain prior period amounts have been reclassified to conform to the current period presentation.

Our net interest income of $12.7 billion for 2011 increased by $284 million, or 2%, from 2010, driven by a 3% (18 basis points) expansion in our net interest margin to 7.27%, which was partially offset by a modest decrease in average interest-earning assets.

Net Interest Margin: The increase in our net interest margin in 2011 reflected the benefit from the improvement in our cost of funds, as we shifted 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 overall interest rate environment. The decrease in yield on interest-earning assets was attributable to the addition of the Kohl s portfolio. Under our partnership agreement with Kohl s, we share a fixed percentage of revenues, consisting of finance charges and late fees. We report revenues related to Kohl s credit card loans on a net basis in our consolidated financial statements, which has the effect of reducing the yield on our average interest-earning assets. The impact of these factors was partially offset by the run-off of lower margin installment loans, a reduced level of new accounts with low introductory promotional rates, and an increase in the recognition of billed finance charges and fees due to the improvement in credit performance as well as the change we made in the third quarter of 2011 in our estimation of non-principal recoveries used in determining our uncollectible finance charge and fee reserve.

Average Interest-Earning Assets: The decrease in average interest-earning assets in 2011 reflected the continued run-off of businesses that we exited or repositioned, including our installment, home loan and small-ticket commercial real estate loan portfolios, which were slightly offset by the impact of modest revolving credit card loan growth and the addition of the existing HBC credit card loan portfolio of $1.4 billion in the first quarter of 2011 and the addition of the existing Kohl s private-label credit card loan portfolio of $3.7 billion in the second quarter of 2011.

Our reported net interest income of $12.5 billion in 2010 increased by $368 million, or 3%, from managed net interest income of $12.1 billion in 2009 driven by a 9% (59 basis points) expansion in of our net interest margin to 7.09%, which was partially offset by a 5% decrease in average interest-earning assets.

Net Interest Margin: The increase in net interest margin in 2010 was primarily attributable to a significant reduction in our average cost of funds, coupled with an increase in the average yield on interest-earning assets. 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. Also, the overall interest rate environment, combined with our disciplined pricing, drove a decrease in our average deposit interest rates. The increase in the average yield on our interest-earning assets during 2010 reflected the benefit of pricing changes that we implemented during 2009, which contributed to an increase in the average yield on our loan portfolio, as well as improved credit conditions, which has allowed us to recognize a greater proportion of previously reserved uncollected finance charges into income.

Average Interest-Earning Assets: The decrease in average interest-earning assets resulted from the run-off of loans in businesses that we exited or repositioned, elevated charge-offs and weak consumer demand.

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. Prior to the adoption of the new consolidation accounting standards on January 1, 2010, our reported non-interest income included servicing fees, finance charges, other fees, net charge-offs and interest paid to third party investors related to our securitization trusts as a component of non-interest income. In addition, when we created securitization trusts, we recognized gains or losses on the transfer of loans to these trusts and recorded our initial retained interests in the trusts. Effective January 1, 2010, unless we qualify for sale accounting under the new consolidation accounting standards, we no longer recognize a gain or loss or record retained interests when we transfer loans into securitization trusts. 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 now reported as a component of net interest income instead of 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

Table of Contents

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 2011, 2010 and 2009.

Table 5: Non-Interest Income

	Year Ended December 31,			
	2011	2010	2009[1]	
(Dollars in millions)	Reported	Reported	Reported	Managed
Non-interest income:				
Servicing and securitizations	**$ 44**	$ 7	$ 2,280	$ (193)
Service charges and other customer-related fees	**1,979**	2,073	1,997	3,025
Interchange	**1,318**	1,340	502	1,408
Net other-than-temporary impairment (OTTI)	**(21)**	(65)	(32)	(32)
Provision for mortgage repurchase losses[2]	**(43)**	(204)	(19)	(19)
Other	**261**[3]	563	558	558
Total non-interest income	**$ 3,538**	$ 3,714	$ 5,286	$ 4,747

(1) Effective February 27, 2009, we acquired Chevy Chase Bank. Accordingly, our results for 2009 include only a partial impact from Chevy Chase Bank.

(2) We recorded a total provision for mortgage repurchase losses of $212 million, $636 million and $181 million in 2011, 2010 and 2009, respectively. The remaining portion of the provision for repurchase losses is included in discontinued operations.

(3) Includes a mark-to-market derivative loss of $277 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 a gain of $259 million recognized on the sale of investment securities.

Non-interest income of $3.5 billion in 2011 decreased by $176 million, or 5%, from non-interest income of $3.7 billion in 2010. This decrease was attributable to (1) the absence of a one-time pre-tax gain of $128 million recorded in the first quarter of 2010 and net gains on the sale of securities in 2010; and (2) the impact of contra-revenue amounts recorded in the second and fourth quarters of 2011, including a provision of $102 million for anticipated refunds to U.K. customers related to retrospective regulatory requirements pertaining to payment protection insurance (PPI) in our U.K. business. The decrease was partially offset by increased customer fees related to treasury management and public financing activities, and the decrease in the provision for mortgage loan repurchases.

Non-interest income of $3.7 billion in 2010 decreased by $1.0 billion, or 22%, from managed non-interest income of $4.7 billion in 2009. This decrease was primarily attributable to a reduction in over-limit fees as a result of provisions under the CARD Act, a decline in the fair value of mortgage servicing rights due to the run-off of our legacy home loan portfolio and an increase in the provision for mortgage loan repurchases.

Provision for Loan and Lease Losses

We build our allowance for loan and lease losses through the provision for loan and lease losses. Our provision for loan and lease 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 reported provision for loan and lease losses of $2.4 billion in 2011, compared with $3.9 billion in 2010 and $4.2 billion in 2009. The managed provision for loan and lease losses totaled $8.1 billion in 2009.

Table of Contents

The decrease in the provision in 2011 and 2010 was largely driven by a substantial decline in net charge-offs across all of our business segments, reflecting the improvement in the credit performance of our loan portfolio. As a result, we recorded significant reductions in our allowance in 2011 and 2010. Our allowance releases were significantly lower in 2011 relative to 2010, reflecting a stabilization of the improvement in credit trends and growth in our loan portfolio.

Table 30 below, under Credit Risk Profile Summary of Allowance for Loan and Lease Losses summarizes changes in our allowance for loan and lease losses and details the provision for loan and lease losses recognized in our consolidated statements of income and the charge-offs recorded against our allowance for loan and lease losses in 2011, 2010 and 2009.

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 2011, 2010 and 2009.

Table 6: Non-Interest Expense

	Year Ended December 31,		
(Dollars in millions)	**2011**	**2010**	**2009[1]**
Non-interest expense:			
Salaries and associated benefits	**$ 3,023**	$ 2,594	$ 2,478
Marketing	**1,337**	958	588
Communications and data processing	**681**	693	740
Supplies and equipment	**539**	520	500
Occupancy	**490**	486	451
Restructuring expense			119
Other[2]	**3,262**	2,683	2,541
Total non-interest expense	**$ 9,332**	$ 7,934	$ 7,417

(1) There were no differences between reported and managed non-interest expense amounts in 2009.

(2) Consists of professional services expenses, credit collection costs, fee assessments and intangible amortization expense. See Note 15 Other Non-Interest Expense for additional detail on the components included in this expense category.

Non-interest expense of $9.3 billion for 2011 was up $1.4 billion, or 18%, from 2010. The increase is a result of increased marketing expenditures, higher legal expenses and increased operating expenses. We have expanded our marketing efforts to attract and support targeted customers and new business volume through a variety of channels. Our operating costs have increased due in part to the integration of the recent acquisitions of the Sony, HBC and Kohl s loan portfolios and continued investment in our infrastructure.

Non-interest expense of $7.9 billion in 2010 was up $517 million, or 7%, from 2009. The increase was primarily due to increases in marketing expenditures and salaries and associate benefits, partially offset by the absence of restructuring charges.

Income Taxes

Our effective income tax rate based on income from continuing operations was 29.1%, 29.6% and 26.2% in 2011, 2010 and 2009, respectively. The variation in our effective tax rate between periods is due, in part, to fluctuations in our pre-tax earnings, which affects the relative tax benefit of tax-exempt income, tax credits and other permanent tax items.

Table of Contents

The decrease in our effective income tax rate in 2011 from 2010 reflected an increase in the amount of one-time tax benefits recorded over the prior year. During 2011, we recorded discrete tax benefits of $121 million related primarily to the release of valuation allowances against certain state deferred tax assets and net operating loss carryforwards and the resolution of certain tax issues and audits. In comparison, in 2010 we recorded discrete tax benefits of $84 million related primarily to adjustments for the resolution of certain tax issues and audits. Our effective income tax rate excluding the benefit from these discrete tax items was 31.7% and 31.5% for 2011 and 2010,

The increase in our effective income tax rate in 2010 from 2009 reflected the reduced relative benefit of tax-exempt income and tax credits as a result of the increase in our pre-tax earnings. The $84 million of discrete tax benefits in 2010 related to the resolution of certain tax issues and audits partially offset the increase in the 2010 effective tax rate compared to 2009.

We provide additional information on items affecting our income taxes and effective tax rate in 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 loss from discontinued operations, net of tax, of $106 million, $307 million and $103 million in 2011, 2010 and 2009, respectively. The variance in the loss from discontinued operations between 2011 and 2010 and between 2010 and 2009 is attributable to the provision for mortgage repurchase losses. We recorded a total pre-tax provision for mortgage repurchase losses of $212 million, $636 million and $181 million in 2011, 2010 and 2009, respectively. The portion of these amounts included in loss from discontinued operations totaled $169 million ($120 million net of tax) in 2011, $432 million ($304 million net of tax) in 2010 and $162 million ($120 million net of tax) in 2009.

We provide additional information on the provision for mortgage repurchase losses and the related reserve for potential representation and warranty claims in Critical Accounting Polices and Estimates and 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. See Note 20 Business Segments for information on the allocation methodologies used to derive our business segment results.

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 managed balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment.

We refer to the business segment results derived from our internal management accounting and reporting process as our managed presentation, which differs in some cases from our reported results prepared based on

U.S. GAAP. There is no comprehensive, authoritative body of guidance for management accounting equivalent to U.S. GAAP; therefore, the managed basis presentation of our business segment results may not be comparable to similar information provided by other financial service companies. In addition, our individual business segment results should not be used as a substitute for comparable results determined in accordance with U.S. GAAP. We provide additional information on our business segments, including the basis of presentation, business segment reporting methodologies, and a reconciliation of our total business segment results to our reported consolidated results in Note 20 Business Segments.

We summarize our business segment results for 2011, 2010 and 2009 in the tables below and provide a comparative discussion of these 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. We provide information on the outlook for each of our business segments above under Executive Summary and Business Outlook.

Credit Card Business

Our Credit Card business generated income of $2.3 billion in both 2011 and 2010 and income of $978 million in 2009. The primary sources of revenue for our Credit Card business are net interest income and non-interest income from customer and interchange 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, as well as marketing expenses.

Table 7 summarizes the financial results of our Credit Card business, which is comprised of Domestic Card, installment loans and International Card operations, and displays selected key metrics for the periods indicated. Our Credit Card business results for 2011 reflect the impact of the acquisitions of the existing credit card loan portfolios of Kohl s and HBC. The results related to the Kohl s loan portfolio, which totaled approximately $3.7 billion at acquisition on April 1, 2011, are included in our Domestic Card business. The results related to the HBC loan portfolio, which totaled approximately $1.4 billion at acquisition on January 7, 2011, are included in our International Card business.

Under the terms of the partnership agreement with Kohl s, we share a fixed percentage of revenues, consisting of finance charges and late fees, with Kohl s, and Kohl s is required to reimburse us for a fixed percentage of credit losses incurred. Revenues and losses related to the Kohl s credit card program are reported on a net basis in our consolidated financial statements. The revenue sharing amounts earned by Kohl s are reflected as an offset against our revenues in our consolidated statements of income, which has the effect of reducing our net interest income and revenue margins. The loss sharing amounts from Kohl s are reflected as a reduction in our provision for loan and lease losses in our consolidated statements of income. We also report the related allowance for loan and lease losses attributable to the Kohl s portfolio in our consolidated balance sheets net of the loss sharing amount due from Kohl s.

Interest income was reduced by $607 million in 2011 for amounts earned by Kohl s. Loss sharing amounts attributable to Kohl s reduced charge-offs by $118 million in 2011. The expected reimbursement from Kohl s, which is netted against our allowance for loan and lease losses, totaled approximately $139 million as of December 31, 2011. The reduction in the provision for loan and lease losses attributable to Kohl s was $257 million for 2011.

We provide additional information on the acquisition of the existing credit card loan portfolios of Kohl s and HBC in Note 2 Acquisitions and Restructuring Activities.

Table of Contents

Table 7: Credit Card Business Results

	Year Ended December 31,			Change	
(Dollars in millions)	2011	2010	2009	2011 vs. 2010	2010 vs. 2009
Selected income statement data:					
Net interest income	**$ 7,822**	$ 7,894	$ 7,542	**(1)%**	5%
Non-interest income	**2,609**	2,720	3,747	**(4)**	(27)
Total revenue	**10,431**	10,614	11,289	**(2)**	(6)
Provision for loan and lease losses	**1,870**	3,188	6,051	**(41)**	(47)
Non-interest expense	**5,035**	3,951	3,738	**27**	6
Income from continuing operations before income taxes	**3,526**	3,475	1,500	**1**	132
Income tax provision	**1,249**	1,201	522	**4**	130
Income from continuing operations, net of tax	**$ 2,277**	$ 2,274	$ 978	****%**	133%
Selected performance metrics:					
Average loans held for investment	**$ 62,110**	$ 62,632	$ 73,076	**(1)%**	(14)%
Average yield on loans held for investment[1]	**14.36%**	14.63%	12.90%	**(27)bps**	173bps
Revenue margin[2]	**16.79**	16.95	15.45	**(16)**	150
Net charge-off rate[3]	**4.92**	8.79	9.15	**(387)**	(36)
Purchase volume[4]	**$ 135,120**	$ 106,912	$ 102,068	**26%**	5%

	December 31,		
	2011	2010	Change
Selected period-end data:			
Loans held for investment	**$ 65,075**	$ 61,371	**6%**
30+ day delinquency rate[5]	**3.86%**	4.29%	**(43)bps**
Allowance for loan and lease losses	**$ 2,847**	$ 4,041	**(30)%**

** Change is less than one percent.

(1) Average yield on loans held for investment is calculated by dividing interest income for the period by average loans held for investment during the period. In preparing our Report on Form 10-Q for the first quarter of 2011, we determined that beginning in the second quarter of 2010, our management accounting processes excluded certain accounts that should have been included in the calculation of the average yield on loans held for investment. The mapping error was limited to the average yields on loans held for investment for our Credit Card business and had no impact on income statement amounts or the yields reported for any of our other business segments or for the total company. The previously reported average loan yield for our Credit Card business was 14.36% in 2010.

(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.

Table of Contents

Key factors affecting the results of our Credit Card business for 2011, compared with 2010 included the following:

Net Interest Income: Net interest income decreased by $72 million, or 1%, in 2011, reflecting the impact of a 1% decline in average loan balances. The expected run-off of the installment loan portfolio was the primary driver of the decline in average loan balances in 2011, more than offsetting the additions of the HBC and Kohl s portfolios.

Non-Interest Income: Non-interest income decreased by $111 million, or 4%, in 2011. The decrease reflects the impact of contra-revenue amounts recorded in the second quarter and fourth quarters of 2011, including a provision of $102 million for anticipated refunds to U.K. customers related to retrospective regulatory requirements pertaining to payment protection insurance (PPI) in our U.K. business and the recognition of expenses related to the periodic adjustment of our customer rewards points liability to reflect the estimated cost of points earned to date that are ultimately expected to be redeemed. These decreases were partially offset by higher net interchange fees during 2011, attributable to increased purchase volume.

Provision for Loan and Lease Losses: The provision for loan and lease losses related to our Credit Card business decreased by $1.3 billion in 2011, to $1.9 billion. The significant reduction in the provision was primarily attributable to the continued improvement in credit performance, including reduced delinquency rates and lower bankruptcy losses. As a result of the reduction in charge-offs and improvement in the net charge-off rate, we recorded an allowance release for the Credit Card business of $1.2 billion in 2011 compared to $2.3 billion in 2010.

Non-Interest Expense: Non-interest expense increased by $1.1 billion, or 27%, in 2011. The increase in non-interest expense was attributable to increased marketing expenditures, higher legal expenses, and increased operating cost. Additionally, we recorded $40 million in relation to regulatory requirements pertaining to PPI in our U.K. business. We have expanded our marketing efforts to drive new business volume through a variety of channels.

Total Loans: Period-end loans in our Credit Card business increased by $3.7 billion, or 6%, in 2011, to $65.1 billion as of December 31, 2011, from $61.4 billion as of December 31, 2010. The increase was primarily attributable to the acquisitions of the Kohl s credit card portfolio of $3.7 billion and the HBC credit card portfolio of $1.4 billion, which were partially offset by the continued run-off of the installment loan portfolio.

Charge-off and Delinquency Statistics: Net charge-off and delinquency rates continued to improve in 2011. The net charge-off rate decreased to 4.92% in 2011 from 8.79% in 2010. The 30+ day delinquency rate decreased to 3.86% as of December 31, 2011, from 4.29% as of December 31, 2010. 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 normalization of credit performance in the portfolio.

Key factors affecting the results of our Credit Card business for 2010, compared with 2009 included the following:

Net Interest Income: Our Credit Card business experienced an increase in net interest income of $352 million, or 5%, in 2010, which was primarily attributable to higher asset yields that more than offset a decline in average loans held for investment. The increase in the average yield on our credit card loan portfolio reflected the benefit of pricing changes that were implemented during 2009 and a reduction in the level of loans with low introductory promotional rates. Net interest income also reflected the benefit of the recognition into income of an increased amount of previously suppressed billed finance charges and fees as a result of improving credit trends.

Non-Interest Income: Non-interest income decreased by $1.0 billion, or 27%, in 2010. The decrease was primarily attributable to a reduction in penalty fees resulting from the implementation of provisions of the CARD Act and a reduction in customer accounts.

Provision for Loan and Lease Losses: The provision for loan and lease losses related to our Credit Card business decreased by $2.9 billion in 2010, to $3.2 billion. The substantial reduction in the provision was driven by improved credit trends, as evidenced by a reduction in the net charge-off rate and a decrease and stabilization of delinquency rates throughout the year, as well as lower period-end loan balances. As a result of the more positive credit performance trends and reduced loan balances, the Credit Card business recorded a net allowance release (after taking into consideration the $4.2 billion addition to the allowance on January 1, 2010 from the adoption of the new consolidation accounting standards) of $2.3 billion in 2010. In comparison, our Credit Card business recorded an allowance release of $611 million in 2009. The release in 2009 was driven by the reduction in period-end loans, which more than offset the impact of the continued deterioration in the credit performance of our credit card portfolio due to the severe economic downturn.

Non-Interest Expense: Non-interest expense increased by $212 million, or 6%, in 2010. The increase reflects the impact of an increase in marketing expenses, which has been partially offset by a decrease in operating expenses due to the reduction in customer accounts and targeted cost savings across our Credit Card business. As the economy gradually improved, we increased our marketing expenditures during 2010 from suppressed levels in 2009 to attract and support new business volume through a variety of channels.

Total Loans: Period-end loans in the Credit Card business declined by $7.2 billion, or 10%, in 2010, to $61.4 billion as of December 31, 2010, from $68.5 billion as of December 31, 2009. Approximately $3.2 billion of the decrease was due to the run-off of installment loans in our Domestic Card division. The remaining decrease, which was partially offset by the addition of the Sony Card portfolio, was attributable to elevated net charge-offs, weak consumer demand and historically lower marketing expenditures in 2009 and 2010 as result of the severe economic downturn.

Charge-off and Delinquency Statistics: Although net charge-off and delinquency rates remained elevated, these rates continued to improve throughout 2010. The net charge-off rate decreased to 8.79% in 2010, from 9.15% in 2009. The 30+ day delinquency rate decreased to 4.29% as of December 31, 2010, from 5.88% as of December 31, 2009.

Domestic Card Business

Table 7.1 summarizes the financial results for Domestic Card and displays selected key metrics for the periods indicated. Domestic Card accounted for 87% of total revenues for our Credit Card business in 2011, compared with 87% in 2010 and 89% in 2009. Income attributable to Domestic Card represented 102% of income for our Credit Card business for 2011, compared with 83% in 2010 and 94% in 2009. Because our Domestic Card business currently accounts for the substantial majority of our Credit Card business, the key factors driving the results for this division are similar to the key factors affecting our total Credit Card business.

Table of Contents

Table 7.1: Domestic Card Business Results

(Dollars in millions)	Year Ended December 31, 2011	2010	2009	Change 2011 vs. 2010	Change 2010 vs. 2009
Selected income statement data:					
Net interest income	**$ 6,717**	$ 6,912	$ 6,670	**(3)%**	4%
Non-interest income	**2,368**	2,347	3,328	**1**	(29)
Total revenue	**9,085**	9,259	9,998	**(2)**	(7)
Provision for loan and lease losses	**1,317**	2,853	5,329	**(54)**	(46)
Non-interest expense	**4,153**	3,457	3,256	**20**	6
Income from continuing operations before income taxes	**3,615**	2,949	1,413	**23**	109
Income tax provision	**1,287**	1,051	495	**22**	112
Income from continuing operations, net of tax	**$ 2,328**	$ 1,898	$ 918	**23%**	107%
Selected performance metrics:					
Average loans held for investment	**$ 53,464**	$ 55,133	$ 64,670	**(3)%**	(15)%
Average yield on loans held for investment[1]	**14.14%**	14.42%	12.80%	**(28)bps**	162bps
Revenue margin[2]	**16.99**	16.79	15.46	**20**	133
Net charge-off rate[3]	**4.72**	8.91	9.19	**(419)**	(28)
Purchase volume[4]	**$ 122,366**	$ 98,344	$ 93,566	**24%**	5%

	December 31, 2011	2010	Change
Selected period-end data:			
Loans held for investment	**$ 56,609**	$ 53,849	**5%**
30+ day delinquency rate[5]	**3.66%**	4.09%	**(43)bps**
Allowance for loan and lease losses	**$ 2,375**	$ 3,581	**(34)%**

(1) Average yield on loans held for investment is calculated by dividing interest income for the period by average loans held for investment during the period. As indicated above, in preparing our Report on Form 10-Q for the first quarter of 2011, we determined that beginning in the second quarter of 2010, our management accounting processes excluded certain accounts that affected the calculation of the average yield on loans held for investment for our Credit Card business. The previously reported average loan yield for our Domestic Credit Card business was 14.09% for the year ended December 31, 2010.

(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.

Domestic Card generated net income from continuing operations of $2.3 billion compared with net income from continuing operations of $1.9 billion in 2010. The increase in Domestic Card net income from continuing operations in 2011, compared with 2010 was driven by a significant reduction in the provision for loan and lease losses due to the improvement in credit performance metrics, including decreases in delinquency and charge-off rates. This increase was partially offset by a decline in total revenue attributable to lower average loan balances and an increase in non-interest expense attributable to increased marketing expenditures, higher legal expenses and increased operating costs.

Domestic Card generated net income from continuing operations of $1.9 billion in 2010, an increase of $980 million over 2009. The increase in net income in 2010 from 2009 was primarily due to a significant reduction in the provision for loan and lease losses, as we recorded a substantial allowance release in response to more positive credit performance trends. The decrease in the provision was partially offset by a decline in total revenue due in part to lower loan balances as well as a reduction in overlimit and other penalty fees and an increase in non-interest expense attributable to higher marketing expenditures.

International Card Business

Table 7.2 summarizes the financial results for International Card and displays selected key metrics for the periods indicated. International Card accounted for 13% of total revenues for our Credit Card business in 2011, compared with 13% in 2010 and 11% in 2009. Loss attributable to International Card represented 2% of income for our Credit Card business for 2011, compared with income of 17% in 2010 and 6% in 2009.

Table 7.2: International Card Business Results

	Year Ended December 31,			Change	
(Dollars in millions)	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Selected income statement data:					
Net interest income	**$ 1,105**	$ 982	$ 872	**13%**	13%
Non-interest income	**241**	373	419	**(35)**	(11)
Total revenue	**1,346**	1,355	1,291	**(1)**	5
Provision for loan and lease losses	**553**	335	722	**65**	(54)
Non-interest expense	**882**	494	482	**79**	2
Income from continuing operations before income taxes	**(89)**	526	87	**(117)**	505
Income tax provision	**(38)**	150	27	**(125)**	456
Income from continuing operations, net of tax	**$ (51)**	$ 376	$ 60	**(114)%**	527%
Selected performance metrics:					
Average loans held for investment	**$ 8,645**	$ 7,499	$ 8,405	**15%**	(11)%
Average yield on loans held for investment[1]	**15.72%**	16.16%	13.71%	**(44)bps**	245bps
Revenue margin[2]	**15.57**	18.07	15.36	**(250)**	271
Net charge-off rate[3]	**6.18**	7.89	8.83	**(171)**	(94)
Purchase volume[4]	**$ 12,754**	$ 8,568	$ 8,502	**49%**	1%

	December 31,		
	2011	**2010**	**Change**
Selected period-end data:			
Loans held for investment	**$ 8,466**	$ 7,522	**13%**
30+ day delinquency rate[5]	**5.18%**	5.75%	**(57)bps**
Allowance for loan and lease losses	**$ 472**	$ 460	**3%**

(1) Average yield on loans held for investment is calculated by dividing interest income for the period by average loans held for investment during the period. As indicated above, in preparing our Report on Form 10-Q for the first quarter of 2011, we determined that beginning in the second quarter of 2010, our management accounting processes excluded certain accounts that affected the calculation of the average yield on loans held for investment for our Credit Card business. The previously reported average loan yield for our International Credit Card business was 16.33% in 2010.

(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.

Table of Contents

(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.

Our International Card business generated a net loss from continuing operations of $51 million in 2011, compared with net income from continuing operations of $376 million in 2010. The International Card net loss in 2011, compared with net income in 2010, was driven by: (1) a decrease primarily due to the provision expense of $174 million recorded in revenue and non-interest expense in the second and fourth quarters of 2011 for the anticipated refunds to U.K. customers related to retrospective regulatory requirements pertaining to PPI insurance in our U.K. business; (2) an increase in the provision for loan losses due to the addition of the HBC loan portfolio and lower allowance releases relative to the same prior year periods; and (3) additional increase in non-interest expense attributable to increased operating costs associated with HBC associates who joined us as a result of the acquisition. These factors were partially offset by an increase in net interest income attributable to higher loan balances.

Our International Card business generated net income from continuing operations of $376 million in 2010, an increase of $316 million from 2009. The most significant driver of the improvement in results was a $387 million decrease in the provision for loan and lease losses in 2010. As a result of decreases in charge-off and delinquency rates, we recorded a substantial allowance release of $246 million in 2010, compared with an allowance release of $20 million in 2009. In addition, total revenue increased by $64 million, primarily due to the impact of pricing changes implemented during 2009 that resulted in increases in average asset yields that were partially offset by a decline in loan balances.

Consumer Banking Business

Our Consumer Banking business generated net income of $809 million in 2011, compared with net income of $905 million in 2010 and $244 million in 2009. The primary sources of revenue for our Consumer Banking business are net interest income from loans and deposits and non-interest income from customer fees. Expenses primarily consist of ongoing operating costs, such as salaries and associated benefits, communications and other technology expenses, supplies and equipment and occupancy costs.

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

Table of Contents

Table 8: Consumer Banking Business Results

(Dollars in millions)	Year Ended December 31, 2011	2010	2009	Change 2011 vs. 2010	Change 2010 vs. 2009
Selected income statement data:					
Net interest income	**$ 4,236**	$ 3,727	$ 3,231	**14%**	15%
Non-interest income	**720**	870	755	**(17)**	15
Total revenue	**4,956**	4,597	3,986	**8**	15
Provision for loan and lease losses	**452**	241	876	**88**	(72)
Non-interest expense	**3,244**	2,950	2,734	**10**	8
Income from continuing operations before income taxes	**1,260**	1,406	376	**(10)**	274
Income tax provision	**451**	501	132	**(10)**	280
Income from continuing operations, net of tax	**$ 809**	$ 905	$ 244	**(11)%**	271%
Selected performance metrics:					
Average loans held for investment:					
Auto	**$ 19,419**	$ 17,551	$ 19,950	**11%**	(12)%
Home loan	**11,322**	13,629	14,434	**(17)**	(6)
Retail banking	**4,097**	4,745	5,490	**(14)**	(14)
Total consumer banking	**$ 34,838**	$ 35,925	$ 39,874	**(3)%**	(10)%
Average yield on loans held for investment	**9.60%**	9.11%	8.94%	**49bps**	17bps
Average deposits	**$ 86,883**	$ 78,083	$ 70,862	**11%**	10%
Average deposit interest rate	**0.96%**	1.19%	1.68%	**(23)bps**	(49)bps
Core deposit intangible amortization	**$ 132**	$ 144	$ 169	**(8)%**	(15)%
Net charge-off rate[(1)(2)]	**1.39%**	1.82%	2.74%	**(43)bps**	(92)bps
Auto loan originations	**$ 12,476**	$ 7,764	$ 5,336	**61%**	46%

	December 31, 2011	2010	Change
Selected period-end data:			
Loans held for investment:			
Auto	**$ 21,779**	$ 17,867	**22%**
Home loan	**10,433**	12,103	**(14)**
Retail banking	**4,103**	4,413	**(7)**
Total consumer banking	**$ 36,315**	$ 34,383	**6%**
30+ day performing delinquency rate[(1)(3)]	**4.47%**	4.28%	**19bps**
30+ day delinquency rate[(1)(3)]	**5.99**	5.96	**3**
Nonperforming loan rate[(1)(4)]	**1.79**	1.97	**(18)**
Nonperforming asset rate[(1)(5)]	**1.94**	2.17	**(23)**
Allowance for loan and lease losses	**$ 652**	$ 675	**(3)%**
Deposits	**88,540**	82,959	**7**
Loans serviced for others	**17,998**	20,689	**(13)**

(1) Average loans held for investment used in the denominator in calculating net charge-off, delinquency and nonperforming loan and nonperforming asset rates includes the impact of loans acquired as part of the Chevy Chase Bank acquisition, which were considered purchased credit-impaired (PCI) loans. However, we separately track and report PCI loans and exclude these loans from our net charge-off, delinquency, nonperforming loan and nonperforming asset rates.

(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. The net charge-off rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 1.60%, 2.16% and 3.17% in 2011, 2010 and 2009, respectively.

(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. The 30+ day performing delinquency rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 5.06% as of December 31, 2011 and 5.01% as of December 31, 2010. The 30+ day delinquency rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 6.78% as of December 31, 2011 and 6.98% as of December 31, 2010.

(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. 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. The nonperforming loan rate, excluding the impact of loans acquired from Chevy Chase Bank from the denominator, was 2.03% and 2.30% as of December 31, 2011 and 2010, respectively.

(5) 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. The nonperforming asset rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 2.20% and 2.54% as of December 31, 2011 and 2010, respectively.

Key factors affecting the results of our Consumer Banking business for 2011, compared with 2010 included the following:

Net Interest Income: Net interest income increased by $509 million, or 14%, in 2011. The primary drivers of the increase in net interest income were improved loan margins attributable to an increase in average loan yields, coupled with a decrease in the cost of funds. The increase in loan yields reflects the shift in product mix as we replace the legacy home loan run-off with higher yielding auto loans. The decrease in the cost of funds reflects reduced deposit interest rates due to the prevailing low interest rate environment, combined with our disciplined pricing. Average interest on deposits decreased to 0.96% in 2011 from 1.19% in 2010 while period end deposits grew by 7% in 2011 compared to 2010.

Non-Interest Income: Non-interest income decreased by $150 million, or 17%, in 2011. The decrease in non-interest income in the 2011 from 2010 was primarily attributable to the combined impact of the absence of a net gain of $128 million recorded in the first quarter of 2010 related to the deconsolidation of certain option-adjustable rate mortgage trusts that were consolidated on January 1, 2010 as a result of our adoption of the new consolidation accounting standards, and the absence of the impairment charge on mortgage servicing rights recorded in the second quarter of 2010.

Provision for Loan and Lease Losses: The provision for loan and lease losses increased by $211 million in 2011 to $452 million. Although we experienced continued improvement in credit performance in our Consumer Banking business, including reduced net charge-off rates, we recorded a higher provision for loan and lease losses in 2011 relative to 2010 due to the absence of significant allowance releases that we experienced in 2010, growth in our auto loan portfolio and an increase in the allowance for home equity loans we acquired from Chevy Chase Bank.

Non-Interest Expense: Non-interest expense increased by $294 million, or 10%, in 2011. The increase was largely attributable to the recognition of expense for contingent payments related to recent acquisitions, higher infrastructure expenditures resulting from investments in our home loan business, growth in auto originations and modestly higher marketing expenditures in our retail banking operations.

Total Loans: Period-end loans in the Consumer Banking business increased by $1.9 billion, or 6%, in 2011 to $36.3 billion as of December 31, 2011, from $34.4 billion as of December 31, 2010, primarily due to growth in auto loans that was partially offset by the continued run-off of our legacy home loan portfolios.

Deposits: Period-end deposits in the Consumer Banking business increased by $5.6 billion, or 7%, in 2011 to $88.5 billion as of December 31, 2011, reflecting the impact of our strategy to replace maturing higher cost wholesale funding sources with lower cost funding sources and our continued retail marketing efforts to attract new business to meet this objective.

Charge-off and Delinquency Statistics: The net charge-off rate decreased to 1.39% in 2011 from 1.82% in 2010. The 30+ day delinquency rate was 5.99% as of December 31, 2011, compared with 5.96% as of December 31, 2010. The improvement in the net charge-off rate reflects the impact from strong underlying credit performance trends and the higher credit quality of our more recent auto loan vintages, as well as current favorable benefits from elevated auction prices. Our home loan credit performance remained stable during 2011.

Key factors affecting the results of our Consumer Banking business for 2010, compared with 2009 included the following:

Net Interest Income: Net interest income increased by $496 million, or 15%, in 2010. The primary drivers of the increase in net interest income were improved loan margins, primarily resulting from higher pricing for new auto loan originations, deposit growth resulting from our continued strategy to leverage our banking branches to attract lower cost funding sources and improved deposit spreads. The favorable impact from these factors more than offset the decline in average loans held for investment resulting from the continued run-off of home loans and reduction in auto loans in 2010.

Non-Interest Income: Non-interest income increased by $115 million, or 15%, in 2010. The increase was primarily attributable to a gain of $128 million recorded in the first quarter of 2010 related to the deconsolidation of certain option-adjustable rate mortgage trusts that were consolidated on January 1, 2010 as a result of our adoption of the new consolidation accounting standards.

Provision for Loan and Lease Losses: The provision for loan and lease losses decreased by $635 million in 2010, to $241 million. The substantial reduction in the provision was attributable to continued improvement in credit performance trends and reduced loan balances. Delinquency and charge-off rates declined throughout the year, reflecting the impact of the gradual improvement in economic conditions and the higher credit quality of our most recent auto loan vintages. As a result, the Consumer Banking business recorded a net allowance release (after taking into consideration the impact of the $73 million addition to the allowance on January 1, 2010 from the adoption of the new consolidation accounting standards) of $474 million in 2010. In comparison, the Consumer Banking business recorded an allowance release of $238 million in 2009, primarily due to declining loan balances.

Non-Interest Expense: Non-interest expense increased by $216 million, or 8%, in 2010. This increase was largely attributable to infrastructure expenditures, primarily in our home loan and retail banking operations, made in 2010 to attract and support new business volume and to integrate Chevy Chase Bank, and increased marketing expenditures related to our retail banking operations.

Total Loans: Period-end loans declined by $3.8 billion, or 10%, in 2010 to $34.4 billion as of December 31, 2010, from $38.2 billion as of December 31, 2009, primarily due to the run-off of home loans and a reduction in auto loan balances.

Deposits: Period-end deposits increased by $8.8 billion, or 12%, during 2010 to $83.0 billion as of December 31, 2010, reflecting the impact of our strategy to replace maturing higher cost wholesale funding sources with lower cost funding sources and our increased retail marketing efforts to attract new business to meet this objective.

Charge-off and Delinquency Statistics: The net charge-off and delinquency rates improved during 2010 as a result of the improved economic environment and a tightening of our underwriting standards on new loan originations. The net charge-off rate decreased to 1.82% in 2010, down significantly from the net charge-off rate of 2.74% for 2009. The 30+ day delinquency rate for 2010 also improved from 2009.

Commercial Banking Business

Our Commercial Banking business generated net income from continuing operations of $532 million in 2011, compared with net income from continuing operations of $160 million in 2010 and a net loss from continuing operations of $213 million in 2009. The primary sources of revenue for our Commercial Banking business are

Table of Contents

net interest income from loans and non-interest income from customer fees. Expenses primarily consist of ongoing operating costs, such as salaries and associated benefits, communications and other technology expenses, supplies and equipment and occupancy costs.

Table 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

	Year Ended December 31,			Change	
(Dollars in millions)	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Selected income statement data:					
Net interest income	**$ 1,377**	$ 1,292	$ 1,144	**7%**	13%
Non-interest income	**270**	181	172	**49**	5
Total revenue	**1,647**	1,473	1,316	**12**	12
Provision for loan and lease losses	**31**	429	983	**(93)**	(56)
Non-interest expense	**789**	796	661	**(1)**	20
Income from continuing operations before income taxes	**827**	248	(328)	**233**	176
Income tax provision	**295**	88	(115)	**235**	177
Income from continuing operations, net of tax	**$ 532**	$ 160	$ (213)	**233%**	175%
Selected performance metrics:					
Average loans held for investment:					
Commercial and multifamily real estate	**$ 13,902**	$ 13,497	$ 13,858	**3%**	(3)%
Middle market	**11,325**	10,353	10,098	**9**	3
Specialty lending	**4,111**	3,732	3,567	**10**	5
Total commercial lending	**29,338**	27,582	27,523	**6**	**
Small-ticket commercial real estate	**1,671**	1,994	2,491	**(16)**	(20)
Total commercial banking	**$ 31,009**	$ 29,576	$ 30,014	**5%**	(1)%
Average yield on loans held for investment	**4.73%**	5.06%	5.02%	**(33)bps**	4bps
Average deposits	**$ 24,926**	$ 22,186	$ 17,572	**12%**	26%
Average deposit interest rate	**0.49%**	0.69%	0.81%	**(20)bps**	(12)bps
Core deposit intangible amortization	**$ 40**	$ 55	$ 43	**(27)%**	28%
Net charge-off rate[1][2]	**0.57%**	1.32%	1.45%	**(75)bps**	(13)bps

	December 31,		
(Dollars in millions)	**2011**	**2010**	**Change**
Selected period-end data:			
Loans held for investment:			
Commercial and multifamily real estate	**$ 15,410**	$ 13,396	**15%**
Middle market	**12,684**	10,484	**21**
Specialty lending	**4,404**	4,020	**10**
Total commercial lending	**32,498**	27,900	**16**
Small-ticket commercial real estate	**1,503**	1,842	**(18)**
Total commercial banking	**$ 34,001**	$ 29,742	**14**

Nonperforming loan rate[1][3]	**1.09%**	1.66%	**(57)bps**
Nonperforming asset rate[1][4]	**1.17**	1.80	**(63)**
Allowance for loan and lease losses	**$ 711**	$ 826	**(14)%**
Deposits	**26,532**	22,630	**17**

74

** Change is less than one percent.

(1) Average loans held for investment used in the denominator in calculating net charge-off, delinquency and nonperforming loan and nonperforming asset rates includes the impact of loans acquired as part of the Chevy Chase Bank acquisition, which were considered purchased credit-impaired (PCI) loans. However, we separately track and report PCI loans and exclude these loans from our net charge-off, delinquency, nonperforming loan and nonperforming asset rates.

(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. The net charge-off rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 0.58%, 1.35% and 1.48% in 2011, 2010 and 2009, respectively.

(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. The nonperforming loan rate, excluding the impact of loans acquired from Chevy Chase Bank from the denominator, was 1.11% and 1.69% as of December 31, 2011 and 2010, respectively.

(4) 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 and REO for the specified loan category. The nonperforming asset rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 1.19% and 1.83% as of December 31, 2011 and 2010, respectively.

Key factors affecting the results of our Commercial Banking business for 2011, compared with 2010 included the following:

- *Net Interest Income:* Net interest income increased by $85 million, or 7% in 2011. The primary drivers of the increase in net interest income from 2010 were an increase in average loans and average deposits and continued improvement in deposit pricing.

- *Non-Interest Income:* Non-interest income increased by $89 million, or 49% in 2011. The increase in non-interest income was largely attributable to growth in fees in the middle market business and the absence of a loss of $18 million recognized in the third quarter of 2010 from the sale of a legacy portfolio of small-ticket commercial real estate loans.

- *Provision for Loan and Lease Losses:* The provision for loan and lease losses decreased by $398 million in 2011. The lower provision in 2011 was attributable to lower loss severities resulting from improvements in underlying collateral asset values. As a result, we reduced the allowance related to the Commercial Banking business by $146 million. In comparison, we increased the allowance by $41 million in 2010.

- *Non-Interest Expense:* Non-interest expense of $789 million in 2011 was flat relative to 2010 despite an increase in loan volume, reflecting operational efficiency improvements and a reduction in integration costs related to the Chevy Chase Bank acquisition.

- *Total Loans:* Period-end loans increased by $4.3 billion, or 14%, in 2011 to $34.0 billion as of December 31, 2011, from $29.7 billion as of December 31, 2010. The increase was driven by stronger loan originations in the middle market and commercial real estate businesses, which was partially offset by the run-off and sale of a portion of the small-ticket commercial real estate loan portfolio.

- *Deposits:* Period-end deposits in the Commercial Banking business increased by $3.9 billion, or 17%, in 2011 to $26.5 billion as of December 31, 2011, driven by our strategy to strengthen existing relationships and increase liquidity from commercial customers.

- *Charge-off and Nonperforming Loan Statistics:* The net charge-off rate decreased to 0.57% in 2011, from 1.32% in 2010. The nonperforming loan rate decreased to 1.09% as of December 31, 2011, from 1.66% as of December 31, 2010. The improvement in the net charge-off and nonperforming loan rates was attributable to slowly improving underlying credit trends and improvements in underlying collateral asset values.

Key factors affecting the results of our Commercial Banking business for 2010, compared with 2009 included the following:

Net Interest Income: Net interest income increased by $148 million, or 13%, in 2010. The increase was driven by strong average deposit growth, improved deposit spreads resulting from repricing of higher rate deposits to lower rates in response to the overall lower interest rate environment, and stable loan yields despite the lower interest rate environment driven by wider spreads on new originations.

Non-Interest Income: Non-interest income increased by $9 million, or 5%, in 2010 to $181 million, largely attributable to growth in fees in the middle market segment, which was partially offset by a loss on the disposition of a legacy portfolio of small-ticket commercial real estate loans.

Provision for Loan and Lease Losses: The provision for loan and lease losses decreased by $554 million in 2010, to $429 million. The substantial reduction in the provision was attributable to improvements in charge-off and nonperforming loan rates throughout the year, which resulted in a reduction in our allowance build. We recorded an allowance build of $41 million in 2010, compared with an allowance build of $484 million in 2009.

Non-Interest Expense: Non-interest expense increased by $135 million, or 20%, in 2010 to $796 million. The increase was attributable to higher loan workout expenses and losses related to REO, combined with increases in core deposit intangible amortization expense, integration costs related to the Chevy Chase Bank acquisition and expenditures related to risk management activities and enhancing our infrastructure.

Total Loans: Period-end loans increased by $129 million, or less than 1%, to $29.7 billion as of December 31, 2010. The slight increase was due to modest loan growth, which was partially offset by the disposition of the legacy portfolio of small-ticket commercial real estate loans.

Deposits: Period-end deposits increased by $2.1 billion, or 10%, to $22.6 billion as of December 31, 2010, driven by our increased effort to build and expand commercial relationships.

Charge-off and Nonperforming Loan Statistics: Credit metrics remain elevated, but have significantly improved since the second half of 2009 as a result of the improved economic environment and our risk management activities. The net charge-off rate decreased to 1.32% in 2010, from 1.45% in 2009. The nonperforming loan rate declined to 1.66% as of December 31, 2010, from 2.37% as of December 31, 2009.

Table of Contents

CONSOLIDATED BALANCE SHEET ANALYSIS

Total assets of $206.0 billion as of December 31, 2011 increased by $8.5 billion, or 4%, from $197.5 billion as of December 31, 2010. Total liabilities of $176.4 billion as of December 31, 2011, increased by $5.4 billion, or 3%, from $171.0 billion as of December 31, 2010. Stockholders equity increased by $3.1 billion during 2011, to $29.7 billion as of December 31, 2011 from $26.5 billion as of December 31, 2010. The increase in stockholders equity was primarily attributable to our net income of $3.1 billion in 2011.

Following is a discussion of material changes in the major components of our assets and liabilities during 2011.

Investment Securities

Our investment securities portfolio, which had a fair value of $38.8 billion and $41.5 billion, as of December 31, 2011 and 2010, 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; 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 69% of our total investment securities portfolio as of December 31, 2011, compared with 70% as of December 31, 2010.

All of our investment securities were classified as available for sale as of December 31, 2011 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 December 31, 2011, 2010 and 2009.

Table 10: Investment Securities

	December 31,					
	2011		2010		2009	
(Dollars in millions)	Amortized Cost	Fair Value	Amortized Cost[1]	Fair Value[1]	Amortized Cost[1]	Fair Value[1]
U.S. Treasury debt obligations	**$ 115**	**$ 124**	$ 373	$ 386	$ 379	$ 392
U.S. Agency debt obligations[2]	**131**	**138**	301	314	428	450
Residential mortgage-backed securities (RMBS):						
Agency[3]	**24,980**	**25,488**	27,980	28,504	27,603	28,158
Non-agency	**1,340**	**1,162**	1,826	1,700	2,619	2,164
Total RMBS	**26,320**	**26,650**	29,806	30,204	30,222	30,322
Commercial mortgage-backed securities (CMBS):						
Agency[3]	**697**	**711**	44	45	27	27
Non-agency	**459**	**476**	0	0	0	0
Total CMBS	**1,156**	**1,187**	44	45	27	27
Asset-backed securities[4]	**10,119**	**10,150**	9,901	9,966	7,043	7,192
Other securities[5]	**462**	**510**	563	622	440	447
Total securities available for sale	**$ 38,303**	**$ 38,759**	$ 40,988	$ 41,537	$ 38,539	$ 38,830

Securities held to maturity:												
Total securities held to maturity[6]	**$**		**$**		$		$		$	80	$	80

(1) Certain prior period amounts have been reclassified to conform to the current period presentation.
(2) Consists of debt securities issued by Fannie Mae and Freddie Mac with amortized costs of $130 million, $200 million and $454 million, as of December 31, 2011, 2010 and 2009, respectively, and fair values of $137 million, $213 million and $476 million, as of December 31, 2011, 2010 and 2009, respectively.
(3) Consists of MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae with amortized costs of $12.3 billion, $8.9 billion and $4.5 billion and $17.1 billion, $8.1 billion and $2.9 billion, respectively, as of December 31, 2011 and 2010, respectively, and fair values of $12.6 billion, $9.1 billion and $4.5 billion and $17.3 billion, $8.3 billion and $3.0 billion, respectively, as of December 31, 2011 and 2010, respectively. The book value of Fannie Mae, Freddie Mac and Ginnie Mae investments exceeded 10% of our stockholders equity as of December 31, 2011 and 2010.
(4) Consists of securities collateralized by credit card loans, auto loans, auto dealer floor plan inventory loans and leases, student loans, equipment loans, and other. The distribution among these asset types 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. In comparison, the distribution was approximately 78 % credit card loans, 7% student loans, 7% auto loans, 6% auto dealer floor plan inventory loans and leases, and 2% equipment loans as of December 31, 2010. Approximately 86% of the securities in our asset-backed security portfolio were rated AAA or its equivalent as of December 31, 2011, compared with 90% as of December 31, 2010.
(5) Consists of municipal securities and equity investments, primarily related to CRA activities.
(6) Consists of negative amortization mortgage-backed securities.

We sold approximately $9.2 billion of investment securities, consisting predominantly of agency MBS, in 2011. We recorded a gain of $259 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 $683 million and gross unrealized losses of $227 million on available-for sale securities as of December 31, 2011, compared with gross unrealized gains of $830 million and gross unrealized losses of $281 million on available-for sale securities as of December 31, 2010. The decrease in gross unrealized losses in 2011 was primarily driven by a tightening of credit spreads, attributable to the improvement in credit performance and increased liquidity, and lower interest rates. The substantial majority of the gross unrealized losses as of December 31, 2011 and 2010 related to non-agency residential MBS. Of the $227 million gross unrealized losses as of December 31, 2011, $169 million related to securities that had been in a loss position for more than 12 months.

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment based on a number of criteria, including the extent and duration of the decline in value, the severity 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, 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.

Other-than-temporary impairment (OTTI) is recognized in earnings if one of the following conditions exists: (1) a decision to sell the security has been made; (2) it is more likely than not that we will be required to sell the security before the impairment is recovered; or (3) the amortized cost basis is not expected to be recovered. If, however, we have not made a decision to sell the security and we do not expect that we will be required to sell prior to recovery of the amortized cost basis, only the credit component of other-than-temporary impairment is recognized in earnings. The noncredit component is recorded in AOCI. The credit component is the difference between the security s amortized cost basis and the present value of its expected future cash flows discounted based on the original yield, while the noncredit component is the remaining difference between the security s fair value and amortized cost.

We recognized net OTTI on debt securities of $21 million, $65 million and $32 million in 2011, 2010 and 2009, respectively, due in part to deterioration in the credit performance of certain securities resulting from the continued weaknesses in the housing market, high unemployment, and our decision to sell certain other securities before recovery of the impairment amount.

Table of Contents

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. On August 6, 2011, Standard & Poor s (S&P) downgraded the long-term sovereign credit rating of the U.S. government from AAA to AA+. This downgrade lowered the credit ratings of our U.S. Treasury and U.S. Agency securities to AA+. As a result, the percentage of securities in our investment portfolio with an AAA or equivalent rating fell to 24% as of December 31, 2011, from 92% as of December 31, 2010. If the S&P downgrade had not occurred, the securities in our investment portfolio with an AAA or equivalent rating would have been approximately 91% as of December 31, 2011. Approximately 4% of our total investment securities portfolio was below investment grade as of December 31, 2011 and 2010. 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), Fitch Ratings (Fitch) and Dominion Bond Rating Services (DBRS).

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 December 31, 2011.

Table 11: Non-Agency Investment Securities Credit Ratings

	December 31,							
	2011				2010			
(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	**$ 1,340**	**%**	**3%**	**97%**	$ 1,826	0%	9%	91%
Non-agency commercial MBS	**459**	**92**	**8**					
Asset-backed securities	**10,119**	**86**	**14**		9,901	90	10	0

Total Loans

Table 12 summarizes loans held for investment, net of the allowance for loan and lease losses, as of December 31, 2011 and 2010.

Table 12: Net Loans Held for Investment

	December 31,					
	2011			2010		
(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	**$ 65,075**	**$ 2,847**	**$ 62,228**	$ 61,371	$ 4,041	$ 57,330
Consumer banking	**36,315**	**652**	**35,663**	34,383	675	33,708
Commercial banking	**34,001**	**711**	**33,290**	29,742	826	28,916
Other	**501**	**40**	**461**	451	86	365
Total	**$ 135,892**	**$ 4,250**	**$ 131,642**	$ 125,947	$ 5,628	$ 120,319

Total loans held for investment increased by $10.0 billion, or 8%, in 2011 to $135.9 billion as of December 31, 2011, from $125.9 billion as of December 31, 2010. This increase was primarily attributable to the additions of

Table of Contents

the $3.7 billion private-label credit card loan portfolio of Kohl s in the second quarter of 2011 and the $1.4 billion credit card loan portfolio of HBC in the first quarter of 2011, as well as growth in our Auto Finance, commercial and revolving domestic card balances. Excluding the impact of the addition of the Kohl s and HBC portfolios, total loans increased by $4.9 billion, or 4%, in 2011. 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 paydowns 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 $6.0 billion, or 5%, in 2011, to $128.2 billion as of December 31, 2011, from $122.2 billion as of December 31, 2010. The increase in deposits reflects our 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 increased to $23.0 billion as of December 31, 2011, from $14.9 billion as of December 31, 2010. The $8.2 billion increase in our debt, which excludes securitized debt obligations, was primarily attributable to the proceeds of approximately $3.0 billion from the issuance of senior notes, a $5.8 billion increase in short-term FHLB advances and a decrease of $854 million due to the maturity of one senior note. We provide additional information on our borrowings in Note 10 Deposits and Borrowings.

The $3.0 billion of senior notes were issued in July 2011 and included four different series of our senior notes (the 2011 Notes): $250 million aggregate principal amount of our Floating Rate Senior Notes due 2014; $750 million aggregate principal amount of our 2.125% Senior Notes due 2014; $750 million aggregate principal amount of our 3.150% Senior Notes due 2016 and $1.25 billion aggregate principal amount of our 4.750% Senior Notes due 2021.

Securitized Debt Obligations

Borrowings owed to securitization investors decreased by $10.4 billion to $16.5 billion as of December 31, 2011, from $26.9 billion as of December 31, 2010. 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.

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 December 31, 2011 and 2010:

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

	Unpaid Principal Balance December 31,			Original Unpaid Principal Balance			
(Dollars in billions)	**2011**	**2010**	**Total**	**2008**	**2007**	**2006**	**2005**
Government sponsored enterprises (GSEs[1])	**$ 5**	$ 5	$ 11	$ 1	$ 4	$ 3	$ 3
Insured Securitizations	**6**	7	19		2	8	9
Uninsured Securitizations and Other	**30**	33	81	3	15	30	33
Total	**$ 41**	$ 45	$ 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 $13 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 $6 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.

Table of Contents

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 $22 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 $9 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 $41 billion in unpaid principal balance remains outstanding as of December 31, 2011, approximately $15 billion in losses have been realized and approximately $11 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 $9 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 $2.1 billion original principal balance of mortgage loans as of December 31, 2011, compared with $1.6 billion as of December 31, 2010. As of December 31, 2011, the majority of new repurchase demands received over the last year and, as discussed below, the majority of our $943 million reserve relates to the $24 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, mostly 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, 2009	$ 61	$ 366	$ 588	$ 1,015
Gross new demands received	204	645	104	953
Loans repurchased/made whole[(2)]	(52)	(179)	(5)	(236)
Demands rescinded[(2)]	(87)		(22)	(109)
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[(3)]	**6**	**72**	**(78)**	**0**
Open claims as of December 31, 2011	**$ 176**	**$ 1,243**	**$ 672**	**$ 2,091**

82

(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) Activity in 2010 relates to repurchase demands from all years.

(3) Represents adjustments to correct the counterparty category as of December 31, 2011 for amounts that were misclassified. The reclassification had no impact on the total pending repurchase requests; however, it resulted in an increase in open claims attributable to GSEs and Insured Securitizations and a decrease in open claims attributable to Uninsured Securitizations and Other.

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.

For the $13 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 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, we consider current and future losses inherent within the securitization and apply legal judgment to the 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 $6 billion original principal balance of mortgage loans in the Inactive Insured Securitizations category and the $81 billion original principal balance of mortgage loans in the Uninsured Securitizations and other whole loan sales categories, we establish reserves by relying on our historical activity and repurchase rates to estimate repurchase liabilities over the next twelve (12) months. We do not believe we can estimate repurchase liability for these categories for a period longer than twelve (12) months because of the relatively irregular nature of repurchase activity within these categories. Some Uninsured Securitization investors from this category who have not made repurchase requests or filed representation and warranty lawsuits are currently suing investment banks and securitization sponsors under federal and/or state securities laws. Although we face some direct and indirect indemnity risks from these litigations, we 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 $943 million as of December 31, 2011, as compared with $816 million as of December 31, 2010. We recorded a total provision for repurchase losses for our representation and warranty repurchase exposure of $212 million for the year ended December 31, 2011, primarily driven by increased repurchase activity from Uninsured Securitizations and other whole loan investors. During 2011, we had settlements of repurchase requests totaling $85 million that were charged against the reserve. The table below summarizes changes in our representation and warranty reserves for the years ended December 31, 2011 and 2010.

The following table summarizes changes in our representation and warranty reserve for the full years of 2011 and 2010.

Table 15: Changes in Representation and Warranty Reserve

	Year Ended December 31,	
(Dollars in millions)	**2011**	**2010**
Representation and warranty repurchase reserve, beginning of period[1]	**$ 816**	$ 238
Provision for repurchase losses[2]	**212**	636
Net realized losses	**(85)**	(58)
Representation and warranty repurchase reserve, end of period[1]	**$ 943**	$ 816

(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 $43 million and $204 million in 2011 and 2010, 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 $169 million and $432 million in 2011 and 2010, 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 $13 billion in mortgage loans sold to purchasers who placed them into Active Insured Securitizations.

Table of Contents

Table 16: Allocation of Representation and Warranty Reserves

	Reserve Liability December 31,		Loans Sold
(Dollars in millions, except for loans sold)	2011	2010	2005 to 2008[1]
GSEs and Active Insured Securitizations	**$ 778**	$ 796	$ 24
Inactive Insured Securitizations and Others	**165**	20	87
Total	**$ 943**	$ 816	$ 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, the same level as we provided as of September 30, 2011 and an increase of $400 million from the estimate we provided as of December 31, 2010. This increase is attributable to increased activity from uninsured investors, increased governmental and regulatory scrutiny of mortgage practices and continued difficulty in the housing market and overall economy. 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.

Under previous accounting guidance, we were not required to consolidate the majority of our securitization trusts because they were qualified special purpose entities (QSPEs). Accordingly, we considered these trusts to be off-balance sheet arrangements. Effective January 1, 2010, we prospectively adopted two new accounting standards related to the transfer and servicing of financial assets and consolidations that changed how we account

for our securitization trusts. The adoption of these new consolidation accounting standards resulted in the consolidation of substantially all of our securitization trusts.

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 $2.3 billion and $319 million, respectively, as of December 31, 2011, 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.

In addition to disclosing our regulatory capital ratios, we also disclose Tier 1 common equity and TCE ratios, which are non-GAAP 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 equity; instead the risk-based capital rules state that voting common stockholders equity should be the dominant element within Tier 1 common equity. While these non-GAAP 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. We provide information on the calculation of these ratios and non-GAAP reconciliation in Supplemental Tables below.

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 December 31, 2011 and 2010. Table 18 provides the details of the calculation of our capital ratios.

Table of Contents

Table 17: Capital Ratios Under Basel I[(1)]

	December 31,					
	2011			2010		
(Dollars in millions)	Capital Ratio	Minimum Capital Adequacy	Well Capitalized	Capital Ratio	Minimum Capital Adequacy	Well Capitalized
Capital One Financial Corp:[(2)]						
Tier 1 common equity[(3)]	**9.7%**	**N/A**	**N/A**	8.8%	N/A	N/A
Tier 1 risk-based capital[(4)]	**12.0**	**4.0%**	**6.0%**	11.6	4.0%	6.0%
Total risk-based capital[(5)]	**14.9**	**8.0**	**10.0**	16.8	8.0	10.0
Tier 1 leverage[(6)]	**10.1**	**4.0**	**N/A**	8.1	4.0	N/A
Capital One Bank (USA) N.A.						
Tier 1 risk-based capital	**11.2%**	**4.0%**	**6.0%**	13.5%	4.0%	6.0%
Total risk-based capital	**15.0**	**8.0**	**10.0**	23.6	8.0	10.0
Tier 1 leverage	**10.2**	**4.0**	**5.0**	8.3	4.0	5.0
Capital One, N.A.						
Tier 1 risk-based capital	**11.0%**	**4.0%**	**6.0%**	11.1%	4.0%	6.0%
Total risk-based capital	**12.2**	**8.0**	**10.0**	12.4	8.0	10.0
Tier 1 leverage	**8.7**	**4.0**	**5.0**	8.1	4.0	5.0

(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 equity ratio is a non-GAAP 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.

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 December 31, 2011. The Banks also exceeded minimum regulatory requirements under the OCC s applicable capital adequacy guidelines and were well capitalized under prompt corrective action requirements as of December 31, 2011.

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

	December 31,	
(Dollars in millions)	2011	2010
Total stockholders equity	**$ 29,666**	$ 26,541
Less: Net unrealized gains recorded in AOCI[(2)]	**(289)**	(368)
Net losses on cash flow hedges recorded in AOCI[(2)]	**71**	86
Disallowed goodwill and other intangible assets[(3)]	**(13,855)**	(13,953)
Disallowed deferred tax assets	**(534)**	(1,150)
Other	**(2)**	(2)
Tier 1 common equity	**15,057**	11,154
Plus: Tier 1 restricted core capital items[(4)]	**3,635**	3,636
Tier 1 risk-based capital	**18,692**	14,790
Plus: Long-term debt qualifying as Tier 2 capital	**2,438**	2,827
Qualifying allowance for loan and lease losses	**1,979**	3,748

Other Tier 2 components	**23**	29
Tier 2 risk-based capital	**4,440**	6,604
Total risk-based capital	**$ 23,132**	$ 21,394
Risk-weighted assets(5)	**$ 155,657**	$ 127,043

87

(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.

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 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.

The January 1, 2010 adoption of the new consolidation accounting standards resulted in our consolidating a substantial portion of our securitization trusts and establishing an allowance for loan and lease losses for the assets underlying these trusts, which reduced retained earnings and our Tier 1 risk-based capital ratio. In January 2010, banking regulators issued regulatory capital rules related to the impact of the new consolidation accounting standards. Under these rules, we are required to hold additional capital for the assets we consolidated. The capital rules also provided for an optional phase-in of the impact from the adoption of the new consolidation accounting standards, including a two-quarter implementation delay followed by a two-quarter partial implementation of the effect on regulatory capital ratios.

We elected the phase-in option, which required us to phase-in 50% of consolidated assets beginning with the third quarter of 2010 for purposes of determining risk-weighted assets. The phase-in provisions expired after December 31, 2010, and we completed the final phase-in during the first quarter of 2011, which resulted in the addition of approximately $15.5 billion of assets to the denominator used in calculating our regulatory ratios. The addition of these assets negatively impacted our risk-based regulatory capital ratios as of December 31, 2011 from December 31, 2010.

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.

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. For additional information on dividends, see Item 1. Business Supervision and Regulation Dividends, Stock Purchases and Transfer of Funds.

Regulatory restrictions exist that limit the ability of the Banks to transfer funds to our bank holding company. Funds available for dividend payments from COBNA and CONA based on the Earnings Limitation Test were

Table of Contents

$2.6 billion and $1.3 billion, respectively, as of December 31, 2011. 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.

We submitted a Comprehensive Capital Analysis and Review (CCAR 2012) to the Federal Reserve on January 9, 2012 along with eighteen other large U.S. banking organizations. We expect to incorporate any feedback from our regulators in response to the CCAR 2012 submission in our ongoing capital management planning.

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.

Pending HSBC U.S. Credit Card Business Acquisition

In August 2011, we announced that we entered into a purchase agreement with HSBC to acquire substantially all of the assets and assume liabilities of HSBC s credit card and private-label credit card business in the United States. We currently expect the HSBC acquisition to close in the second quarter of 2012, subject to customary closing conditions, including certain governmental clearances and approvals. We also announced that we expect a planned capital raise of an estimated $1.25 billion in connection with the HSBC acquisition. We have the option, subject to certain conditions, to issue $750 million of the $1.25 billion to HSBC in the form of our common stock (valued at $39.23 per share). The decision to raise any capital and, if so, the amount of capital to be raised will be dependent on a number of factors, including the timing of the closing of the pending HSBC acquisition, changes in interest rates, regulatory expectations, our results of operations and financial condition and our assessment of the appropriate level of regulatory capital to hold at that time.

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.

Credit Risk: Credit risk is the risk of financial loss arising from a borrower s or a counterparty s inability to meet its financial or contractual obligations.

Liquidity Risk: Liquidity risk is the risk that we will not be able to meet our future financial obligations as they come due or invest in future asset growth because of an inability to obtain funds at a reasonable price within a reasonable time period.

Market Risk: Market risk is the risk that our earnings and/or economic value of equity may be adversely affected by changes in market conditions, including changes in interest rates and foreign currency exchange rates, changes in credit spreads and price fluctuations and changes in value due to changes in market perception or the actual credit quality of issuers.

Compliance Risk: Compliance risk is the risk of financial loss due to regulatory fines or penalties, sanctions restricting or suspending our business or costs of mandatory corrective action resulting from a failure to

Table of Contents

comply with applicable laws, regulations, principles or other supervisory guidance requirements, or our own internal code of conduct and policies intended to ensure compliance with applicable laws and regulations.

Operational Risk: Operational risk is the risk of loss, adverse customer experience, or negative regulatory or reputation impact resulting from inadequate or failed internal process, human factors, systems, or from external events.

Legal Risk: Legal risk represents the risk of material adverse impact due to new or changes in laws and regulations; new interpretations of law; the drafting, interpretation and enforceability of contracts; adverse decisions or consequences arising from litigation or regulatory scrutiny; the establishment, management and governance of our legal entity structure; or the failure to seek or follow appropriate legal counsel when needed.

Reputational Risk: Reputational risk is the risk that negative publicity, whether true or not, could adversely affect our market value, profitability, customer base, funding sources or operations or result in costly litigation.

Strategic Risk: Strategic risk is the risk that results from adverse business decisions, ineffective or inappropriate business plans, or failure to respond to changes in the competitive environment, business cycles, customer preferences, product obsolescence, regulatory environment, business strategy execution, and/or other inherent risks of the business.

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:

(1) Individual businesses take and manage risk within established tolerance levels in pursuit of strategic, financial and other business objectives.

(2) 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.

(3) 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.

(4) 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.

(5) 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.

Our approach is reflected in five critical risk management practices of particular importance in the financial services industry due to changing regulatory environments and ongoing economic uncertainty.

First, we seek to mitigate liquidity risk strategically and tactically. From a strategic perspective, we have acquired and built deposit gathering businesses and significantly reduced our loan to deposit ratio. From a tactical perspective, we have accumulated a very large liquidity reserve comprising cash, high-quality, unencumbered securities, and committed collateralized credit lines and conduit facilities.

Second, we recognize that we are exposed to cyclical changes in credit quality. Consequently, we try to ensure our credit portfolio is resilient to economic downturns. Our most important tool in this endeavor is sound underwriting, using what we deem to be conservative assumptions. In unsecured consumer loan underwriting, we generally assume that loans will be subject to an environment in which losses are significantly higher than those prevailing at the time of underwriting. In commercial underwriting, we generally require strong cash flow, collateral and covenants and guarantees. In addition to sound underwriting, we continually monitor our portfolio and take steps to collect or work out distressed loans.

Third, we recognize that compliance is becoming more complex and that regulatory and consumer expectations are rising. In the aftermath of the financial crisis, new rules and regulations were and continue to be promulgated and a new agency was created, the Consumer Financial Protection Bureau, to increase focus on consumer protection. In response, we have been and will continue to expand the scope and intensity of our compliance activities including developing requirements, approving new products, establishing procedures and controls, training staff and testing the effectiveness of business controls and the overall program.

Fourth, we recognize that reputational risk is of particular concern for financial institutions as a result of the aftermath of the recent financial crisis and economic downturn, which has resulted in increased regulation and widespread regulatory changes. Consequently, our Chief Executive Officer and executive team manage both tactical and strategic reputation issues and build our relationships with the government, media and other constituencies to help strengthen the reputations of both our company and industry. Our actions include taking public positions in support of better consumer practices in our industry and, where possible, unilaterally implementing those practices in our business.

Finally, we recognize that maintaining a strong capital position is essential to our business strategy and competitive position. We also recognize that regulatory and market expectations for the amount and quality of capital are rising. Understanding and managing risks to our capital position is an underlying objective of all our risk programs. Stress testing and economic capital measurement, both of which incorporate inputs from across the risk spectrum, are key tools for evaluating our capital position and risk adjusted returns. We also consider risks to our reputation and to our ability to access capital markets as part of our process for evaluating our capital plans. See MD&A Capital Management for additional information on our capital adequacy and strength.

Risk Management Roles and Responsibilities

The Board of Directors is responsible for establishing our overall risk framework, approving and overseeing execution of the Enterprise Risk Management Policy and key risk category policies, establishing our risk appetite, and regularly reviewing our risk profile.

The Chief Risk Officer, who reports to the Chief Executive Officer, is responsible for overseeing our risk management program and driving appropriate action to resolve any weaknesses. The risk management program begins with a set of policies and risk appetites approved by the Board that are implemented through a system of risk committees and senior executive risk stewards. We have established risk committees at both the corporate and divisional level to identify and manage risk. In addition, we have assigned a senior executive expert to each of eight risk categories. We refer to these experts as risk stewards. These executive risk stewards work with the Chief Risk Officer and the risk committees to identify and report risks, develop mitigation plans and controls and remediate issues. The Chief Risk Officer aggregates the results of these processes to assemble a view of our risk profile. Both management and the Board of Directors regularly review the risk profile.

Risk Management Framework

We use a consistent risk management framework to manage risk. This framework applies at all levels, from the development of the Enterprise Risk Management Program itself to the tactical operations of the front-line business team. Our risk management framework, which is built around governance, processes and people, consists of the following six key elements:

- Objective Setting

Table of Contents

Risk Assessment

Control Activities

Communication and Information

Program Monitoring

Organization and Culture

Objective Setting

Our risk management approach begins with objective setting. We establish strategic, financial, operational and other objectives during our strategic and annual planning processes and throughout the year. These objectives cascade through the organization to individual teams of associates. The risk management approach helps identify and manage risks that have the potential to interfere with the achievement of our stated objectives.

Risk Assessment

Risk assessment is the process of identifying risks to our objectives, evaluating the impact of those risks and choosing and executing on a response. Our risk responses include risk avoidance, mitigation or acceptance. Generally, our risk responses are guided by our established risk appetite. For certain risk categories (legal, compliance, liquidity, credit and market risks), risk assessment is largely conducted by central risk groups or jointly between business areas and central groups. For other risk categories (strategic, reputational and operational risks), risk assessment is primarily the responsibility of business areas with less central support.

Control Activities

We consider our control activities to be the day-to-day backbone of our risk management. Controls provide reasonable assurance that legal, regulatory, and business requirements are being met, and identified risks are being mitigated, avoided, or accepted according to our risk response choices and risk appetite. We have practices in place designed to establish key controls and assess their effective in preventing a breakdown. Control activities include the monitoring of adherence to current policy and procedure requirements, sign-offs, and regular reporting to management. They also include the resolution of regulatory and audit findings and issues and the procedures that trigger objective setting and risk assessments when new business opportunities are evaluated or business hierarchy changes occur.

Communication and Information

Communication and information infrastructures must be solid and are necessary to support the objective setting, risk assessment, and control activities described above. Robust risk management requires well-functioning communication channels to inform associates of their responsibilities, alert them to issues or changes that might affect their activities, and to enable an open flow of information up, down, and across our company. Robust risk management also requires management information to enable controls to work effectively and to support the analysis needed to set objectives and assess risk accurately. Our risk governance structure is designed to support solid and ongoing communication. Specific reports and communication infrastructure are defined within our individual risk category policies.

Program Monitoring

Program monitoring is critical to our overall risk management program. Program monitoring involves assessing the accuracy, sufficiency, and effectiveness of current objectives, risk assessments, controls, ownership, communication, and management support. The assessment of a risk program or activity can be qualitative or quantitative. We encourage the use of measurements and metrics where it is possible, recognizing that some risks

or programs cannot be measured quantitatively. Where deficiencies are discovered, we seek to update the risk management program to resolve the deficiencies in a timely manner. Significant deficiencies are escalated to the appropriate risk executive or risk committee. Clear accountability is defined when resolving deficiencies so that the desired outcome is achieved. Risk management programs are monitored at every level from the overall Enterprise Risk Management Program to the individual risk management activities in each business area.

Organization and Culture

Our intent is to create and maintain an effective risk management organization and culture. A strong organization and culture promotes risk management as a key factor in making important business decisions and helps drive risk management activities deeper into the company. An effective risk management culture starts with a well-defined risk management philosophy. It requires established risk management objectives that align to business objectives and make targeted risk management activities part of ongoing business management activities. We believe we staff risk functions at the appropriate levels with qualified associates and effective tools that support risk management practices and activities. Senior management and the Board of Directors are ultimately accountable for promoting adherence to sound risk principles and tolerances. We seek to incent associates at all levels to perform according to corporate policies and risk tolerance and in conformity with applicable laws and regulations. Additionally, management establishes performance goals, plans, and incentives that are designed to promote financial performance within the confines of a sound risk management program and within defined risk tolerances.

We have a corporate Code of Business Conduct and Ethics (the Code) (available on the Corporate Governance page of our website at www.capitalone.com/about) under which each associate is obligated to behave with integrity in dealing with customers and business partners and to comply with applicable laws and regulations. We disclose any waivers to the Code on our website. We also have an associate performance management process that emphasizes achieving business results while ensuring integrity, compliance, and sound business management.

Risk Appetite

We have a defined risk appetite for each of our eight risk categories that is approved by the Board of Directors. Stated risk appetites define the parameters for taking and accepting risks and are used by management and the Board of Directors to make business decisions.

For some risk categories (credit, liquidity, market), our risk appetite statements are translated into largely quantitative limits and guidelines. For other risk categories, our risk appetite is defined more qualitatively and is supported by indicative metrics where appropriate. We communicate risk appetite statements, metrics and limits to the appropriate levels in the organization and monitor adherence.

Primary Risk Categories

Below we provide an overview of how we manage our eight primary risk categories. Following this section, we provide detailed information and metrics about three of our most significant risk exposures: credit, liquidity and market.

Credit Risk Management

The Chief Risk Officer, in conjunction with the Consumer and Commercial Chief Credit Officers, is responsible for establishing credit risk policies and procedures, including underwriting and hold guidelines and credit approval authority, and monitoring credit exposure and performance of our lending-related transactions. These responsibilities are fulfilled by the Chief Consumer Credit Officer and the Chief Commercial Credit Officer. Division Presidents are responsible for managing the credit risk within their division and maintaining processes to control credit risk and comply with credit policies and guidelines. In addition, the Chief Risk Officer establishes policies, delegates approval authority and monitors performance for non-loan credit exposure entered into with financial counterparties or through the purchase of credit sensitive securities in our investment portfolio.

Our credit policies establish standards in five areas: customer selection, underwriting, monitoring, remediation, and portfolio management. The standards in each area provide a framework comprising specific objectives and control processes. These standards are supported by detailed policies and procedures for each component of the credit process. Starting with customer selection, our goal is to provide credit on terms that generate above hurdle returns. We use stress tests in conjunction with our planning process to establish specific limits to help us achieve that goal.

We apply quantitative credit risk limits and guidelines to each of our lines of business. We monitor performance and forecasts relative to these guidelines and report results and any required mitigating actions to the Credit Policy Committee and to the Audit and Risk Committee of the Board.

Liquidity Risk Management

The Chief Financial Officer is responsible for managing liquidity risk. We assess liquidity strength by evaluating several different balance sheet metrics under severe stress scenarios to ensure we can withstand significant funding degradation in both deposits and capital marketing funding sources. Management reports liquidity metrics to the Asset/Liability Management Committee monthly and to the Finance and Trust Oversight Committee of the Board of Directors no less than quarterly. Any policy breach in a liquidity limit is required to be reported to the Treasurer as soon as it is identified and to the Asset/Liability Management Committee at the next regularly scheduled committee meeting, unless the breach activates the Liquidity Contingency Plan, in which case a special meeting may be called. Any policy breach is also required to be reported to the Finance and Trust Oversight Committee no later than the next regularly scheduled meeting. Detailed processes, requirements and controls are contained in our policies and supporting procedures.

Market Risk Management

The Chief Financial Officer is responsible for managing market risk. We manage market risk exposure centrally and establish quantitative limits to control our exposure. We define market risk as the risk that our earnings and/or economic value of equity may be adversely affected by changes in market conditions, including changes in interest rates and foreign currency exchange rates, changes in credit spreads and price fluctuations and changes in value due to changes in market perception or the actual credit quality of issuers. 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.

The market risk positions of our banking entities and the company are calculated separately and in total and are reported in comparison to pre-established limits to the Asset/Liability Management Committee monthly and to the Finance and Trust Oversight Committee of the Board no less than quarterly. Management is authorized to utilize financial instruments as outlined in our policy to actively manage market risk exposure. Detailed processes, requirements and controls are contained in our policies and supporting procedures.

Compliance Risk Management

The Chief Compliance Officer is responsible for establishing the compliance management program, for determining specific compliance requirements, and for monitoring performance. Division Presidents are responsible for building and maintaining business processes that meet the requirements of the compliance program.

We ensure compliance by maintaining an effective Compliance Management Program consisting of sound policies, systems, processes, and reports. The Compliance Management Program provides management with guidance, training, and monitoring to provide reasonable assurance of our compliance with internal and external compliance requirements. Additionally, management and the Corporate Compliance department jointly and separately conduct on-going monitoring and assess the state of compliance. The assessment provides the basis for performance reporting to management and the Board, allows business areas to determine if their compliance performance is acceptable, and confirms effective compliance controls are in place. Business areas embed compliance requirements and controls into their business policies, standards, processes and procedures. They regularly monitor and report on the efficacy of their compliance controls. Corporate Compliance, working jointly with the business, defines and validates a standard compliance monitoring and reporting methodology. Compliance results and trends are reported to management s Risk Management Committee and the Audit and Risk Committee of the Board.

Operational Risk Management

The Chief Operational Risk Officer is responsible for the establishment of risk management standards and for governance and monitoring of operational risk at a corporate level. Division Presidents are responsible for managing operational risk within their business areas.

While most operational risks are managed and controlled by business areas, the Operational Risk Management Program establishes requirements and control processes that assure certain consistent practices in the management of operational risk and provides transparency to the corporate operational risk profile. Our Operational Risk Management Program also includes two primary additional functions. Operational Risk Reporting involves independent assessments of the control and sustainability of key business processes at a corporate and business area level, and such assessments are provided to the Chief Risk Officer, management s Risk Management Committee and the Audit and Risk Committee of the Board.

Operational risk results and trends are reported to the Risk Management Committee and the Audit and Risk Committee of the Board.

Legal Risk Management

The General Counsel is responsible for managing legal risk by providing legal evaluation and guidance to the enterprise and business areas. This evaluation and guidance is based on an assessment of the type and degree of legal risk associated with the internal business area practices and activities and of the controls the business has in place to mitigate legal risks. Legal risk is governed by and defined in our Legal Risk Policy.

Reputational Risk Management

The General Counsel is responsible for managing our overall reputational risk. Reputational risks associated with daily interactions are managed by our business areas. Business area activities are controlled by the frameworks set forth in the Reputational Risk Management Policy and other risk management policies. Each business area determines how much risk it is willing to accept and when it is prudent to execute mitigation activities. From time to time, senior management conducts detailed assessments of our business practices and evaluates them in terms of their potential impact on Capital One s reputation. The Reputational Risk Management Policy sets forth the obligation of each business area, with direction and guidance from the Reputational Risk Steward and his or her designee to identify, assess and determine whether and how best to mitigate its reputation risk. The Reputational Risk Steward is responsible for reporting on the assessments of our aggregate reputation risk, as well as the state of our reputation with specific stakeholder groups, to the Chief Risk Officer, the Chief Executive Officer, the Risk Management Committee and the Audit and Risk Committee of the Board of Directors, as appropriate.

Table of Contents

Strategic Risk Management

The Chief Executive Officer is responsible for our strategy. The Chief Executive Officer develops an overall corporate strategy and leads alignment of the entire organization with this strategy through definition of strategic imperatives and top-down communication. The Chief Executive Officer and other senior executives spend significant time throughout the entire company sharing our strategic imperatives to promote an understanding of our strategy and connect it to day-to-day associate activities to enable effective execution. Division Presidents are accountable for defining business strategy within the context of the overall corporate level strategy and strategic imperatives. Business strategies are integrated into the corporate strategic plan and are reviewed and approved separately and together on an annual basis by the Chief Executive Officer and the Board of Directors.

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. These activities are also governed under our credit policy and are subject to independent review and approval. 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 11 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.

Credit cards: We market a range of credit card products across the credit spectrum and through a variety of channels. Our credit cards generally have variable long-term interest rates. Credit card accounts are underwritten using an automated underwriting system based on predictive models that we have developed. The underwriting criteria, which are customized for individual products and marketing programs, are established based on an analysis of the net present value of expected revenues, expenses and losses, subject to a further analysis using a variety of stress conditions. Underwriting decisions are generally based on an applicant s income, estimated debt burden and credit bureau information. We maintain a credit card securitization program and selectively sell charged-off credit card loans. However, subsequent to the adoption of the consolidation accounting guidance on January 1, 2010, we retain all of our credit card loans on our balance sheet.

Auto loans: We market a range of auto loan products across the credit spectrum. Customers are acquired through a network of auto dealers and direct marketing. Our auto loans generally have fixed interest rates and loan terms of 72 months or less. Loan size limits are customized by program and subject to a current maximum of $75,000. Similar to credit card accounts, the underwriting criteria are customized for individual products and marketing programs and based on analysis of net present value of expected revenues, expenses and losses, subject to maintaining resilience under a variety of stress conditions. Underwriting decisions are generally based on an applicant s income, estimated debt-to-income ratio, and credit bureau information, along with collateral characteristics such as loan-to-value ratio. We generally retain all of our auto loans, though we have securitized auto loans and sold charged-off auto loans in the past and may do so in the future.

Home loans: Most of the existing home loans in our loan portfolio were originated by banks we acquired. The underwriting standards for these loans were less restrictive than our current underwriting standards.

Table of Contents

Currently, we generally originate residential mortgage and home equity loans in our retail branch footprint through our branches, dedicated home loan officers and direct marketing. Our home loan products include conforming and non-conforming fixed rate and adjustable rate mortgage loans, as well as first and second lien home equity loans and lines of credit. Our underwriting standards for conforming loans are designed to meet the underwriting standards required by Fannie Mae, Freddie Mac or FHA/VA (the agencies) at a minimum, and we sell most of our conforming loans to the agencies. We generally retain non-conforming mortgages and home equity loans and lines of credit. We currently restrict non-conforming loans to properties within our retail branch footprint. Our underwriting policy limits for these loans include (1) a maximum loan-to-value ratio of 80% for loans without mortgage insurance; (2) a maximum loan-to-value ratio of 95% for loans with mortgage insurance or for home equity products; (3) a maximum debt-to-income ratio of 50%; and (4) a maximum loan amount of $2.5 million. Our underwriting procedures are intended to verify the income of applicants and obtain appraisals to determine home values. We may, in limited instances, use automated valuation models to determine home values.

Commercial loans. We offer a range of commercial lending products, including loans secured by commercial real estate and loans to middle market industrial and service companies. Our commercial loans may have a fixed or variable interest rate; however, the majority of our commercial loans have variable rates. Our underwriting standards require an analysis of the borrower s financial condition and prospects, as well as an assessment of the industry in which the borrower operates. Where relevant, we evaluate and appraise underlying collateral and guarantees. We maintain underwriting guidelines and limits for major types of borrowers and loan products that specify, where applicable, guidelines for debt service coverage, leverage, loan-to-value ratio and standard covenants and conditions. We assign a risk rating and establish a monitoring schedule for loans based on the risk profile of the borrower, industry segment, source of repayment, the underlying collateral and guarantees (if any) and current market conditions. Although we generally retain commercial loans, we may syndicate large positions for risk mitigation purposes. In addition, we have sold impaired commercial loans in the past and may do so in the future.

Total loans that we manage consist of held-for-investment loans recorded on our balance sheet and loans held in our securitization trusts. Prior to our January 1, 2010 adoption of the new consolidation standards, a portion of our managed loans were accounted for as off-balance sheet. Loans underlying our securitization trusts are now reported on our consolidated balance sheets in restricted loans for securitization investors. Table 19 presents the composition of our total loan portfolio, by business segments, as of December 31, 2011 and 2010.

Table of Contents

Table 19: Loan Portfolio Composition

	December 31,			
	2011		2010	
(Dollars in millions)	Amount	% of Total Loans	Amount	% of Total Loans
Credit Card business:				
Credit card loans:				
Domestic credit card loans	**$ 54,682**	**40.3%**	$ 49,979	39.7%
International credit card loans	**8,466**	**6.2**	7,513	6.0
Total credit card loans	**63,148**	**46.5**	57,492	45.7
Installment loans:				
Domestic installment loans	**1,927**	**1.4**	3,870	3.0
International installment loans			9	
Total installment loans	**1,927**	**1.4**	3,879	3.0
Total credit card	**65,075**	**47.9**	61,371	48.7
Consumer Banking business:				
Auto	**21,779**	**16.0**	17,867	14.2
Home loan	**10,433**	**7.7**	12,103	9.6
Other retail	**4,103**	**3.0**	4,413	3.5
Total consumer banking	**36,315**	**26.7**	34,383	27.3
Commercial Banking business:[1]				
Commercial and multifamily real estate	**15,410**	**11.4**	13,396	10.6
Middle market	**12,684**	**9.3**	10,484	8.3
Specialty lending	**4,404**	**3.2**	4,020	3.2
Total commercial lending	**32,498**	**23.9**	27,900	22.1
Small-ticket commercial real estate	**1,503**	**1.1**	1,842	1.5
Total commercial banking	**34,001**	**25.0**	29,742	23.6
Other:				
Other loans	**501**	**0.4**	451	0.4
Total	**$ 135,892**	**100.0%**	$ 125,947	100.0%

[1] Includes construction and land development loans totaling $2.2 billion and $2.4 billion as of December 31, 2011 and 2010, respectively.

Table of Contents

Table 20 presents a schedule of our loan maturities as of December 31, 2011.

Table 20: Loan Maturity Schedule

	December 31, 2011			
(Dollars in millions)	Due Up to 1 Year	> 1 Year to 5 Years	> 5 Years	Total
Fixed rate:				
Credit card[1][2]	$ 2,557	$ 13,846	$ 64	$ 16,467
Consumer	986	14,814	11,539	27,339
Commercial	1,402	6,942	4,981	13,325
Other	13	38	147	198
Total fixed-rate loans	4,958	35,640	16,731	57,329
Variable rate:				
Credit card[1]	48,608			48,608
Consumer	7,803	1,001	172	8,976
Commercial	18,571	2,021	84	20,676
Other	264	12	27	303
Total variable-rate loans	75,246	3,034	283	78,563
Total	$ 80,204	$ 38,674	$ 17,014	$ 135,892

(1) Due to the revolving nature of credit card loans, we report all variable-rate credit card loans as due in one year or less. We report fixed-rate credit card loans with introductory rates that expire after a certain period of time as due in one year or less. We assume that our remaining fixed-rate credit card loans will mature within one to three years.

(2) Includes installment loans of $1.9 billion.

We market our credit card products on a national basis throughout the United States, Canada and the United Kingdom. The Credit Card segment accounted for $65.1 billion, or 48% of our total loan portfolio as of December 31, 2011, compared with $61.4 billion, or 49% as of December 31, 2010. Because of the diversity of our credit card products and national marketing approach, no single geographic concentration exists within the credit card portfolio. Table 21 displays the geographic concentration of our credit card loan portfolio as of December 31, 2011 and 2010.

Table of Contents

Table 21: Credit Card Concentrations

	December 31,			
	2011		2010	
(Dollars in millions)	Loans	% of Total	Loans	% of Total
Domestic card:				
California	**$ 6,410**	**9.9%**	$ 6,242	10.2%
Texas	**3,862**	**5.9**	3,633	5.9
New York	**3,737**	**5.7**	3,599	5.8
Florida	**3,382**	**5.2**	3,298	5.4
Illinois	**2,664**	**4.1**	2,403	3.9
Pennsylvania	**2,575**	**4.0**	2,389	3.9
Ohio	**2,284**	**3.5**	2,109	3.4
New Jersey	**2,162**	**3.3**	1,971	3.2
Michigan	**1,834**	**2.8**	1,716	2.8
Other	**27,699**	**42.6**	26,489	43.2
Total domestic card	**56,609**	**87.0**	53,849	87.7
International card:				
United Kingdom	**3,828**	**5.9**	4,102	6.7
Canada	**4,638**	**7.1**	3,420	5.6
Total international card	**8,466**	**13.0**	7,522	12.3
Total credit card	**$ 65,075**	**100.0%**	$ 61,371	100.0%

Consumer Banking accounted for $36.3 billion, or 27%, of our loan portfolio as of December 31, 2011, compared with $34.4 billion, or 27%, of our loan portfolio as of December 31, 2010. The auto portfolio is originated primarily on a national basis, with additional originations through the retail branch network. The home loan portfolio is concentrated in New York, California and Louisiana which reflects the characteristics of the legacy Hibernia, North Fork and Chevy Chase Bank portfolios that comprise the majority of our home loans. Retail banking includes small business loans and other consumer lending products originated through our branch network. See Table 22 below for additional information.

Table of Contents

Table 22: Consumer Banking Concentrations

	December 31,			
	2011		2010	
(Dollars in millions)	Loans	% of Total	Loans	% of Total
Auto:				
Texas	**$ 3,901**	**10.7%**	$ 3,161	9.2%
California	**1,837**	**5.1**	1,412	4.1
Louisiana	**1,389**	**3.8**	1,334	3.9
Florida	**1,196**	**3.3**	954	2.8
Georgia	**1,124**	**3.1**	908	2.6
Illinois	**950**	**2.6**	843	2.5
New York	**940**	**2.6**	894	2.6
Other	**10,442**	**28.8**	8,361	24.3
Total auto	**21,779**	**60.0**	17,867	52.0
Home loan:				
New York	**2,046**	**5.7**	2,380	6.9
California	**1,896**	**5.2**	2,339	6.8
Louisiana	**1,530**	**4.2**	1,778	5.2
Maryland	**904**	**2.5**	886	2.6
Virginia	**794**	**2.2**	791	2.3
New Jersey	**579**	**1.5**	701	2.0
Other	**2,684**	**7.4**	3,228	9.4
Total home loan	**10,433**	**28.7**	12,103	35.2
Retail banking:				
Louisiana	**1,514**	**4.2**	1,754	5.1
Texas	**930**	**2.6**	1,125	3.3
New York	**896**	**2.5**	909	2.6
New Jersey	**295**	**0.8**	357	1.0
District of Columbia	**261**	**0.7**	20	0.0
Maryland	**72**	**0.2**	89	0.3
Virginia	**42**	**0.1**	52	0.2
Other	**93**	**0.2**	107	0.3
Total retail banking	**4,103**	**11.3**	4,413	12.8
Total consumer banking	**$ 36,315**	**100.0%**	$ 34,383	100.0%

Commercial Banking represented $34.0 billion, or 25%, of our loan portfolio as of December 31, 2011, up from 24% as of December 31, 2010. We operate our Commercial Banking business primarily in the geographies in which we maintain retail bank branches. As a result, most of the portfolio is located in New York, Louisiana and Texas, our largest retail banking markets. Our small-ticket commercial real estate portfolio was originated on a national basis through a broker network and is in run-off mode. See Table 23 below for additional information.

Table of Contents

Table 23: Commercial Banking Concentrations

	December 31,			
	2011		2010	
(Dollars in millions)	Loans	% of Total	Loans	% of Total
Commercial lending:				
New York	**$ 13,213**	**38.9%**	$ 11,997	40.3%
Texas	**4,246**	**12.5**	2,990	10.1
Louisiana	**3,915**	**11.5**	2,968	10.0
New Jersey	**2,031**	**6.0**	2,149	7.2
Maryland	**921**	**2.7**	646	2.2
Massachusetts	**911**	**2.7**	800	2.7
District of Columbia	**763**	**2.2**	389	1.3
Pennsylvania	**743**	**2.2**	594	2.0
Virginia	**730**	**2.1**	534	1.8
California	**654**	**1.9**	598	2.0
Other	**4,371**	**12.9**	4,235	14.2
Total commercial lending	**32,498**	**95.6**	27,900	93.8
Small-ticket commercial real estate:				
New York	**616**	**1.8**	751	2.5
California	**329**	**1.0**	402	1.4
Massachusetts	**117**	**0.3**	146	0.5
New Jersey	**83**	**0.2**	102	0.3
Florida	**57**	**0.2**	76	0.3
Other	**301**	**0.9**	365	1.2
Total small-ticket commercial real estate	**1,503**	**4.4**	1,842	6.2
Total commercial banking	**$ 34,001**	**100.0%**	$ 29,742	100.0%

Credit Risk Measurement

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of larger balance, commercial loans. The improvements we have experienced in our credit trends across all of our businesses are stabilizing and our credit performance is increasingly driven by seasonal trends. We present information in the section below on the credit performance of our loan portfolio, including the key metrics we use in tracking changes in the credit quality of our loan portfolio. See Note 5 Loans for additional details.

Delinquency Rates

We consider the entire balance of an account to be delinquent if the minimum required payment is not received by the first statement cycle date equal to or following the due date specified on the customer s billing statement. Table 24 compares 30+ day performing loan delinquency rates, by loan category, as of December 31, 2011 and 2010. 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

102

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. See Note 5 Loans for additional information on our policies for classifying loans as nonperforming and for charging-off loans.

The delinquency rates presented are calculated, by loan category, based on our total loan portfolio. Our total loan portfolio consists of loans recorded on our balance sheet, which includes purchased credit-impaired (PCI) loans acquired from Chevy Chase Bank and loans held in our securitization trusts. Loans acquired from Chevy Chase Bank were recorded at fair value at acquisition. We separately track and report the performance of PCI loans and exclude these loans from the numerator in calculating our net charge-off, delinquency, nonperforming loan and nonperforming asset rates.

Table 24: 30+ Day Delinquencies

	December 31, 2011				December 31, 2010			
	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:(3)								
Domestic credit card and installment	**$ 2,073**	**3.66%**	**$ 2,073**	**3.66%**	$ 2,200	4.09%	$ 2,200	4.09%
International credit card and installment	**438**	**5.18**	**438**	**5.18**	432	5.75	432	5.75
Total credit card	**2,511**	**3.86**	**2,511**	**3.86**	2,632	4.29	2,632	4.29
Consumer Banking business:								
Auto	**1,498**	**6.88**	**1,604**	**7.36**	1,355	7.58	1,453	8.13
Home loan(2)	**93**	**0.89**	**478**	**4.58**	77	0.64	504	4.16
Retail banking(2)	**34**	**0.83**	**94**	**2.29**	41	0.93	93	2.11
Total consumer banking(2)	**1,625**	**4.47**	**2,176**	**5.99**	1,473	4.28	2,050	5.96
Commercial Banking business:								
Commercial and multifamily real estate(2)	**217**	**1.41**	**341**	**2.21**	147	1.10	302	2.25
Middle market(2)	**58**	**0.46**	**112**	**0.88**	28	0.27	89	0.85
Specialty lending	**20**	**0.44**	**41**	**0.93**	33	0.81	58	1.44
Small-ticket commercial real estate	**104**	**6.94**	**141**	**9.38**	95	5.16	131	7.11
Total commercial banking(2)	**399**	**1.17**	**635**	**1.87**	303	1.02	580	1.95
Other:								
Other loans	**17**	**3.38**	**46**	**9.18**	22	4.88	69	15.30
Total	**$ 4,552**	**3.35%**	**$ 5,368**	**3.95%**	$ 4,430	3.52%	$ 5,331	4.23%

(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 the impact of loans acquired from Chevy Chase Bank from the denominator, for home loan, retail banking, total consumer banking, commercial and multifamily real estate, middle market, and total commercial banking was 1.47%, 0.84%, 5.06%, 1.43%, 0.47% and 1.19%, respectively, as of December 31, 2011, compared with 1.06%, 0.97%, 5.01%, 1.12%, 0.28% and 1.04%, respectively, as of December 31, 2010.

(3) In the third quarter of 2011, we revised the manner in which we estimate expected recoveries of finance charge and fee amounts previously considered to be uncollectible. This revision resulted in an increase of 11 basis points in the 30+ day delinquency rate for Domestic Card. For International Card, the change did not have a significant impact on the 30+ day delinquency rate.

Table of Contents

Table 25 presents an aging of 30+ day performing delinquent loans included in the above table.

Table 25: Aging of 30+ Day Delinquent Loans

	December 31,			
	2011		2010	
(Dollars in millions)	Amount	% of Total Loans[1]	Amount	% of Total Loans[1]
Total loan portfolio	**$ 135,892**	**100.00%**	$ 125,947	100.00%
Delinquency status:				
30 59 days	**$ 2,306**	**1.70%**	$ 2,008	1.59%
60 89 days	**1,092**	**0.80**	1,103	0.88
90 + days	**1,970**	**1.45**	2,220	1.76
Total	**$ 5,368**	**3.95%**	$ 5,331	4.23%
Geographic region:				
Domestic	**$ 4,930**	**3.63%**	$ 4,899	3.89%
International	**438**	**0.32**	432	0.34
Total	**$ 5,368**	**3.95%**	$ 5,331	4.23%

(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 26 summarizes loans that were 90 days or more past due as to interest or principal and still accruing interest as of December 31, 2011, 2010 and 2009. 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 26: 90+ Days Delinquent Loans Accruing Interest

	December 31,					
	2011		2010		2009	
(Dollars in millions)	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
Loan category:[1]						
Credit card[2]	**$ 1,196**	**1.84%**	$ 1,379	2.25%	$ 2,054	3.00%
Consumer	**5**	**0.01**	5	0.01	58	0.15
Commercial	**41**	**0.12**	14	0.05	11	0.04
Total	**$ 1,242**	**0.91%**	$ 1,398	1.11%	$ 2,123	1.55%
Geographic region:[3]						
Domestic	**$ 1,047**	**0.77%**	$ 1,195	0.95%	$ 1,838	1.34%
International	**195**	**0.14**	203	0.16	285	0.21
Total	**$ 1,242**	**0.91%**	$ 1,398	1.11%	$ 2,123	1.55%

(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 $372 million, $950 million and

$2.1 billion in 2011, 2010 and 2009, respectively. The reserve for uncollectible billed finance charges and fees totaled $74 million, $211 million and $624 million as of December 31, 2011, 2010 and 2009, respectively.

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

Nonperforming Assets

Nonperforming assets consist of nonperforming loans and foreclosed property and repossessed assets. Nonperforming loans generally include loans that have been placed on nonaccrual status and certain restructured loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty. We do not report loans accounted for under the fair value option and loans held for sale as nonperforming.

Our policies for classifying loans as nonperforming, by loan category, are as follows:

Credit card loans: As permitted by regulatory guidance issued by the FFIEC, our policy is generally to exempt credit card loans from being classified as nonperforming as these loans are generally charged off in the period the account becomes 180 days past due. Consistent with industry conventions, we generally continue to accrue interest and fees on delinquent credit card loans until the loans are charged-off. When we do not expect full payment of billed finance charges and fees, we reduce the balance of the credit card account by the estimated uncollectible portion of any billed finance charges and fees and exclude this amount from revenue. Installment loans are included in our credit card segment and classified as nonperforming when the loan is 120 days past due.

Consumer loans: We classify other non-credit card consumer loans as nonperforming at the earlier of the date when we determine that the collectability of interest or principal on the loan is not reasonably assured or when the loan is 90 days past due for auto, home loans, and unsecured small business revolving lines of credit and 120 days past due for all other non-credit card consumer loans.

Commercial loans: We classify commercial loans as nonperforming as of the date we determine that the collectability of interest or principal on the loan is not reasonably assured.

Modified loans and troubled debt restructurings: Modified loans, including troubled debt restructurings (TDRs), that are current at the time of the restructuring remain on accrual status if there is demonstrated performance prior to the restructuring and continued performance under the modified terms is expected. Otherwise, the modified loan is classified as nonperforming and placed on nonaccrual status until the borrower demonstrates a sustained period of performance over several payment cycles, generally six months of consecutive payments, under the modified terms of the loan.

Purchased credit-impaired loans: PCI loans primarily include loans acquired from Chevy Chase Bank, which we recorded at fair value at acquisition. Because the initial fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans, our subsequent accounting for PCI loans differs from the accounting for non-PCI loans. We therefore separately track and report PCI loans and exclude these loans from our delinquency and nonperforming loan statistics.

Table 27 presents comparative information on nonperforming loans, by loan category, as of December 31, 2011 and 2010, 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 of Contents

Table 27: Nonperforming Loans and Other Nonperforming Assets[1][2]

(Dollars in millions)	December 31, 2011[3] Amount	% of Total HFI Loans	2010 Amount	% of Total HFI Loans
Nonperforming loans held for investment:				
Consumer Banking business:				
Auto	**$ 106**	**0.48%**	$ 99	0.55%
Home loan	**456**	**4.37**	486	4.01
Retail banking	**90**	**2.18**	91	2.07
Total consumer banking	**652**	**1.79**	676	1.97
Commercial Banking business:				
Commercial and multifamily real estate	**206**	**1.34**	276	2.06
Middle market	**92**	**0.73**	133	1.27
Specialty lending	**33**	**0.74**	48	1.20
Total commercial lending	**331**	**1.02**	457	1.64
Small-ticket commercial real estate	**40**	**2.63**	38	2.04
Total commercial banking	**371**	**1.09**	495	1.66
Other:				
Other loans	**36**	**7.28**	54	12.12
Total nonperforming loans held for investment[4]	**$ 1,059**	**0.78%**	$ 1,225	0.97%
Other nonperforming assets:				
Foreclosed property[5]	**$ 169**	**0.13%**	$ 306	0.24%
Repossessed assets	**20**	**0.01**	20	0.02
Total other nonperforming assets	**189**	**0.14**	326	0.26
Total nonperforming assets	**$ 1,248**	**0.92%**	$ 1,551	1.23%

(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 the impact of loans acquired from Chevy Chase Bank from the denominator, for home loan, retail banking, total consumer banking, commercial and multifamily real estate, middle market, total commercial banking, and total nonperforming loans held for investment were 7.22%, 2.21%, 2.03%, 1.35%, 0.75%, 1.11% and 0.81%, respectively, as of December 31, 2011, compared with 6.67%, 2.16%, 2.30%, 2.11%, 1.30%, 1.69% and 1.02%, respectively, as of December 31, 2010. The nonperforming asset ratio, excluding loans acquired from Chevy Chase Bank, was 0.95% and 1.29% as of December 31, 2011 and 2010, respectively.

(3) We recognized interest income for loans classified as nonperforming of $31 million in 2011. Interest income foregone related to nonperforming loans was $44 million in 2011. 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 1.50% and 1.90% as of December 31, 2011 and 2010, respectively.

(5) Includes $86 million and $201 million of foreclosed properties related to loans acquired from Chevy Chase Bank, as of December 31, 2011 and 2010, respectively.

Total nonperforming loans, including, TDRs totaling $170 million and $96 million as of December 31, 2011 and 2010, respectively. The decrease in our nonperforming loan ratio to 0.78% as of December 31, 2011, from 0.97% as of December 31, 2010 was primarily attributable to the improvement in the credit quality our commercial banking loans.

Table of Contents

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. Charge-offs are recorded as a reduction to the allowance for loan and lease losses and subsequent recoveries of previously charged off amounts are credited to the allowance for loan and lease losses. Costs incurred to recover charged-off loans are recorded as collection expense and included in our consolidated statements of income as a component of other non-interest expense. Our charge-off time frame for loans, which varies based on the loan type, is presented below.

Credit card loans: We generally charge-off credit card loans when the account is 180 days past due from the statement cycle date. Credit card loans in bankruptcy are charged-off within 30 days of receipt of a complete bankruptcy notification from the bankruptcy court, except for U.K. credit card loans, which are charged-off within 60 days. Credit card loans of deceased account holders are charged-off within 60 days of receipt of notification.

Consumer loans: We generally charge-off consumer loans at the earlier of the date when the account is a specified number of days past due or upon repossession of the underlying collateral. Our charge-off time frame is 180 days for home loans and unsecured small business lines of credit and 120 days for auto and other non-credit card consumer loans. We calculate the charge-off amount for home loans based on the difference between our recorded investment in the loan and the fair value of the underlying property and estimated selling costs as of the date of the charge-off. We update our home value estimates on a regular basis and recognize additional charge-offs for declines in home values below our initial fair value and selling cost estimate at the date home loans are charged-off. Consumer loans in bankruptcy, except for auto and home loans, generally are charged-off within 40 days of receipt of notification from the bankruptcy court. Auto and home loans in bankruptcy are charged-off in the period that the loan is both 60 days or more past due and 60 days or more past the bankruptcy notification date or in the period the loan becomes 120 days past due for auto loans and 180 days past due for home loans regardless of the bankruptcy notification date. Consumer loans of deceased account holders are charged-off within 60 days of receipt of notification.

Commercial loans: We charge-off commercial loans in the period we determine that the unpaid principal loan amounts are uncollectible.

Purchased credit-impaired loans: We do not record charge-offs on purchased-credit impaired 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. We record charge-offs on purchased credit-impaired loans only if actual losses exceed estimated losses incorporated into the fair value recorded at acquisition.

Table 28 presents our net charge-off amounts and rates, by business segment, for 2011, 2010 and 2009. We provide information on charge-off amounts by loan category below in Table 30.

Table 28: Net Charge-Offs

	Year Ended December 31,					
	2011		2010		2009	
(Dollars in millions)	**Amount**	**Rate[1]**	**Amount**	**Rate[1]**	**Amount**	**Rate[1]**
Managed:						
Credit card[2]	**$ 3,056**	**4.92%**	$ 5,505	8.79%	$ 6,688	9.15%
Consumer banking[3][4]	**484**	**1.39**	655	1.82	1,094	2.74
Commercial banking[3][4]	**177**	**0.57**	390	1.32	434	1.45
Other	**54**	**11.52**	107	21.18	205[5]	37.11
Total charge-offs[4]	**$ 3,771**	**2.94%**	$ 6,657	5.18%	$ 8,421	5.87%

Average loans held for investment[6]	**$ 128,424**		$ 128,622		$ 143,514	
Reported:						
Total charge-offs	**$ 3,771**	**2.94%**	$ 6,651	5.18%	$ 4,568	4.58%
Average loans held for investments[6]	**128,424**		128,526		99,787	

(1) Calculated for each loan category by dividing net charge-offs for the period by average loans held for investment during the period.
(2) The reduction in the provision for loan and lease losses attributable to Kohl s was $257 million for 2011. Loss sharing amounts attributable to Kohl s reduced net charge-offs by $118 million in 2011. The expected reimbursement from Kohl s netted in our allowance for loan and lease losses was approximately $139 million as of December 31, 2011.
(3) Excludes losses on the purchased credit-impaired loans acquired from Chevy Chase Bank. We separately track and report these loans. We provide additional information on the loans acquired from Chevy Chase Bank in Note 5 Loans.
(4) The average loans held for investment used in calculating net charge-off rates includes the impact of loans acquired as part of the Chevy Chase Bank acquisition. Our total net charge-off rate, excluding the impact of acquired Chevy Chase Bank loans, was 3.06%, 5.44% and 6.09% for 2011, 2010 and 2009, respectively.
(5) During the first quarter of 2009, loans acquired from Chevy Chase Bank were included in the Other category.
(6) The average balances of the acquired Chevy Chase Bank loan portfolio, which are included in the total average loans held for investment used in calculating the net charge-off rates, were $5.0 billion, $6.3 billion and $6.8 billion for 2011, 2010 and 2009, respectively.

Loan Modifications and Restructurings

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

In the third quarter of 2011, we adopted accounting guidance that provides clarification on determining whether a debtor is experiencing financial difficulties and whether a concession has been granted to the debtor for purposes of determining if a loan modification constitutes a TDR. The new guidance applies retrospectively to our loan restructurings on or after January 1, 2011.

Table 29 presents the loan balances as of December 31, 2011 and 2010 of loan modifications made as part of our loss mitigation efforts, all of which are considered to be TDRs. Table 29 excludes loan modifications that do not meet the definition of a TDR and acquired loans from Chevy Chase Bank, which we track and report separately. We provide additional detail on acquired loans from Chevy Chase Bank below under Purchased Credit-Impaired Loans.

Table 29: Loan Modifications and Restructurings[1]

(Dollars in millions)	December 31, 2011	December 31, 2010[2]
Modified and restructured loans:		
Credit card[3]	**$ 898**	$ 913
Auto[4]	**58**	
Home loan	**104**	57
Retail banking	**80**	13
Commercial	**426**	162
Total	**$ 1,566**	$ 1,145
Status of modified and restructured loans:		
Performing	**$ 1,396**	$ 1,049
Nonperforming	**170**	96
Total	**$ 1,566**	$ 1,145

(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) Certain prior period amounts have been reclassified to conform to the current period presentation.
(3) Amount reported reflects the total outstanding customer balance, which consists of unpaid principal balance, accrued interest and fees.
(4) Prior to the first quarter of 2011, modified Auto loans were charged-off at the net collateral value and the remaining asset balance was reclassified to Other Assets on our consolidated balance sheet.

The outstanding balance of loan modifications made to assist borrowers experiencing financial difficulties increased to $1.6 billion as of December 31, 2011, from $1.1 billion as of December 31, 2010. Of these modifications, approximately $170 million, or 11%, were classified as nonperforming as of December 31, 2011, compared with $96 million, or 8%, as of December 31, 2010.

Credit card loan modifications have accounted for the majority of our TDR loan modifications, representing $898 million, or 57%, of the outstanding balance of total TDR loans as of December 31, 2011, and $913 million, or 80%, of the outstanding balance of total TDR loans as of December 31, 2010. 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.

Home loan modifications represented $104 million, or 7%, of the outstanding balance of total modified loans as of December 31, 2011, compared with $57 million, or 5%, of the outstanding balance of total modified loans as of December 31, 2010. The majority of our modified home loans involve a combination of an interest rate reduction, term extension or principal reduction.

Retail banking loan modifications represented $80 million, or 5% of the outstanding balance of total modified loans as of December 31, 2011 compared with $13 million or 1% of the outstanding balance of total loans as of December 31, 2010. Small business loan modifications represent $60 million or 75% of the outstanding Retail banking loan modifications as of December 31, 2011. Approximately, 50% of the Small Business TDRs in 2011 were added as a result of the adoption of the accounting guidance clarifying TDRs.

Table of Contents

Commercial loan modifications represented $426 million, or 27%, of the outstanding balance of total modified loans as of December 31, 2011, compared with $162 million, or 14%, of the outstanding balance of total modified loans as of December 31, 2010. As a result of the adoption of the accounting guidance clarifying TDRs, $120 million or 40% of Commercial TDRs were added in 2011. The vast majority of modified commercial loans include a reduction in interest rate or a term extension.

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

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due from the borrower in accordance with the original contractual terms of the loan. Loans defined as individually impaired, based on applicable accounting guidance, include larger balance commercial nonperforming loans and TDR loans. We do not report nonperforming consumer loans that have not been modified in a TDR as individually impaired, as we collectively evaluate these smaller-balance homogenous loans for impairment in accordance with applicable accounting guidance. Loans held for sale are also not reported as impaired, as these loans are recorded at lower of cost or fair value. Impaired loans also exclude loans acquired from Chevy Chase Bank because these loans were recorded at fair value upon acquisition.

Impaired loans, including TDRs, totaled $1.8 billion as of December 31, 2011, compared with $1.5 billion as of December 31, 2010. TDRs accounted for $1.6 billion and $1.1 billion of impaired loans as of December 31, 2011 and 2010, respectively. We provide additional information on our impaired loans, including the allowance established for these loans, in Note 5 Loans and Note 6 Allowance for Loan and Lease Losses.

Purchased Credit-Impaired Loans

Purchased credit-impaired loans decreased to $4.7 billion as of December 31, 2011, from $5.6 billion as of December 31, 2010. Our portfolio of purchased credit-impaired loans consists of loans acquired in the Chevy Chase Bank transaction, which were recorded at fair value at the date of acquisition. The fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans. Therefore, 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 loan and lease 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 reduced the allowance related to this pool of loans by $6 million for the year ended December 31, 2011. We recorded impairment through our provision for loan and losses of $33 million for the year ended December 31, 2010. The cumulative impairment recognized on PCI loans totaled $27 million as of December 31, 2011 and $33 million as of December 31, 2010. 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. We provide additional information on the PCI loans acquired from Chevy Chase Bank 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 purchased-credit impaired 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 loan and lease losses

Table of Contents

and reduced by net charge-offs. The provision for loan and lease 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.

Table 30, which displays changes in our allowance for loan and lease losses for 2011, 2010 and 2009, details, by loan type, the provision for credit losses recognized in our consolidated statements of income each period and the charge-offs recorded against our allowance for loan and lease losses.

Table 30: Summary of Allowance for Loan and Lease Losses

		December 31,	
(Dollars in millions)	**2011**	**2010**	**2009**
Balance at beginning of period, as reported	**$ 5,628**	$ 4,127	$ 4,524
Impact from January 1, 2010 adoption of new consolidation accounting standards		4,317[1]	
Balance at beginning of period, as adjusted	**5,628**	8,444	4,524
Provision for loan and lease losses[2] [3]	**2,401**	3,895	4,230
Charge-offs:			
Credit Card business:[3]			
Domestic credit card and installment	**(3,558)**	(6,020)	(3,050)
International credit card and installment	**(752)**	(761)	(284)
Total credit card	**(4,310)**	(6,781)	(3,334)
Consumer Banking business:			
Auto	**(529)**	(672)	(1,110)
Home loan	**(104)**	(97)	(87)
Retail banking	**(99)**	(129)	(160)
Total consumer banking	**(732)**	(898)	(1,357)
Commercial Banking business:			
Commercial and multifamily real estate	**(76)**	(207)	(208)
Middle market	**(40)**	(101)	(53)
Specialty lending	**(21)**	(36)	(49)
Total commercial lending	**(137)**	(344)	(310)
Small-ticket commercial real estate	**(77)**	(100)	(134)
Total commercial banking	**(214)**	(444)	(444)
Other loans	**(59)**	(115)	(207)
Total charge-offs	**(5,315)**	(8,238)	(5,342)
Recoveries:			
Credit Card business:			
Domestic credit card and installment	**1,036**	1,113	447
International credit card and installment	**218**	169	52
Total credit card	**1,254**	1,282	499

Consumer Banking business:			
Auto	**195**	215	238
Home loan	**27**	4	3
Retail banking	**26**	24	22
Total consumer banking	**248**	243	263

111

Table of Contents

(Dollars in millions)	2011	December 31, 2010	2009
Commercial Banking business:			
Commercial and multifamily real estate	**12**	20	2
Middle market	**14**	24	3
Specialty lending	**6**	8	3
Total commercial lending	**32**	52	8
Small-ticket commercial real estate	**5**	2	2
Total commercial banking	**37**	54	10
Other loans	**5**	8	2
Total recoveries	**1,544**	1,587	774
Net charge-offs	**(3,771)**	(6,651)	(4,568)
Impact from acquisitions, sales and other changes	**(8)[4]**	(60)[5]	(59)
Balance at end of period[3]	**$ 4,250**	$ 5,628	$ 4,127
Allowance for loan and lease losses as a percentage of loans held for investment	**3.13%**	4.47%	4.55%

	2011	December 31, 2010	2009
Allowance for loan and lease losses by geographic distribution:			
Domestic	**$ 3,778**	$ 5,168	$ 3,928
International	**472**	460	199
Total allowance for loan and lease losses	**$ 4,250**	$ 5,628	$ 4,127
Allowance for loan and lease losses by loan category:			
Domestic card	**$ 2,375**	$ 3,581	$ 1,927
International card	**472**	460	199
Consumer banking	**652**	675	1,076
Commercial banking	**711**	826	785
Other	**40**	86	140
Allowance for loan and lease losses	**$ 4,250**	$ 5,628	$ 4,127

(1) Includes an adjustment of $53 million made in the second quarter of 2010 for the impact as of January 1, 2010 of impairment on consolidated loans accounted for as TDRs.

(2) Excludes a negative provision for unfunded lending commitments of $41 million and a provision for unfunded lending commitments of $12 million for 2011 and 2010, respectively.

(3) The reduction in the provision for loan and lease losses attributable to Kohl s was $257 million for 2011. Loss sharing amounts attributable to Kohl s reduced charge-offs by $118 million in 2011. The expected reimbursement from Kohl s netted in our allowance for loan and lease losses was approximately $139 million as of December 31, 2011.

(4) Includes foreign translation adjustment of $8 million for 2011.

(5) Includes a reduction in our allowance for loan and lease losses of $73 million during the first quarter of 2010 attributable to the sale of certain interest-only option-ARM bonds and the deconsolidation of the related securitization trusts related to Chevy Chase Bank in the first quarter of 2010.

Table of Contents

Table 31 presents an allocation of our allowance for loan and lease losses by loan category as of December 31, 2011 and 2010.

Table 31: Allocation of the Allowance for Loan and Lease Losses

	December 31,			
	2011		2010	
(Dollars in millions)	Amount	% of Total Loans[1]	Amount	% of Total Loans[1]
Credit Card:				
Domestic credit card and installment[2]	**$ 2,375**	**4.20%**	$ 3,581	6.65%
International credit card and installment	**472**	**5.58**	460	6.12
Total credit card[2]	**2,847**	**4.37**	4,041	6.58
Consumer Banking:				
Auto	**391**	**1.80**	353	1.98
Home loan	**98**	**0.94**	112	0.93
Retail banking	**163**	**3.97**	210	4.76
Total consumer banking	**652**	**1.80**	675	1.96
Commercial Banking:				
Commercial and multifamily real estate	**411**	**2.67**	495	3.70
Middle market	**128**	**1.01**	162	1.55
Specialty lending	**71**	**1.61**	91	2.26
Total commercial lending	**610**	**1.88**	748	2.68
Small-ticket commercial real estate	**101**	**6.72**	78	4.23
Total commercial banking	**711**	**2.09**	826	2.78
Other loans	**40**	**7.98**	86	19.07
Total[2]	**$ 4,250**	**3.13%**	$ 5,628	4.47%
Total allowance coverage ratios:				
Period-end loans	**$ 135,892**	**3.13%**	$ 125,947	4.47%
Nonperforming loans[3]	**1,059**	**401.32**	1,225	459.43
Allowance coverage ratios by loan category:				
Credit card (30 + day delinquent loans)	**$ 2,511**	**113.38%**	$ 2,632	153.53%
Consumer banking (30 + day delinquent loans)	**2,176**	**29.96**	2,050	32.93
Commercial banking (nonperforming loans)	**371**	**191.64**	495	166.87

(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) The reduction in the provision for loan and lease losses attributable to Kohl s was $257 million for 2011. Loss sharing amounts attributable to Kohl s reduced net charge-offs by $118 million in 2011. The expected reimbursement from Kohl s netted in our allowance for loan and lease losses was approximately $139 million as of December 31, 2011.

(3) 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

132.48% as of December 31, 2011 and 129.55% as of December 31, 2010.

The reduction 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. While we reduced the amount of our allowance for loan and lease losses in 2011, our allowance as a percentage of our total loan portfolio also decreased to 3.13% as of December 31, 2011, from 4.47% as of December 31, 2010.

Table of Contents

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, unencumbered available-for-sale securities and undrawn committed securitization borrowing facilities. Table 32 below presents the composition of our liquidity reserves as of December 31, 2011 and 2010. Our liquidity reserves decreased by $3.1 billion in 2011 to $35.8 billion as of December 31, 2011.

Table 32: Liquidity Reserves

	December 31,	
(Dollars in millions)	**2011**	**2010**
Cash and cash equivalents	**$ 5,838**	$ 5,249
Securities available for sale[1]	**38,759**	41,537
Less: Pledged available for sale securities	**(8,762)**	(8,088)
Unencumbered available-for-sale securities	**29,997**	33,449
Undrawn committed securitization borrowing facilities		207
Total liquidity reserves	**$ 35,835**	$ 38,905

[1] The weighted average life of our available-for-sale securities was approximately 2.9 and 3.8 years as of December 31, 2011 and 2010, 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 33 presents the composition of our deposits by type as of December 31, 2011 and 2010.

Table 33: Deposits

	December 31,	
(Dollars in millions)	**2011**	**2010**
Non-interest bearing	**$ 18,281**	$ 15,048
NOW accounts	**15,038**	13,536
Money market deposit accounts	**46,496**	44,485
Savings accounts	**31,433**	26,077
Other consumer time deposits	**11,471**	15,753
Total core deposits	**122,719**	114,899

Public fund certificates of deposit $100,000 or more	**85**	177
Certificates of deposit $100,000 or more	**4,501**	6,300
Foreign time deposits	**921**	834
Total deposits	**$ 128,226**	$ 122,210

114

Table of Contents

Total deposits increased by $6.0 billion, or 5%, in 2011 to $128.2 billion as of December 31, 2011. Of our total deposits, approximately $921 million and $834 million were held in foreign banking offices as of December 31, 2011 and 2010, respectively. Large domestic denomination certificates of deposits of $100,000 or more represented $4.6 billion and $6.5 billion of our total deposits as of December 31, 2011 and 2010, 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 33 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 and CONA were well-capitalized, as defined under the federal banking regulatory guidelines, as of December 31, 2011, and therefore permitted to maintain brokered deposits. Our brokered deposits totaled $13.0 billion, or 10% of total deposits, as of December 31, 2011. Brokered deposits totaled $16.5 billion, or 14% of total deposits, as of December 31, 2010. 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.

Table 34 presents the future contractual maturities of large denomination time deposits. Our funding and liquidity planning factors into the maturities of these deposits. Based on past activity, we expect to retain a portion of these deposits as they mature. Accordingly, the expected net cash outflows will be less than the amounts reported based on the contractual maturities.

Table 34: Maturities of Large Domestic Denomination Certificates $100,000 or More

	December 31,			
	2011		2010	
(Dollars in millions)	Amount	Percent	Amount	Percent
Three months or less	**$ 496**	**10.8%**	$ 707	10.9%
Over 3 through 6 months	**460**	**10.0**	650	10.0
Over 6 through 12 months	**643**	**14.0**	1,612	24.9
Over 12 months through 10 years	**2,987**	**65.2**	3,508	54.2
Total	**$ 4,586**	**100.0%**	$ 6,477	100.0%

Table 35 provides a summary of the composition of period end, average deposits, interest expense and the average deposit rate paid for the periods presented.

Table 35: Deposit Composition and Average Deposit Rates

	December 31, 2011				
(Dollars in millions)	Period End Balance	Average Balance	Interest Expense	% of Average Deposits	Average Deposit Rate
Non-interest bearing	**$ 18,281**	**$ 17,051**	**N/A**	**13.5%**	**N/A**
NOW accounts	**15,038**	**13,285**	**$ 41**	**10.5**	**0.31%**
Money market deposit accounts	**46,496**	**46,455**	**396**	**36.6**	**0.85**
Savings accounts	**31,433**	**29,640**	**218**	**23.4**	**0.74**
Other consumer time deposits	**11,471**	**13,855**	**351**	**10.9**	**2.53**
Total core deposits	**122,719**	**120,286**	**1,006**	**94.9**	**0.84**
Public fund certificates of deposit of $100,000 or more	**85**	**108**	**2**	**0.1**	**1.85**
Certificates of deposit of $100,000 or more	**4,501**	**5,526**	**175**	**4.4**	**3.17**
Foreign time deposits	**921**	**774**	**4**	**0.6**	**0.52**
Total deposits	**$ 128,226**	**$ 126,694**	**$ 1,187**	**100.0%**	**0.94%**

Table of Contents

	December 31, 2010				
(Dollars in millions)	Period End Balance	Average Balance	Interest Expense	% of Average Deposits	Average Deposit Rate
Non-interest bearing	$ 15,048	$ 14,267	N/A	12.0%	N/A
NOW accounts	13,536	12,032	$ 36	10.1	0.30%
Money market deposit accounts	44,485	42,159	409	35.4	0.97
Savings accounts	26,077	21,854	188	18.4	0.86
Other consumer time deposits	15,753	20,655	585	17.4	2.83
Total core deposits	114,899	110,967	1,218	93.3	1.10
Public fund certificates of deposit of $100,000 or more	177	265	5	0.2	2.03
Certificates of deposit of $100,000 or more	6,300	6,912	237	5.8	3.43
Foreign time deposits	834	866	5	0.7	0.57
Total deposits	$ 122,210	$ 119,010	$ 1,465	100.0%	1.23%

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. Table 36 provides information on our short-term borrowing during 2011 and 2010.

Table 36: Short-Term Borrowings

(Dollars in millions)	Maximum Month-End Outstanding Amount	Year-End Outstanding Amount	Average Outstanding Amount	Average Interest Rate	Year-End Weighted Average Interest Rate
2011:					
Federal funds purchased and resale agreements	**$ 2,111**	**$ 1,464**	**$ 2,186**	**0.21%**	**0.35%**
FHLB advances	**5,385**	**5,835**	**1,110**	**0.17**	**0.13**
2010:					
Federal funds purchased and resale agreements	$ 2,469	$ 1,517	$ 1,731	0.23%	0.13%

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 $23.0 billion as of December 31, 2011, up from $14.9 billion as of December 31, 2010. We had no open committed loan securitization conduit lines as of December 31, 2011. The $8.1 billion increase in our debt, excluding securitized debt obligations, was primarily attributable to the proceeds of approximately $3.0 billion from the issuance of senior notes, a $5.8 billion increase in short term FHLB advances, and a decrease of $854 million due to the maturity of one senior note.

The $3.0 billion of senior notes were issued in July 2011 and included four different series of our senior notes: $250 million aggregate principal amount of our Floating Rate Senior Notes due 2014; $750 million aggregate

Table of Contents

principal amount of our 2.125% Senior Notes due 2014; $750 million aggregate principal amount of our 3.150% Senior Notes due 2016 and $1.25 billion aggregate principal amount of our 4.750% Senior Notes due 2021.

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 $362 million as of December 31, 2011.

Table 37 presents our short-term borrowings and long-term debt and the maturity profile based on expected maturities as of December 31, 2011. We provide additional information on our short-term borrowings and long-term debt in Note 10 Deposits and Borrowings.

Table 37: Expected Maturity Profile of Short-term Borrowings and Long-term Debt

(Dollars in millions)	Up to 1 Year	> 1 Year to 2 Years	> 2 Years to 3 Years	> 3 Years to 4 Years	> 4 Years to 5 Years	> 5 Years	Total
Short-term borrowings:							
Federal funds purchased and securities loaned or sold under agreements to repurchase	$ 1,464	$	$	$	$	$	$ 1,464
FHLB advances	5,835						5,835
Total short-term borrowings	7,299						7,299
Long-term debt:							
Securitized debt obligations	5,163	2,649	2,869	501	1,325	4,020	16,527
Senior and subordinated notes:							
Unsecured senior debt	283	292	2,332	411	748	3,034	7,100
Unsecured subordinated debt	357	519	106		1,195	1,757	3,934
Total senior and subordinated notes	640	811	2,438	411	1,943	4,791	11,034
Other long-term borrowings:							
Junior subordinated debt						3,642	3,642
FHLB advances	17	18	946	22	20	36	1,059
Other long-term borrowings	17	18	946	22	20	3,678	4,701
Total long-term debt[1]	5,820	3,478	6,253	934	3,288	12,489	32,262
Total short-term borrowings and long-term debt	$ 13,119	$ 3,478	$ 6,253	$ 934	$ 3,288	$ 12,489	$ 39,561
Percentage of total	33%	9%	16%	2%	8%	32%	100%

[1] Includes fair value adjustments of $817 million and net unamortized discount of $28 million as of December 31, 2011.

Borrowing Capacity

As of December 31, 2011, 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. As previously discussed, during the third quarter of 2011, we issued four different series of our senior notes for total proceeds of approximately $3.0 billion. The offering of senior notes included $250 million aggregate principal amount of our Floating Rate Senior Notes due 2014, $750 million aggregate principal amount of our 2.125% Senior Notes due 2014, $750 million aggregate principal amount of our 3.150% Senior Notes due 2016 and $1.25 billion aggregate principal amount of our 4.750% Senior Notes due 2021.

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 $11.2 billion as of December 31, 2011. We had $6.6 billion outstanding as of December 31, 2011, and $4.6 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.

Covenants

The terms of certain lease and credit facility agreements related to other borrowings and operating leases include several financial covenants that require performance measures and equity ratios to be met. If these covenants are not met, there may be an acceleration of the payment due dates noted in Table 38. As of December 31, 2011, we were not in default of any such covenants.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that may require future cash payments that affect our short- and long-term liquidity and capital resource needs. Our primary future cash outflows primarily relate to deposits, borrowings and operating leases. Table 38 summarizes, by remaining contractual maturity, our significant contractual cash obligations based on the undiscounted future cash payments as of December 31, 2011. The actual timing and amounts of future cash payments may differ from the amounts presented below due to a number of factors, such as discretionary debt repurchases. Table 38 excludes certain obligations where the obligation is short-term or subject to valuation based on market factors, such as trade payables and trading liabilities. The table also excludes the representation and warranty reserve of $943 million as of December 31, 2011 and obligations for pension and postretirement benefit plans, which are discussed in more detail in Note 17 Employee Benefit Plans.

Table 38: Contractual Obligations

	December 31, 2011				
(Dollars in millions)	**Up to 1 Year**	**> 1 Year to 3 Years**	**> 3 Years to 5 Years**	**> 5 Years**	**Total**
Interest-bearing time deposits[1]	**$ 6,505**	**$ 7,008**	**$ 2,133**	**$ 411**	**$ 16,057**
Senior and subordinated notes	**640**	**3,249**	**2,354**	**4,791**	**11,034**
Other borrowings[2]	**12,480**	**6,481**	**1,869**	**7,697**	**28,527**
Operating leases	**172**	**330**	**282**	**806**	**1,590**
Purchase obligations[3][4]	**323**	**121**	**86**	**37**	**567**
Total obligations	**$ 20,120**	**$ 17,189**	**$ 6,724**	**$ 13,742**	**$ 57,775**

(1) Includes only those interest bearing deposits which have a contractual maturity date.
(2) Other borrowings includes secured borrowings for our on-balance sheet auto loan securitizations, junior subordinated capital securities and debentures, FHLB advances and other short-term borrowings.
(3) Represents agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms. The purchase obligations are included through the termination date of the agreements even if the contract is renewable. These include capital expenditures, contractual commitments to purchase equipment and services, software

acquisition/license commitments, contractual minimum media commitments and any contractually required cash payments for acquisitions.

(4) Excludes funding commitments entered into in the ordinary course of business. See Note 21 Commitments, Contingencies and Guarantees for further details.

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 39 provides a summary of the credit ratings for the senior unsecured debt of Capital One Financial Corporation, COBNA and CONA as of December 31, 2011, and as of the date of this Report.

Table 39: Senior Unsecured Debt Credit Ratings

		December 31, 2011	
(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 February 21, 2012, DBRS and Moody s had us on a stable outlook, while Fitch and S&P had us on negative outlook.

MARKET RISK PROFILE

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

Primary Market Risk Exposures

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

Interest Rate Risk

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

Table of Contents

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. The estimated reduction in our 12-month earnings due to adverse foreign exchange rate movements corresponding to a 95% probability was less than 2% as of December 31, 2011 and 2010. The precision of this estimate is limited due to the inherent uncertainty of the underlying forecast assumptions.

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 totaled $73.2 billion as of December 31, 2011, compared with $50.7 billion as of December 31, 2010. This increase was primarily attributable to actions we took 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 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. At termination, the fair value of the swaps was a net loss of $355 million. Based on current estimates, we believe the interest-rate swaps related to the acquisition were effective in meeting our hedging objective. See Note 11 Derivative Instruments and Hedging Activities for additional information.

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 2011. Given the level of short-term rates as of December 31, 2011 and 2010, 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 40 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 December 31, 2011 and 2010, resulting from selected hypothetical interest rate scenarios. Our adjusted projected net interest income consists of net interest income adjusted to include changes in the fair value of mortgage service rights, including related derivative hedging activity, and changes in the fair value of free-standing interest rate swaps. In measuring the sensitivity of interest rate movements on our adjusted projected net interest income, we assume a hypothetical gradual increase in interest rates of 200 basis points and a hypothetical gradual decrease of 50 basis points to forward rates over the next twelve months. In measuring the sensitivity of interest rate movements on our economic value of equity, we assume a hypothetical instantaneous parallel shift in the level of interest rates of plus 200 basis points and minus 50 basis points to spot rates in measuring the sensitivity of the valuation of our economic value of equity.

Table of Contents

Table 40: Interest Rate Sensitivity Analysis

	December 31, 2011		
	Excluding ING Direct Swaps[1]	**Including ING Direct Swaps**	**December 31, 2010**
Impact on adjusted projected base-line net interest income:			
+ 200 basis points	**1.2%**	**13.7%**	(0.7)%
- 50 basis points	**(0.5)**	**(3.9)**	(0.2)
Impact on economic value of equity:			
+ 200 basis points	**(1.0)**	**3.2**	(3.8)%
- 50 basis points	**(0.4)**	**(1.5)**	0.1

(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 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 will remain outstanding. Excluding the $24.8 billion swap transactions, our interest rate sensitivity measures reflect that we became more asset sensitive between December 31, 2010 and December 31, 2011. Our asset sensitivity position is larger when factoring in the effect of the $24.8 billion of swaps, given their net pay-fixed structure and non-designation for hedge accounting in accordance with GAAP. 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 December 31, 2011 and 2010. 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.

ACCOUNTING CHANGES AND DEVELOPMENTS

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

Table of Contents

SUPPLEMENTAL TABLES

TABLE A LOAN PORTFOLIO COMPOSITION

	December 31,				
(Dollars in millions)	**2011**	**2010**	**2009**	**2008**	**2007**
Reported loans held for investment:					
Credit Card business:					
Credit card loans:					
Domestic credit card loans	**$ 54,682**	$ 49,979	$ 13,374	$ 20,624	$ 17,447
International credit card loans	**8,466**	7,513	2,229	2,872	3,657
Total credit card loans	**63,148**	57,492	15,603	23,496	21,104
Installment loans:					
Domestic installment loans	**1,927**	3,870	6,693	10,131	10,474
International installment loans		9	44	119	355
Total installment loans	**1,927**	3,879	6,737	10,250	10,829
Total credit card business	**65,075**	61,371	22,340	33,746	31,933
Consumer Banking business:					
Auto	**21,779**	17,867	18,186	21,495	25,018
Home loan	**10,433**	12,103	14,893	10,098	11,562
Retail banking	**4,103**	4,413	5,135	5,604	5,659
Total consumer banking business	**36,315**	34,383	38,214	37,197	42,239
Total consumer loans	**101,390**	95,754	60,554	70,943	74,172
Commercial Banking business:					
Commercial and multifamily real estate	**15,410**	13,396	13,843	13,303	12,414
Middle market	**12,684**	10,484	10,062	10,082	8,289
Specialty lending	**4,404**	4,020	3,555	3,547	2,948
Total commercial lending	**32,498**	27,900	27,460	26,932	23,651
Small-ticket commercial real estate	**1,503**	1,842	2,153	2,609	3,396
Total commercial banking business	**34,001**	29,742	29,613	29,541	27,047
Other:					
Other loans[1]	**501**	451	452	534	586
Total reported loans held for investment	**$ 135,892**	$ 125,947	$ 90,619	$ 101,018	$ 101,805

Securitization adjustments:					
Credit Card business:					
Credit card loans:					
Domestic credit card loans	**$**	$	$ 39,827	$ 39,254	$ 39,833
International credit card loans			5,951	5,729	7,645
Total credit card loans			45,778	44,983	47,478
Installment loans:					
Domestic installment loans			406	936	1,969
Consumer Banking business:					
Auto					110
Total consumer banking business					110
Total securitization adjustments	**$**	$	$ 46,184	$ 45,919	$ 49,557

123

Table of Contents

(Dollars in millions)	2011	2010	December 31, 2009	2008	2007
Managed loans held for investment:					
Credit Card business:					
Credit card loans:					
Domestic credit card loans	**$ 54,682**	$ 49,979	$ 53,201	$ 59,878	$ 57,280
International credit card loans	**8,466**	7,513	8,180	8,601	11,302
Total credit card loans	**63,148**	57,492	61,381	68,479	68,582
Installment loans:					
Domestic installment loans	**1,927**	3,870	7,099	11,067	12,443
International installment loans		9	44	119	355
Total installment loans	**1,927**	3,879	7,143	11,186	12,798
Total credit card business	**65,075**	61,371	68,524	79,665	81,380
Consumer Banking business:					
Auto	**21,779**	17,867	18,186	21,495	25,128
Home loan	**10,433**	12,103	14,893	10,098	11,562
Retail banking	**4,103**	4,413	5,135	5,604	5,659
Total consumer banking business	**36,315**	34,383	38,214	37,197	42,349
Total consumer loans	**101,390**	95,754	106,738	116,862	123,729
Commercial Banking business:					
Commercial and multifamily real estate	**15,410**	13,396	13,843	13,303	12,414
Middle market	**12,684**	10,484	10,062	10,082	8,289
Specialty lending	**4,404**	4,020	3,555	3,547	2,948
Total commercial lending	**32,498**	27,900	27,460	26,932	23,651
Small-ticket commercial real estate	**1,503**	1,842	2,153	2,609	3,396
Total commercial banking business	**34,001**	29,742	29,613	29,541	27,047
Other:					
Other loans	**501**	451	452	534	586
Total managed loans held for investment	**$ 135,892**	$ 125,947	$ 136,803	$ 146,937	$ 151,362

Table of Contents

TABLE B PERFORMING DELINQUENCIES

	December 31,									
	2011[2]		2010[2]		2009[2]		2008		2007	
(Dollars in millions)	Loans	% of Total Loans[3]	Loans	% of Total Loans[3]	Loans	% of Total Loans[3]	Loans	% of Total Loans[3]	Loans	% of Total Loans[3]
Reported:[1]										
Loans held for investment	**$ 135,892**	**100.00%**	$ 125,947	100.00%	$ 90,619	100.00%	$ 101,018	100.00%	$ 101,805	100.00%
Delinquent loans:										
30-59 days	**$ 2,267**	**1.67%**	$ 1,968	1.56%	$ 1,908	2.10%	$ 2,325	2.30%	$ 2,052	2.02%
60-89 days	**1,043**	**0.77**	1,064	0.85	985	1.09	1,094	1.08	869	0.86
90-119 days	**497**	**0.36**	559	0.44	356	0.39	410	0.41	290	0.28
120-149 days	**390**	**0.29**	446	0.36	190	0.21	230	0.23	195	0.19
150 or more days	**355**	**0.26**	393	0.31	164	0.18	194	0.19	155	0.15
Total	**$ 4,552**	**3.35%**	$ 4,430	3.52%	$ 3,603	3.98%	$ 4,253	4.21%	$ 3,561	3.50%
By geographic area:										
Domestic	**$ 4,114**	**3.03%**	$ 3,998	3.18%	$ 3,460	3.82%	$ 4,107	4.07%	$ 3,433	3.37%
International	**438**	**0.32**	432	0.34	143	0.16	146	0.14	128	0.13
Total	**$ 4,552**	**3.35%**	$ 4,430	3.52%	$ 3,603	3.98%	$ 4,253	4.21%	$ 3,561	3.50%
Managed:[1]										
Loans held for investment	**$ 135,892**	**100.00%**	$ 125,947	100.00%	$ 136,803	100.00%	$ 146,937	100.00%	$ 151,362	100.00%
Delinquent loans:										
30-59 days	**$ 2,267**	**1.67%**	$ 1,968	1.56%	$ 2,623	1.92%	$ 2,987	2.03%	$ 2,738	1.81%
60-89 days	**1,043**	**0.77**	1,064	0.84	1,576	1.15	1,582	1.08	1,343	0.89
90-119 days	**497**	**0.36**	559	0.44	895	0.65	817	0.56	681	0.45
120-149 days	**390**	**0.29**	446	0.35	660	0.48	569	0.39	513	0.34
150 or more days	**355**	**0.26**	393	0.31	568	0.42	476	0.32	429	0.28
Total	**$ 4,552**	**3.35%**	$ 4,430	3.52%	$ 6,322	4.62%	$ 6,431	4.38%	$ 5,704	3.77%
By geographic area:										
Domestic	**$ 4,114**	**3.03%**	$ 3,998	3.18%	$ 5,783	4.23%	$ 5,915	4.03%	$ 5,112	3.38%
International	**438**	**0.32**	432	0.34	539	0.39	516	0.35	592	0.39
Total	**$ 4,552**	**3.35%**	$ 4,430	3.52%	$ 6,322	4.62%	$ 6,431	4.38%	$ 5,704	3.77%

(1) Includes credit card loans that continue to accrue finance charges and fees until the account is charged-off at 180 days. The amounts reported for credit card loans are net of uncollectible billed finance charges and fees. In accordance with our finance charge and fee revenue recognition policy, amounts billed but not included in revenue totaled $372 million, $950 million, $2.1 billion, $1.9 billion and $1.1 billion in 2011, 2010, 2009, 2008 and 2007, respectively.

(2) The Chevy Chase Bank acquired loan portfolio is included in loans held for investment, but excluded from delinquent loans as these loans are considered performing in accordance with our expectations as of the purchase date, as we recorded these loans at estimated fair value when we acquired them. As of December 31, 2011, 2010 and 2009, the acquired loan portfolio s contractual 30 to 89 day delinquencies total

$162 million, $199 million and $294 million, respectively. For loans 90+ days past due, see Table C Nonperforming Assets.

Table of Contents

(3) 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 C NONPERFORMING ASSETS

(Dollars in millions)	2011	2010	December 31, 2009	2008	2007
Nonperforming loans held for investment:(1)(2)					
Consumer Banking business:					
Auto	**$ 106**	$ 99	$ 143	$ 165	$ 157
Home loan	**456**	486	323	104	98
Retail banking(3)	**126**	145	121	150	58
Total consumer banking business	**688**	730	587	419	313
Commercial Banking business:					
Commercial and multifamily real estate	**206**	276	429	142	29
Middle market	**92**	133	104	39	29
Specialty lending	**33**	48	74	37	6
Total commercial lending	**331**	457	607	218	64
Small-ticket commercial real estate	**40**	38	95	167	16
Total commercial banking business	**371**	495	702	385	80
Total nonperforming loans held for investment	**1,059**	1,225	1,289	804	393
Other nonperforming assets:					
Foreclosed property(4)	**169**	306	234	89	48
Repossessed assets	**20**	20	24	66	57
Total nonperforming assets	**$ 1,248**	$ 1,551	$ 1,547	$ 959	$ 498
Nonperforming loans as a percentage of loans held for investment(2)	**0.78%**	0.97%	0.94%	0.80%	0.39%
Nonperforming assets as a percentage of loans held for investment plus total other nonperforming assets(2)	**0.92%**	1.23%	1.13%	0.95%	0.49%

(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) Our calculation of nonperforming loan and asset ratios includes the impact of loans acquired from Chevy Chase Bank. However, we do not report loans acquired from Chevy Chase Bank as nonperforming unless they do not perform in accordance with our expectations as of the purchase date, as we recorded these loans at estimated fair value when we acquired them. The nonperforming loan ratios, excluding the impact of loans acquired from Chevy Chase Bank, for commercial and multifamily real estate, middle market, total commercial banking, home loan, retail banking, total consumer banking, and total nonperforming loans held for investment were 1.35%, 0.75%, 1.11%, 7.22%, 2.21%, 2.03% and 0.81%, respectively, as of December 31, 2011, compared with 2.11%, 1.30%, 1.69%, 6.67%, 2.16%, 2.30% and 1.02%, respectively, as of December 31, 2010. The nonperforming asset ratio, excluding loans acquired from Chevy Chase Bank, was 0.95% and 1.29% as of December 31, 2011 and 2010, respectively.

(3) Other loans are included in retail banking for all years presented.

(4) Includes $86 million and $201 million of foreclosed properties related to loans acquired from Chevy Chase Bank, as of December 31, 2011 and 2010, respectively.

TABLE D NET CHARGE-OFFS[1]

(Dollars in millions)	2011	2010	2009	2008	2007
	Year Ended December 31,				
Reported:					
Average loans held for investment[2]	**$ 128,424**	$ 128,526	$ 99,787	$ 98,971	$ 93,542
Net charge-offs	**3,771**	6,651	4,568	3,478	1,961
Net charge-offs rate[3]	**2.94%**	5.18%	4.58%	3.51%	2.10%
Managed:					
Average loans held for investment[2]	**$ 128,424**	$ 128,622	$ 143,514	$ 147,812	$ 144,727
Net charge-offs	**3,771**	6,657	8,421	6,425	4,162
Net charge-off rate[3]	**2.94%**	5.18%	5.87%	4.35%	2.88%

(1) Net charge-offs reflect charge-offs, net of recoveries, related to our total held-for-investment loan portfolio, which we previously referred to as our managed loan portfolio. The total held-for-investment loan portfolio includes loans recorded on our balance sheet and loans held in our securitization trusts.

(2) The average balances of the acquired Chevy Chase Bank loan portfolio, which are included in the total average loans held for investment used in calculating the net charge-off rates, were $5.0 billion , $6.3 billion and $6.8 billion for 2011, 2010 and 2009, respectively.

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

Table of Contents

TABLE E SUMMARY OF ALLOWANCE FOR LOAN AND LEASE LOSSES

	December 31,				
(Dollars in millions)	**2011**	**2010**	**2009**	**2008**	**2007**
Balance as of beginning of period, as reported	**$ 5,628**	$ 4,127	$ 4,524	$ 2,963	$ 2,180
Impact from January 1, 2010 adoption of new consolidation accounting standards		4,317(1)			
Balance at beginning of period, as adjusted	**5,628**	8,444	4,524	2,963	2,180
Provision for loan and lease losses(2)(3)	**2,401**	3,895	4,230	5,101	2,717
Charge-offs:					
Domestic credit card and installment(3)	**(3,558)**	(6,020)	(3,050)	(2,244)	(1,315)
International credit card and installment	**(752)**	(761)	(284)	(255)	(253)
Consumer banking	**(732)**	(898)	(1,357)	(1,396)	(965)
Commercial banking	**(214)**	(444)	(444)	(87)	(17)
Other loans	**(59)**	(115)	(207)	(169)	(31)
Total charge-offs	**(5,315)**	(8,238)	(5,342)	(4,151)	(2,581)
Recoveries:					
Domestic credit card and installment	**1,036**	1,113	447	425	393
International credit card and installment	**218**	169	52	65	72
Consumer banking	**248**	243	263	178	151
Commercial banking	**37**	54	10	4	4
Other loans	**5**	8	2	1	
Total recoveries	**1,544**	1,587	774	673	620
Net charge-offs	**(3,771)**	(6,651)	(4,568)	(3,478)	(1,961)
Impact from acquisitions, sales and other changes(4)	**(8)**	(60)	(59)	(62)	27
Balance as of end of period	**$ 4,250**	$ 5,628	$ 4,127	$ 4,524	$ 2,963
Allowance for loan and lease losses as a percentage of loans held for investment	**3.13%**	4.47%	4.55%	4.48%	2.91%
Allowance for loan and lease losses by geographic distribution:					
Domestic	**$ 3,778**	$ 5,168	$ 3,928	$ 4,331	$ 2,754
International	**472**	460	199	193	209
Total	**$ 4,250**	$ 5,628	$ 4,127	$ 4,524	$ 2,963
Allowance for loan and lease losses by loan category:					
Domestic card	**$ 2,375**	$ 3,581	$ 1,927	$ 2,544	$ 1,429
International card	**472**	460	199	193	209
Consumer banking	**652**	675	1,076	1,314	1,005
Commercial banking	**711**	826	785	301	153
Other	**40**	86	140	172	167
Total	**$ 4,250**	$ 5,628	$ 4,127	$ 4,524	$ 2,963

(1) Includes an adjustment of $53 million made in the second quarter of 2010 for the impact as of January 1, 2010 of impairment on consolidated loans accounted for as TDRs.

(2) Excludes a negative provision for unfunded lending commitments of $41 million and a provision for unfunded lending commitments of $12 million for 2011 and 2010, respectively.

(3) The reduction in the provision for loan and lease losses attributable to Kohl s was $257 million for 2011. Loss sharing amounts attributable to Kohl s reduced charge-offs by $118 million in 2011. The expected reimbursement from Kohl s netted in our allowance for loan and lease losses was approximately $139 million as of December 31, 2011.

(4) Includes a reduction in our allowance for loan and lease losses of $73 million during the first quarter of 2010 attributable to the sale of certain interest-only option-ARM bonds and the deconsolidation of the related securitization trusts related to Chevy Chase Bank in the first quarter of 2010.

Table of Contents

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

			December 31,		
(Dollars in millions)	**2011**	**2010**	**2009**	**2008**	**2007**
Stockholders equity to non-GAAP tangible common equity					
Total stockholders equity	**$ 29,666**	$ 26,541	$ 26,590	$ 26,611	$ 24,294
Less: Intangible assets(1)	**(13,908)**	(13,983)	(14,107)	(12,445)	(13,480)
Tangible common equity	**$ 15,758**	$ 12,558	$ 12,483	$ 14,166	$ 10,814
Total assets to tangible assets					
Total assets	**$ 206,019**	$ 197,503	$ 169,646	$ 165,913	$ 150,590
Less: Assets from discontinued operations	**(305)**	(362)	(24)		
Total assets from continuing operations	**205,714**	197,141	169,622	165,913	150,590
Less: Intangible assets(1)	**(13,908)**	(13,983)	(14,107)	(12,445)	(13,480)
Tangible assets	**$ 191,806**	$ 183,158	$ 155,515	$ 153,468	$ 137,110
Non-GAAP TCE ratio					
Tangible common equity	**$ 15,758**	$ 12,558	$ 12,483	$ 14,166	$ 10,814
Tangible assets	**191,806**	183,158	155,515	153,468	137,110
TCE ratio(2)	**8.2%**	6.9%	8.0%	9.2%	7.9%
Regulatory capital and non-GAAP Tier 1 common equity ratios					
Total stockholders equity	**$ 29,666**	$ 26,541	$ 26,590	$ 26,611	$ 24,294
Less: Net unrealized gains recorded in AOCI(3)	**(289)**	(368)	(200)	783	(9)
Net losses on cash flow hedges recorded in AOCI(3)	**71**	86	92	215	73
Disallowed goodwill and other intangible assets(4)	**(13,855)**	(13,953)	(14,125)	(12,482)	(13,580)
Disallowed deferred tax assets	**(534)**	(1,150)			
Other	**(2)**	(2)	(10)	(2)	(1)
Tier 1 common equity	**$ 15,057**	$ 11,154	$ 12,347	$ 15,125	$ 10,777
Plus: Tier 1 restricted core capital items(5)	**3,635**	3,636	3,642	1,642	1,632
Tier 1 capital	**$ 18,692**	$ 14,790	$ 15,989	$ 16,767	$ 12,409
Plus: Long-term debt qualifying as Tier 2 capital	**2,438**	2,827	3,018	1,813	1,934
Qualifying allowance for loan and lease losses	**1,979**	3,748	1,581	1,630	1,634
Other Tier 2 components	**23**	29	4	1	
Tier 2 capital	**$ 4,440**	$ 6,604	$ 4,603	$ 3,444	$ 3,568
Total risk-based capital(6)	**$ 23,132**	$ 21,394	$ 20,592	$ 20,211	$ 15,977
Risk-weighted assets(7)	**$ 155,657**	$ 127,043	$ 116,309	$ 121,380	$ 122,456
Tier 1 common equity ratio(8)	**9.7%**	8.8%	10.6%	12.5%	8.8%
Tier 1 risk-based capital ratio(9)	**12.0**	11.6	13.8	13.8	10.1
Total risk-based capital ratio(10)	**14.9**	16.8	17.7	16.7	13.1

(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 equity ratio is a non-GAAP measure calculated based on Tier 1 common equity 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.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

For a discussion of the quantitative and qualitative disclosures about market risk, see MD&A Risk Management Market Risk Management and MD&A Market Risk Profile.

Table of Contents

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Capital One Financial Corporation (the Company or Capital One) is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Company s principal executive and principal financial officers, or persons performing similar functions, and effected by the Company s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

Capital One s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company s assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of the Company s management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management completed an assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2011, based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the COSO criteria.

Based on the assessment performed, management concluded that, as of December 31, 2011, the Company s internal control over financial reporting was effective based on the criteria established by COSO in Internal Control Integrated Framework. Additionally, based upon management s assessment, the Company determined that there were no material weaknesses in its internal control over financial reporting as of December 31, 2011.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2011, has been audited by Ernst and Young LLP, an independent registered public accounting firm, as stated in their accompanying report, which expresses an unqualified opinion on the effectiveness of the Company s internal control over financial reporting as of December 31, 2011.

/s/ RICHARD D. FAIRBANK
Richard D. Fairbank
Chairman of the Board, Chief Executive Officer

and President

/s/ GARY L. PERLIN
Gary L. Perlin
Chief Financial Officer

February 28, 2012

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Capital One Financial Corporation:

We have audited Capital One Financial Corporation s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Capital One Financial Corporation s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Capital One Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Capital One Financial Corporation as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders equity and cash flows for each of the three years in the period ended December 31, 2011 of Capital One Financial Corporation and our report dated February 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 28, 2012

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Capital One Financial Corporation:

We have audited the accompanying consolidated balance sheets of Capital One Financial Corporation as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital One Financial Corporation at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for transfers of financial assets and consolidations effective January 1, 2010.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Capital One Financial Corporation s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 28, 2012

Table of Contents

Item 8. Financial Information and Supplementary Data

CAPITAL ONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
(Dollars in millions, except per share-related data)	**2011**	**2010**	**2009**
Interest income:			
Loans held for investment, including past-due fees	**$ 13,774**	$ 13,934	$ 8,757
Investment securities	**1,137**	1,342	1,610
Other	**76**	77	297
Total interest income	**14,987**	15,353	10,664
Interest expense:			
Deposits	**1,187**	1,465	2,093
Securitized debt obligations	**422**	809	282
Senior and subordinated notes	**300**	276	260
Other borrowings	**337**	346	332
Total interest expense	**2,246**	2,896	2,967
Net interest income	**12,741**	12,457	7,697
Provision for loan and lease losses	**2,360**	3,907	4,230
Net interest income after provision for loan and lease losses	**10,381**	8,550	3,467
Non-interest income:			
Servicing and securitizations	**44**	7	2,280
Service charges and other customer-related fees	**1,979**	2,073	1,997
Interchange fees, net	**1,318**	1,340	502
Total other-than-temporary losses	**(131)**	(128)	(287)
Less: Non-credit component of other-than-temporary losses recorded in AOCI	**110**	63	255
Net other-than-tempora			