CAPITAL ONE FINANCIAL CORP Form 10-Q November 08, 2007 Table of Contents

## **UNITED STATES**

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# **FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2007.

# " TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED).

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-13300

# **CAPITAL ONE FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of

Incorporation or Organization)

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

(703) 720-1000

54-1719854 (I.R.S. Employer

Identification No.)

22102 (Zip Code)

#### Registrant s telephone number, including area code:

#### (Not applicable)

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

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

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

Large accelerated filer x Accelerated filer "Non-accelerated filer "

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

As of October 31, 2007 there were 418,512,173 shares of the registrant s Common Stock, par value \$.01 per share, outstanding.

## CAPITAL ONE FINANCIAL CORPORATION

## FORM 10-Q

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September 30, 2007

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## Part 1. Financial Information

Item 1. Financial Statements

## CAPITAL ONE FINANCIAL CORPORATION

Condensed Reported Consolidated Balance Sheets (unaudited)

## (Dollars in thousands, except share and per share data)

	September 30	December 31
	2007	2006
Assets:		
Cash and due from banks	\$ 1,819,121	\$ 2,817,519
Federal funds sold and resale agreements	1,922,735	1,099,156
Interest-bearing deposits at other banks	703,805	743,821
Cash and cash equivalents	4,445,661	4,660,496
Securities available for sale	19,959,247	15,246,887
Mortgage loans held for sale	1,454,457	10,435,295
Loans held for investment	95,405,217	96,512,139
Less: Allowance for loan and lease losses	(2,320,000)	(2,180,000)
Net loans held for investment	93,085,217	94,332,139
Accounts receivable from securitizations	6,905,859	4,589,235
Premises and equipment, net	2,268,034	2,203,280
Interest receivable	793,693	816,426
Goodwill	12,952,838	13,635,435
Other	5,289,829	3,820,092
Total assets	\$ 147,154,835	\$ 149,739,285
Liabilities:		
Non-interest-bearing deposits	\$ 10,840,189	\$ 11,648,070
Interest-bearing deposits	72,502,625	74,122,822
Total deposits	83,342,814	85,770,892
Senior and subordinated notes	10,784,182	9,725,470
Other borrowings	22,722,519	24,257,007
Interest payable	552,674	574,763
Other	4,965,794	4,175,947
Total liabilities	122,367,983	124,504,079
<b>Stockholders Equity:</b> Preferred Stock, par value \$.01 per share; authorized 50,000,000 shares, none issued or outstanding Common stock, par value \$.01 per share; authorized 1,000,000,000 shares, 418,346,994 and 412,219,973		
	4,183	4,122
issued as of September 30, 2007 and December 31, 2006, respectively	4,185	4,122

issued as of September 30, 2007 and December 31, 2006, respectively	4,183	4,122
Paid-in capital, net	15,768,525	15,333,137
Retained earnings	11,049,042	9,760,184
Cumulative other comprehensive income	346,184	266,180
	(2,381,082)	(128,417)

Less: Treasury stock, at cost; 32,923,076 and 2,294,586 shares as of September 30, 2007 and December 31, 2006, respectively

Total stockholders equity	24,786,852	25,235,206
Total liabilities and stockholders	equity \$147,154,835	\$ 149,739,285

See Notes to Condensed Reported Consolidated Financial Statements.

## CAPITAL ONE FINANCIAL CORPORATION

## **Condensed Reported Consolidated Statements of Income**

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

	Three Mor	nths Ended	Nine Months Ended		
	Septen 2007	1ber 30 2006	Septem 2007	iber 30 2006	
Interest Income:					
Loans held for investment, including past-due fees	\$ 2,381,096	\$ 1,814,803	\$ 6,963,349	\$ 5,044,362	
Securities available for sale	252,550	151,616	694,608	483,078	
Other	133,321	98,652	460,005	313,370	
Total interest income	2,766,967	2,065,071	8,117,962	5,840,810	
Interest Expense:					
Deposits	740,091	442,571	2,220,177	1,262,412	
Senior and subordinated notes	144,643	96,300	417,250	275,361	
Other borrowings	257,759	231,685	712,937	604,563	
Total interest expense	1,142,493	770,556	3,350,364	2,142,336	
Net interest income	1,624,474	1,294,515	4,767,598	3,698,474	
Provision for loan and lease losses	595,534	430,566	1,342,292	963,281	
	575,554	450,500	1,572,272	705,201	
Net interest income after provision for loan and lease losses	1,028,940	863,949	3,425,306	2,735,193	
Non-Interest Income:			, ,		
Servicing and securitizations	1,354,303	1,071,091	3,569,281	3,250,201	
Service charges and other customer-related fees	522,374	459,125	1,484,820	1,308,254	
Mortgage servicing and other	52,661	44,520	172,476	118,378	
Interchange	103,799	150,474	347,889	401,503	
Other	116,525	36,175	321,417	251,213	
Total non-interest income	2,149,662	1,761,385	5,895,883	5,329,549	
Non-Interest Expense:	2,149,002	1,701,505	5,075,005	5,527,547	
Salaries and associate benefits	627,358	554,504	1,970,433	1,607,113	
Marketing	332,693	368,498	989,654	1,048,964	
Communications and data processing	194,551	183,020	569,405	524,958	
Supplies and equipment	134,639	111,625	384,971	322,837	
Restructuring expense	19,354	111,025	110,428	522,057	
Occupancy	77,597	49,710	230,835	151,840	
Other	548,029	459,272	1,687,077	1,325,293	
Total non-interest expense	1,934,221	1,726,629	5,942,803	4,981,005	
Income from continuing operations before income taxes	1,244,381	898,705	3,378,386	3,083,737	
Income taxes	428,010	310,866	1,108,279	1,059,972	
		210,000	1,100,217	1,000,012	
Income from continuing operations, net of tax	816,371	587,839	2,270,107	2,023,765	
(Loss) from discontinued operations, net of tax	(898,029)	201,007	(926,343)	2,020,700	
Net (loss) income	\$ (81,658)	\$ 587,839	\$ 1,343,764	\$ 2,023,765	

Basic earnings per share:				
Income from continuing operations	\$ 2.11	\$ 1.95	\$ 5.74	\$ 6.73
(Loss) from discontinued operations	(2.32)		(2.34)	
Net (loss) income	\$ (0.21)	\$ 1.95	\$ 3.40	\$ 6.73
Diluted earnings per share				
Income from continuing operations	\$ 2.09	\$ 1.89	\$ 5.66	\$ 6.53
Loss from discontinued operations	(2.30)		(2.31)	
Net (loss) income	\$ (0.21)	\$ 1.89	\$ 3.35	\$ 6.53
Dividends paid per share	\$ 0.03	\$ 0.03	\$ 0.08	\$ 0.08

See Notes to Condensed Reported Consolidated Financial Statements.

## CAPITAL ONE FINANCIAL CORPORATION

## Condensed Reported Consolidated Statements of Changes in Stockholders Equity

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

Common S	Stock			Cumulative		
				Other		Total
		Paid-In	( Retained	Comprehensiv	e Treasury	Stockholders
Shares	Amount	Capital, Net	Earnings	Income (Loss)	Stock	Equity
302,786,444	\$ 3,028	\$ 6,848,544	\$ 7,378,015	\$ 6,129	\$ (106,802)	\$ 14,128,914
			2,023,765			2,023,765
				· · · · ·		19,206
				161,342		161,342
				(12,743)		(12,743)
				167,805		167,805
						2,191,570
			(24,210)			(24,210)
					(8,575)	(8,575)
689,489	7	27,670				27,677
3,079,235	30	233,058				233,088
		128,513				128,513
306,555,168	\$ 3,065	\$ 7,237,785	\$ 9,377,570	\$ 173,934	\$ (115,377)	\$ 16,676,977
412,219,973	\$ 4,122	\$ 15,333,137		\$ 266,180	\$ (128,417)	\$ 25,235,206
			(31,830)			(31,830)
			8,809			8,809
			1,343,764			1,343,764
				(1,560)		(1,560)
				(2,028)		(2,028)
	<b>Shares</b> 302,786,444	302,786,444 \$ 3,028	Shares     Amount     Capital, Net       302,786,444     \$ 3,0288     \$ \$ 6,848,544       302,786,444     \$ 3,0288     \$ \$ 6,848,544       4     3,0288     \$ \$ 8       5     4,848,544     \$ 8       6     4,848,544     \$ 8       6     4,848,544     \$ 8       6     4,848,544     \$ 8       6     4,848,544     \$ 8       6     4,848,544     \$ 8       7     7,870,644     \$ 8       6     7     27,670,730,730,730,730,730,730,730,730,730,7	Paid-In     Retained       Shares     Amount     Capital, Net     Earnings       302,786,444     \$3,028     \$ 6,848,544     \$7,378,015       2,023,765     2,023,765     2,023,765       4     5     5     5       5     5     5     2,023,765       689,489     7     27,670     (24,210)       689,489     7     27,670     (24,210)       3,079,235     30     233,058     128,513       306,555,168     \$ 3,065     \$ 7,237,785     \$9,377,570       412,219,973     \$4,122     \$ 15,333,137     \$9,760,184 (31,830)	Shares     Amount     Sale     Capital Ne     Earnings     Isome (Loss)       302,786,444     \$ 3,028     \$ 2,021,061     \$ 2,023,765     \$ 2,023,765     \$ 2,023,765     \$ 19,206       302,786,444     \$ 3,028     \$ 2,023,765     \$ 19,206     \$ 19,206     \$ 19,206       4     \$ 1,028     \$ 1,028     \$ 1,028     \$ 19,206     \$ 10,302       5     \$ 1,028     \$ 1,028     \$ 1,029     \$ 10,204     \$ 10,204       6     \$ 1,028     \$ 1,029     \$ 10,204     \$ 10,204     \$ 10,204       6     \$ 1,029     \$ 1,029     \$ 10,204     \$ 10,204     \$ 10,204       6     \$ 1,029     \$ 1,029     \$ 10,204     \$ 10,204     \$ 10,204       6     \$ 1,029     \$ 1,029     \$ 1,029     \$ 10,204     \$ 10,204       6     \$ 2,029     \$ 1,029     \$ 1,029     \$ 1,029     \$ 1,029       306,555,168     \$ 3,006     \$ 2,023,058     \$ 1,029     \$ 26,189     \$ 26,189       412,219,973     \$ 4,122     \$ 1,233,137     \$ 1,343,764     \$ 26,19	Shares     Anoma     2     Paid-In     Retaine     Income 5 (302,786,444)     Saoce       302,786,444     \$3,002     \$     \$8,848,544     \$7,378,015     \$     \$     \$ (106,802)       302,786,444     \$3,002     \$     \$ (202,786,444)     \$ (106,802)     \$ (106,802)       302,786,444     \$ (30,02)     \$ (202,786,445)     \$ (106,802)     \$ (106,802)       302,786,444     \$ (30,02)     \$ (202,786,445)     \$ (106,802)     \$ (106,802)       30,792,015     \$ (106,802)     \$ (106,802)     \$ (106,802)     \$ (106,802)       689,489     \$ (202,767)     \$ (107,815)     \$ (107,815)     \$ (107,815)       689,489     \$ (203,016)     \$ (233,016)     \$ (233,016)     \$ (233,016)     \$ (107,817)       30,079,203     \$ (30,05)     \$ (233,016)     \$ (233,016)     \$ (233,016)     \$ (233,016)     \$ (26,180)     \$ (101,312)       412,219,973     \$ (31,02)     \$ (233,016)     \$ (233,016)     \$ (26,180)     \$ (102,417)       51,014,120     \$ (233,016)     \$ (233,016)     \$ (26,180)     \$ (102,417) <t< td=""></t<>

	Common S	Stock		Cumulative			
					Other		Total
				С	omprehensive		Total
			Paid-In	Retained	<b>r</b>	Treasury	Stockholders
					Income		
(In thousands, except share and per share data)	Shares	Amount	Capital, Net	Earnings	(Loss)	Stock	Equity
Foreign currency translation adjustments					127,754		127,754
Unrealized losses on cash flow hedging							
instruments, net of income tax benefit of							
\$22,833					(44,162)		(44,162)
Other comprehensive income					80,004		80,004
					, i i i i i i i i i i i i i i i i i i i		
Comprehensive income							1,423,768
Cash dividends - \$.08 per share				(31,885)			(31,885)
Purchase of treasury stock						(2,252,665)	(2,252,665)
Issuances of common stock and restricted							
stock, net of forfeitures	1,234,190	13	28,023				28,036
Exercise of stock options and related tax			, í				,
benefits of exercises and restricted stock							
vesting	5,030,089	49	273,708				273,757
Compensation expense for restricted stock	, ,		, í				,
awards and stock options			139,379				139,379
Adjustment to issuance of common stock for							,
acquisition	(137,258)	(1)	(10,463)				(10,464)
Allocation of ESOP shares	. , ,		4,741				4,741
Balance Santambar 20, 2007	419 246 004	¢ 4 102	φ 1 <i>Ε Εζ</i> Ω ΕΔΕ	¢ 11 040 042	¢ 246 194	¢ (2 201 002)	¢ 04 504 050

Balance, September 30, 2007

418,346,994 \$4,183 \$15,768,525 \$11,049,042 \$346,184 \$(2,381,082) \$24,786,852

See Notes to Condensed Reported Consolidated Financial Statements.

## CAPITAL ONE FINANCIAL CORPORATION

## **Condensed Consolidated Statements of Cash Flows**

(Dollars in thousands) (unaudited)

#### Nine Months Ended

Gains on extinguishment of debt     (17,444)       Mortgage loans held for sale:     729,458     (113,725)       Transfers and originations     7,712     770       Proceeds from sales     4,905,876     Stock plan compensation expense     309,969     150,443       Charges in assets and liabilities:     0     32,234     34,438       Decrease in interest receivable from securitizations     (2,318,418)     (71,529)       Increase in accounts receivable from securitizations     (2,318,418)     (71,529)       Increase in other assets     (1,378,508)     (91,084)       (Decrease) in other assets     (100,999)     Net cash provided by operating activities attributable to discontinued operations     2,196,050       Net cash provided by operating activities     8,372,393     2,546,805       Investing Activities:     2     2,915,064       Proceeds from maturities of securities available for sale     5,258,692     2,915,064       Proceeds from securities available for sale     9,65,362     2,915,064       Proceeds from securities available for sale     9,65,362     2,907,624       Net cash provided by operating activities     9,875,362     9,907,624		Septemb	oer 30,
Income from continuing operations, net of tax (22,02,143) (22,02,765) (Loss) from discontinued operations, net of tax (926,343) (22,023,765) Net income (20,026,343) (22,023,765) Adjustments to reconcile net income to cash provided by operating activities: Provision for loan and lease losses (20,026,043) (20,032,765) (Gains on sales of securities available for sale (68,366) (22,150) (Gains on sales of acut loans (10,927) (27,455) Gains on extinguishment of debt (10,77,444) Mortgage loans held for sale: Transfers and originations (20,926,768) (11,724) Proceeds from sales (20,926,768) (11,725, 20,927) Proceeds from sales (20,927,927) (22,458) (11,775,908) (11,725, 20,927) Coccess in interest receivable from securitizations (2,318,418) (715,206) Increase in ducounts receivable from securitizations (2,318,418) (715,206) (11,778,508) (91,044) (Decrease) in crease in interest payable (11,778,508) (91,044) (Decrease) in crease in interest payable (11,778,508) (91,044) (Decrease) in other liabilities Decrease in interest payable (11,778,508) (91,044) (Decrease) in other liabilities (2,2429) (15,319) Increase (decrease) in other liabilities Decrease in interest payable (11,778,508) (91,044) (Decrease) in other liabilities Net cash provided by operating activities attributable to discontinued operations (2,2429) (15,319) Increase (decrease) in other liabilities Decrease from maturities of securities available for sale (2,2450) Net cash provided by operating activities (2,2450,78) (5,034,885) Proceeds from maturities of securities available for sale (2,2450,78) (10,0464) Net cash used in investing activities (2,2450,78) (12,039,85) Net payments for companies acquired (11,248,852) Net acter and investing activities (2,248,077) Financing Activities: Financing Activities: Financing Activities: Financing Activities: Financing Activities: Financing Activities: Financing Activities: Financi		2007	2006
(Loss) from discontinued operations, net of tax (926,343)   Net income 1,343,764 2.023,765   Adjustments to reconcile net income to cash provided by operating activities: 963,281   Provision for losses 1,342,392 963,281   Depreciation and anse losses 1,342,392 963,281   Oran and lease losses 1,342,392 963,281   Operation and more losses 1,342,392 963,281   Cians on sales of auto loans (10,927) (27,455)   Gains on extinguishment of debt (17,444) 500   Mortgage loans held for sale: 7,712 700   Transfers and originations 7,712 700   Proceeds from sales 4,905,876 500   Stock plan compensation expense 309,969 150,443   Changes in assets and liabilities: 32,234 34,438   Decrease in interest receivable 32,234 34,438   Increase in counts receivable from securitizations (2,318,418) (113,75,508) (91,084)   (Decrease) in corter payable (22,429) 15,319   Increase in atterest receivable for sale 965,185 (100,999)   Net cash provided by operating activities attributable to discontinued operations 2,196,050   Net cash provided by operating activities attributable fo			
Net income1,343,7642,023,765Adjustments to reconcile net income to cash provided by operating activities:1,342,292963,281Provision for loan and lease losses1,342,292963,281Depreciation and amorization, net482,595382,966Gains on sales of securities available for sale(683,006)25,150Gains on sales of auto loans(10,927)(27,455)Gains on sales of auto loans(11,744)001927)Mortgage loans held for sale:77,12Transfers and originations729,458(113,725)Loss on sales9,096,8765006Stock plan compensation expense309,969150,443Charges in assets and liabilities:22,23434,438Decrease in interest receivable from securitizations(2,318,418)(715,296)Increase in decounts receivable from securitizations(2,318,418)(715,296)Increase in dure in assets(11,378,508)(91,034)Increase in dure in assets(11,378,508)(90,992)Net cash provided by operating activities83,8475(100,999)Net cash provided by operating activities9,215,06410,880,031Proceeds from sales of securities available for sale9,65,1852,515,062Proceeds from sales of securities available for sale9,65,1852,515,064Proceeds from sales of securities available for sale9,65,1852,513,019Proceeds from securitizations of loans9,875,3629,907,624Net increase in loans held for investment(8,921,503)		1 ) ) )	\$ 2,023,765
Adjustments to reconcile net income to cash provided by operating activities:   1,342,292   963,281     Provision for loan and lease losses   1,342,292   963,281     Orgenetation and amortization, net   482,595   382,968     (Gains) losses on sales of securities available for sale   (68,306)   25,150     Gains on sales of auto loans   (10,927)   (27,455)     Transfers and originations   729,458   (113,725)     Loss on sales   7,712   Proceeds from sales   309,969   150,443     Charges in assets and liabilities:   Decrease in intrest receivable   32,234   34,438     Increase in accounts receivable from securitizations   (23,431,418)   (715,296)     Increase in interest receivable   32,234   34,438     Increase in interest payable   (22,429)   15,319     Increase in other tabibilities   838,475   (100,999)     Net cash provided by operating activities attributable to discontinued operations   2,196,050   10     Net cash provided by operating activities and lable for sale   965,185   2,513,479     Proceeds from sales of securities available for sale   965,185   2,915,064     Proceeds from sales of securities available for	(Loss) from discontinued operations, net of tax	(926,343)	
Provision for lean and lease losses 1, 142,292 963,281 Depreciation and amortization, net 482,595 382,968 (Gianis) losses on sales of securities available for sale 668,306 (25,150 Gains on setting available for sale (17,444) Mortgage loans held for sale: Transfers and originations 729,458 (113,725 Loss on sales of auto nogenesation expense 309,969 150,443 Changes in assets and liabilities: Decrease in interest receivable from securitizations (2,318,418) (715,296 Increase in counts receivable from securitizations (2,318,418) (715,296 Increase in counts receivable from securitizations (2,318,418) (715,296 Increase in counts receivable from securitizations (2,318,418) (715,296) Increase in counts receivable from securitizations (2,318,418) (715,296) Increase in counts receivable from securitizations (2,318,418) (715,296) Increase in other assets (1,378,508) (91,084) (1,378,508) (91,084) (1,224,29) Increase in interest payable (22,29) Increase (1,00,999) Net cash provided by operating activities attributable to discontinued operations 2,196,050 Investing Activities Investing Activities Investing Activities Investing Activities available for sale (10,880,031) (5,034,885 Proceeds from sales of securities available for sale 965,185 2,2915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds	Net income	1,343,764	2,023,765
Provision for lean and lease losses 1, 142,292 963,281 Depreciation and amortization, net 482,595 382,968 (Gianis) losses on sales of securities available for sale 668,306 (25,150 Gains on setting available for sale (17,444) Mortgage loans held for sale: Transfers and originations 729,458 (113,725 Loss on sales of auto nogenesation expense 309,969 150,443 Changes in assets and liabilities: Decrease in interest receivable from securitizations (2,318,418) (715,296 Increase in counts receivable from securitizations (2,318,418) (715,296 Increase in counts receivable from securitizations (2,318,418) (715,296 Increase in counts receivable from securitizations (2,318,418) (715,296) Increase in counts receivable from securitizations (2,318,418) (715,296) Increase in counts receivable from securitizations (2,318,418) (715,296) Increase in other assets (1,378,508) (91,084) (1,378,508) (91,084) (1,224,29) Increase in interest payable (22,29) Increase (1,00,999) Net cash provided by operating activities attributable to discontinued operations 2,196,050 Investing Activities Investing Activities Investing Activities Investing Activities available for sale (10,880,031) (5,034,885 Proceeds from sales of securities available for sale 965,185 2,2915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds from sales of securities available for sale 965,185 2,915,064 Proceeds	Adjustments to reconcile net income to cash provided by operating activities:	, ,	
Depreciation and amorization, net     482.595     382.968       (Gains) losses on sales of securities available for sale     (68,306)     25,150       Gains on sales of auto loans     (10,927)     (27,455       Gains on sales of auto loans     (10,927)     (27,455       Gains on sales of auto loans     (113,725)     (113,725)       Transfers and originations     729,458     (113,725)       Loss on sales     7,712     Proceeds from sales     (113,725)       Proceeds from sales     309,969     150,443     Changes in ascest and liabilities:     02       Decrease in interest receivable     32,234     34,438     Increase in conter ascets     (1,378,508)     (01,08,90)       Increase in other ascets     (1,378,508)     (01,084)     (02,429)     15,319       Increase in other ascets     (1,378,508)     (01,089)     Net cash provided by operating activities attributable to discontinued operations     2,196,050       Net cash provided by operating activities     100,880,031)     (5,034,885)     100,999       Net cash provided by operating activities and labe for sale     5,258,692     2,915,064       Proceeds from sales of securities available		1,342,292	963,281
(Gains) losses on sales of securities available for sale(68,306)25,150Gains on sales of auto loans(10,927)(27,455)Gains on stinguishment of debt(17,444)Mortgage loans held for sale:729,458(113,725)Transfers and originations729,458(113,725)Loss on sales7,712Proceeds from sales7,712Proceeds from sales309,969150,443Changes in assets and liabilities:32,23434,438Decrease in interest receivable32,23434,438Increase in accounts receivable from securitizations(2,318,418)(715,296)Increase in counts receivable from securitizations(2,318,418)(715,296)Increase in counts receivable from securitizations(2,348,418)(716,296)Increase in other assets(1,378,508)(91,084)(Decrease) in other assets(1,378,508)(91,084)(Decrease) in other liabilities838,475(100,999)Net cash provided by operating activities attributable to discontinued operations2,196,050Net cash provided by operating activities available for sale(0,880,031)(5,034,885)Proceeds from maturities of securities available for sale965,1852,513,479Proceeds from sales of securities available for sale9,255,629,907,624Net cash used in investing activities(3,557,430)(4,880,077)Principal recoveries of loans previously charged off469,392418,518Additions of premises and equipment, net(344,065)(550,934) <td< td=""><td>Depreciation and amortization, net</td><td></td><td>382,968</td></td<>	Depreciation and amortization, net		382,968
Gains on extinguishment of debt     (17,444)       Mortgage loans held for sale:     729,458     (113,725)       Loss on sales     7,712     700       Proceeds from sales     4,905,876     500,471       Stock plan compensation expense     309,969     150,443       Changes in assets and liabilities:     32,234     34,438       Decrease in interest receivable from securitizations     (2,318,418)     (715,296)       Increase in accounts receivable from securitizations     (2,318,418)     (715,296)       Increase in interest payable     (22,429)     15,3119       Increase in other assets     (100,999)     Net cash provided by operating activities attributable to discontinued operations     2,196,050       Net cash provided by operating activities     8,372,393     2,546,805       Investing Activities:     2     2,915,064       Proceeds from maturities of securities available for sale     5,258,692     2,915,064       Proceeds from securities available for sale     9,65,185     2,513,479       Proceeds from securities available for sale     9,65,362     9,907,624       Net cash provided by operating activities     9,875,362     9,907,624		(68,306)	25,150
Gains on extinguishment of debt     (17,444)       Mortgage loans held for sale:     729,458     (113,725)       Loss on sales     7,712     700       Proceeds from sales     4,905,876     500,471       Stock plan compensation expense     309,969     150,443       Changes in assets and liabilities:     32,234     34,438       Decrease in interest receivable from securitizations     (2,318,418)     (715,296)       Increase in accounts receivable from securitizations     (2,318,418)     (715,296)       Increase in interest payable     (22,429)     15,3119       Increase in other assets     (100,999)     Net cash provided by operating activities attributable to discontinued operations     2,196,050       Net cash provided by operating activities     8,372,393     2,546,805       Investing Activities:     2     2,915,064       Proceeds from maturities of securities available for sale     5,258,692     2,915,064       Proceeds from securities available for sale     9,65,185     2,513,479       Proceeds from securities available for sale     9,65,362     9,907,624       Net cash provided by operating activities     9,875,362     9,907,624	Gains on sales of auto loans	(10,927)	(27,455)
Mortgage loars held for sale:     729,458     (113,725)       Transfers and originations     7,712       Proceeds from sales     4,905,876       Stock plan compensation expense     309,909     150,443       Changes in assets and liabilities:     322,324     34,438       Decrease in interest receivable     32,234     34,438       Increase in other assets     (1,378,508)     (91,084)       (Decrease) increase in interest payable     (22,429)     15,319       Increase in other assets     (1,378,508)     (91,084)       (Decrease) in other liabilities     838,475     (100,999)       Net cash provided by operating activities attributable to discontinued operations     2,196,050       Net cash provided by operating activities     8,372,393     2,546,805       Investing Activities:     9     100,880,031)     (5,034,885)       Proceeds from sales of securities available for sale     9,258,602     2,915,064       Proceeds from sales of securities available for sale     9,651,85     2,513,479       Proceeds from securities available for sale     9,875,362     9,907,624       Net increase in loans held for investment     (8,921,503) </td <td>Gains on extinguishment of debt</td> <td></td> <td></td>	Gains on extinguishment of debt		
Transfers and originations   729,488   (113,725)     Loss on sales   7,712     Proceeds from sales   309,969   150,443     Changes in assets and liabilities:   0   322,34   34,438     Increase in interest receivable   32,234   34,438   (1,378,508)   (91,084)     Decrease in interest receivable from securitizations   (2,318,418)   (715,296)   (10,299)     Increase in other assets   (1,378,508)   (91,084)   (Decrease) in other liabilities   838,475   (100,999)     Net cash provided by operating activities attributable to discontinued operations   2,196,050   100,999   Net cash provided by operating activities attributable to discontinued operations   2,196,050     Investing Activities:   8,372,393   2,546,805     Investing Activities:   9   9   150,4485     Proceeds from maturities of securities available for sale   9,258,692   2,915,064   100,689,031   (5,034,885)     Proceeds from sales of securities available for sale   9,875,362   9,907,624   148,581   2,418,581   2,513,479     Proceeds from securitizations of loans   9,875,362   9,907,624   148,581   2,416,063   (15,068,945) </td <td></td> <td></td> <td></td>			
Loss on sales7,712Proceeds from sales4,905,876Stock plan compensation expense309,969150,443Changes in assets and liabilities:Decrease in interest receivable32,234At,438Increase in accounts receivable from securitizations(2,318,418)Increase in accounts receivable from securitizations(1,378,508)(1,378,508)(91,084)(Decrease) in interest payable(22,429)Increase in accounts receivable from securitizations(22,429)Increase (decrease) in other liabilities838,475(Decrease) increase in other liabilities838,475Net cash provided by operating activities attributable to discontinued operations2,196,050Net cash provided by operating activities8,372,393Proceeds from maturities of securities available for sale965,185Proceeds from sales of securities available for sale965,185Proceeds from sales of securities available for sale9,875,362Proceeds from sales of securities available for sale9,875,362Proceeds from sales of securities available for sale9,875,362Principal recoveries of loans previously charged off469,392Additions of premises and equipment, net(314,063)(10,464)(10,464)Net cash used in investing activities(3,257,430)Met decrease in deposits(2,428,078)Companies acquired(1,226,882)Mut decrease in other borrowings151,993Loss of solior notes(442,500)(1,226,882)(1,226,882)<		729,458	(113,725)
Stock plan compensation expense $309,969$ $150,443$ Changes in assets and liabilities: $32,234$ $34,438$ Decrease in interest receivable $(2,318,418)$ $(715,296)$ Increase in other assets $(1,378,508)$ $(91,084)$ (Decrease) in interest payable $(2,2,429)$ $15,319$ Increase (decrease) in other liabilities $838,475$ $(10,0999)$ Net cash provided by operating activities attributable to discontinued operations $2,196,050$ Investing Activities: $8,372,393$ $2,546,805$ Investing Activities: $90,975,362$ $2,915,064$ Proceeds from maturities of securities available for sale $965,185$ $2,513,479$ Proceeds from sales of securities available for sale $98,75,362$ $9,907,624$ Proceeds from securitizations of loans $9,875,362$ $9,907,624$ Net cash used in investment $(8,921,503)$ $(15,068,945)$ Principal recoveries of loans previously charged off $469,392$ $418,581$ Additions of premises and equipment, net $(10,464)$ Net cash used in investing activities $(2,428,078)$ Net cash used in investing activities $(2,428,078)$ $(320,117)$ Net decrease in deposits $(2,428,078)$ $(320,117)$ Net decrease in deposits $(2,428,078)$ $(320,117)$ Net decrease in other borrowings $515,093$ $2,088,027$ Stanace of senior notes $1,495,740$ $3,188,372$ Maturities of senior notes $(462,500)$ $(1,226,882)$	Loss on sales	7,712	
Changes in assets and liabilities:Decrease in interest receivable $32,234$ $34,438$ Increase in counts receivable from securitizations $(2,318,418)$ $(715,296)$ Increase in other assets $(1,378,508)$ $(91,084)$ (Decrease) increase in interest payable $(22,429)$ $15,319$ Increase (decrease) in other liabilities $838,475$ $(100,992)$ Net cash provided by operating activities attributable to discontinued operations $2,196,050$ Investing Activities: $8,372,393$ $2,546,805$ Investing Activities: $8,372,393$ $2,546,805$ Investing Activities: $9,875,362$ $2,915,064$ Proceeds from sales of securities available for sale $9,875,362$ $2,917,064$ Proceeds from sales of securitizations of loans $9,875,362$ $9,907,624$ Princerase in loans held for investment $(8,921,503)$ $(15,068,945)$ Princerase in loans held for investment $(314,063)$ $(530,995)$ Net cash used in investing activities $(2,428,078)$ $(320,117)$ Net cash used in investing activities $(2,428,078)$ $(320,117)$ Net decrease in deposits $(2,428,078)$ $(320,117)$ Net decrease in other borrowings $515,093$ $2,088,027$ Sumarcing Activities: <t< td=""><td>Proceeds from sales</td><td>4,905,876</td><td></td></t<>	Proceeds from sales	4,905,876	
Changes in assets and liabilities:Decrease in interest receivable $32,234$ $34,438$ Increase in counts receivable from securitizations $(2,318,418)$ $(715,296)$ Increase in other assets $(1,378,508)$ $(91,084)$ (Decrease) increase in interest payable $(22,429)$ $15,319$ Increase (decrease) in other liabilities $838,475$ $(100,992)$ Net cash provided by operating activities attributable to discontinued operations $2,196,050$ Investing Activities: $8,372,393$ $2,546,805$ Investing Activities: $8,372,393$ $2,546,805$ Investing Activities: $9,875,362$ $2,915,064$ Proceeds from sales of securities available for sale $9,875,362$ $2,917,064$ Proceeds from sales of securitizations of loans $9,875,362$ $9,907,624$ Princerase in loans held for investment $(8,921,503)$ $(15,068,945)$ Princerase in loans held for investment $(314,063)$ $(530,995)$ Net cash used in investing activities $(2,428,078)$ $(320,117)$ Net cash used in investing activities $(2,428,078)$ $(320,117)$ Net decrease in deposits $(2,428,078)$ $(320,117)$ Net decrease in other borrowings $515,093$ $2,088,027$ Sumarcing Activities: <t< td=""><td>Stock plan compensation expense</td><td>309,969</td><td>150,443</td></t<>	Stock plan compensation expense	309,969	150,443
Decrease in interest receivable32,23434,438Increase in accounts receivable from securitizations(2,318,418)(715,296)Increase in accounts receivable from securitizations(1,378,508)(91,084)(Decrease) increase in interest payable(22,429)15,319Increase (decrease) in other liabilities838,475(100,999)Net cash provided by operating activities attributable to discontinued operations2,196,050Net cash provided by operating activities8,372,3932,546,805Investing Activities:Purchases of securities available for sale(10,880,031)(5,034,885)Proceeds from maturities of securities available for sale965,1852,151,3479Proceeds from sales of securities available for sale9,875,3629,907,624Proceeds from sacuritizations of loans9,875,3629,907,624Net increase in lons held for investment(8,921,503)(15,068,945)Principal recoveries of loans previously charged off409,392418,581Additions of premises and equipment, net(314,063)(530,995)Net cash used in investing activities(2,428,078)(320,117)Net cash used in investing activities(3,557,430)(4,880,077)Financing Activities:(2,428,078)(320,117)Net increase in other borrowings(3,507,430)(4,880,077)Susances of senior notes(1,495,740)3,188,372Maturities of senior notes(462,500)(1,226,882)		, i i i i i i i i i i i i i i i i i i i	
Increase in other assets(1,378,508)(91,084)(Decrease) increase in interest payable(22,429)15,319Increase (decrease) in other liabilities838,475(100,999)Net cash provided by operating activities attributable to discontinued operations2,196,050Net cash provided by operating activities8,372,3932,546,805Investing Activities:Purchases of securities available for sale(10,880,031)(5,034,885)Proceeds from maturities of securities available for sale9,655,1852,915,064Proceeds from sales of securities available for sale9,655,3529,907,624Proceeds from sales of securities available for sale9,875,3629,907,624Net increase in loans held for investment(8,921,503)(15,068,945)Principal recoveries of loans previously charged off469,392418,581Additions of premises and equipment, net(314,063)(530,995)Net cash used in investing activities(3,557,430)(4,880,077)Financing Activities:1495,7403,188,372Net decrease in deposits(2,428,078)(320,117)Net increase in other borrowings5,15,0932,088,027Susances of senior notes1,495,7403,188,372Maturities of senior notes(462,500)(1,226,882)	-	32,234	34,438
(Decrease) increase in interest payable(22,429)15,319Increase (decrease) in other liabilities838,475(100,999)Net cash provided by operating activities attributable to discontinued operations2,196,050Net cash provided by operating activities8,372,3932,546,805Investing Activities:8,372,3932,546,805Purchases of securities available for sale(10,880,031)(5,034,885)Proceeds from maturities of securities available for sale5,258,6922,915,064Proceeds from securitizations of loans9,875,3629,907,624Net increase in loans held for investment(8,921,503)(15,068,945)Principal recoveries of loans previously charged off469,392418,581Additions of premises and equipment, net(314,063)(530,995)Net cash used in investing activities(3,557,430)(4,880,077)Financing Activities:(10,464)(314,063)Net decrease in deposits(2,428,078)(320,117)Net increase in other borrowings515,0932,088,027Issuances of senior notes1,495,7403,188,372Maturities of senior notes1,495,7403,188,372	Increase in accounts receivable from securitizations	(2,318,418)	(715,296)
Increase (decrease) in other liabilities838,475(100,999)Net cash provided by operating activities attributable to discontinued operations2,196,050Net cash provided by operating activities8,372,3932,546,805Investing Activities:100,999)900,000,000,000,000,000,000,000,000,000			(91,084)
Increase (decrease) in other liabilities838,475(100,999)Net cash provided by operating activities attributable to discontinued operations2,196,050Net cash provided by operating activities8,372,3932,546,805Investing Activities:100,999)900,000,000,000,000,000,000,000,000,000	(Decrease) increase in interest payable		15,319
Net cash provided by operating activities8,372,3932,546,805Investing Activities:2Purchases of securities available for sale(10,880,031)(5,034,885)Proceeds from maturities of securities available for sale5,258,6922,915,064Proceeds from sales of securities available for sale965,1852,513,479Proceeds from securities available for sale9,875,3629,907,624Net increase in loans held for investment(8,921,503)(15,068,945)Principal recoveries of loans previously charged off469,392418,581Additions of premises and equipment, net(314,063)(530,995)Net payments for companies acquired(10,464)(10,464)Net cash used in investing activities(2,428,078)(320,117)Financing Activities:1,495,7403,188,372Net decrease in other borrowings515,0932,088,027Issuances of senior notes1,495,7403,188,372Maturities of senior notes(462,500)(1,226,882)			(100,999)
Investing Activities:Purchases of securities available for sale(10,880,031)(5,034,885)Proceeds from maturities of securities available for sale5,258,6922,915,064Proceeds from sales of securities available for sale965,1852,513,479Proceeds from securitizations of loans9,875,3629,907,624Net increase in loans held for investment(8,921,503)(15,068,945)Principal recoveries of loans previously charged off469,392418,581Additions of premises and equipment, net(314,063)(530,995)Net cash used in investing activities(3,557,430)(4,880,077)Financing Activities:Net cash used in investing activities(2,428,078)(320,117)Net increase in deposits(2,428,078)(320,117)Net increase in other borrowings515,0932,088,027Issuances of senior notes1,495,7403,188,372Maturities of senior notes(462,500)(1,226,882)	Net cash provided by operating activities attributable to discontinued operations	2,196,050	
Purchases of securities available for sale(10,880,031)(5,034,885)Proceeds from maturities of securities available for sale5,258,6922,915,064Proceeds from sales of securities available for sale965,1852,513,479Proceeds from securitizations of loans9,875,3629,907,624Net increase in loans held for investment(8,921,503)(15,068,945)Principal recoveries of loans previously charged off469,392418,581Additions of premises and equipment, net(314,063)(530,995)Net payments for companies acquired(10,464)(10,464)Financing Activities:Net decrease in deposits(2,428,078)(320,117)Net increase in other borrowings515,0932,088,027Issuances of senior notes1,495,7403,188,372Maturities of senior notes(462,500)(1,226,882)	Net cash provided by operating activities	8,372,393	2,546,805
Purchases of securities available for sale(10,880,031)(5,034,885)Proceeds from maturities of securities available for sale5,258,6922,915,064Proceeds from sales of securities available for sale965,1852,513,479Proceeds from securitizations of loans9,875,3629,907,624Net increase in loans held for investment(8,921,503)(15,068,945)Principal recoveries of loans previously charged off469,392418,581Additions of premises and equipment, net(314,063)(530,995)Net payments for companies acquired(10,464)(10,464)Financing Activities:Net decrease in deposits(2,428,078)(320,117)Net increase in other borrowings515,0932,088,027Issuances of senior notes1,495,7403,188,372Maturities of senior notes(462,500)(1,226,882)	Investing Activities:		
Proceeds from maturities of securities available for sale5,258,6922,915,064Proceeds from sales of securities available for sale965,1852,513,479Proceeds from securitizations of loans9,875,3629,907,624Net increase in loans held for investment(8,921,503)(15,068,945)Principal recoveries of loans previously charged off469,392418,581Additions of premises and equipment, net(314,063)(530,995)Net payments for companies acquired(10,464)(10,464)Financing Activities:Net cash used in investing activities(2,428,078)(320,117)Net decrease in deposits(2,428,078)(320,117)Net increase in other borrowings515,0932,088,027Issuances of senior notes1,495,7403,188,372Maturities of senior notes(462,500)(1,226,882)		(10.880.031)	(5.034.885)
Proceeds from sales of securities available for sale   965,185   2,513,479     Proceeds from securitizations of loans   9,875,362   9,907,624     Net increase in loans held for investment   (8,921,503)   (15,068,945)     Principal recoveries of loans previously charged off   469,392   418,581     Additions of premises and equipment, net   (314,063)   (530,995)     Net payments for companies acquired   (10,464)   (10,464)     Net cash used in investing activities   (3,557,430)   (4,880,077)     Financing Activities:   (2,428,078)   (320,117)     Net increase in deposits   (2,428,078)   (320,117)     Net increase in other borrowings   515,093   2,088,027     Issuances of senior notes   1,495,740   3,188,372     Maturities of senior notes   (462,500)   (1,226,882)			(, , , ,
Proceeds from securitizations of loans   9,875,362   9,907,624     Net increase in loans held for investment   (8,921,503)   (15,068,945)     Principal recoveries of loans previously charged off   469,392   418,581     Additions of premises and equipment, net   (314,063)   (530,995)     Net payments for companies acquired   (10,464)   (10,464)     Financing Activities:     Net cash used in investing activities   (2,428,078)   (320,117)     Financing Activities:     Net decrease in deposits   (2,428,078)   (320,117)     Net increase in other borrowings   515,093   2,088,027     Issuances of senior notes   1,495,740   3,188,372     Maturities of senior notes   (462,500)   (1,226,882)		, ,	
Net increase in loans held for investment(8,921,503)(15,068,945)Principal recoveries of loans previously charged off469,392418,581Additions of premises and equipment, net(314,063)(530,995)Net payments for companies acquired(10,464)(10,464)Net cash used in investing activities(3,557,430)(4,880,077)Financing Activities:(2,428,078)(320,117)Net decrease in deposits(2,428,078)(320,117)Net increase in other borrowings515,0932,088,027Issuances of senior notes1,495,7403,188,372Maturities of senior notes(462,500)(1,226,882)		, ,	, ,
Principal recoveries of loans previously charged off469,392418,581Additions of premises and equipment, net(314,063)(530,995)Net payments for companies acquired(10,464)(10,464)Net cash used in investing activities(3,557,430)(4,880,077)Financing Activities:Net decrease in deposits(2,428,078)(320,117)Net increase in other borrowings515,0932,088,027Issuances of senior notes1,495,7403,188,372Maturities of senior notes(462,500)(1,226,882)		· · ·	
Additions of premises and equipment, net(314,063)(530,995)Net payments for companies acquired(10,464)Net cash used in investing activities(3,557,430)(4,880,077)Financing Activities:Net decrease in deposits(2,428,078)(320,117)Net increase in other borrowings515,0932,088,027Issuances of senior notes1,495,7403,188,372Maturities of senior notes(462,500)(1,226,882)			
Net payments for companies acquired(10,464)Net cash used in investing activities(3,557,430)(4,880,077)Financing Activities:Net decrease in deposits(2,428,078)(320,117)Net increase in other borrowings515,0932,088,027Issuances of senior notes1,495,7403,188,372Maturities of senior notes(462,500)(1,226,882)		)	(530,995)
Financing Activities:   (2,428,078)   (320,117)     Net decrease in deposits   (2,428,078)   (320,117)     Net increase in other borrowings   515,093   2,088,027     Issuances of senior notes   1,495,740   3,188,372     Maturities of senior notes   (462,500)   (1,226,882)			()
Net decrease in deposits     (2,428,078)     (320,117)       Net increase in other borrowings     515,093     2,088,027       Issuances of senior notes     1,495,740     3,188,372       Maturities of senior notes     (462,500)     (1,226,882)	Net cash used in investing activities	(3,557,430)	(4,880,077)
Net decrease in deposits     (2,428,078)     (320,117)       Net increase in other borrowings     515,093     2,088,027       Issuances of senior notes     1,495,740     3,188,372       Maturities of senior notes     (462,500)     (1,226,882)	Financing Activities:		
Net increase in other borrowings     515,093     2,088,027       Issuances of senior notes     1,495,740     3,188,372       Maturities of senior notes     (462,500)     (1,226,882)		(2.428.078)	(320.117)
Issuances of senior notes     1,495,740     3,188,372       Maturities of senior notes     (462,500)     (1,226,882)	-		( , , ,
Maturities of senior notes (462,500) (1,226,882)	5	,	3,188,372
		, ,	, ,
	Repurchases of senior notes		(31,296)

(2,252,665)	(8,575)
(31,885)	(24,210)
32,777	27,677
133,499	168,658
(2,031,779)	
(5,029,798)	3,861,654
(214,835)	1,528,382
4,660,496	4,071,267
\$ 4,445,661	\$ 5,599,649
	(31,885) 32,777 133,499 (2,031,779) (5,029,798) (214,835) 4,660,496

See Notes to Condensed Reported Consolidated Financial Statements.

#### CAPITAL ONE FINANCIAL CORPORATION

Notes to Condensed Reported Consolidated Financial Statements

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

Note 1

**Summary of Significant Accounting Policies** 

#### **Business**

Capital One Financial Corporation (the Corporation ) is a diversified financial services company whose banking and non-banking subsidiaries market a variety of financial products and services. The Corporation s principal subsidiaries are:

Capital One Bank (the Bank ) which currently offers credit and debit card products, deposit products, and also engages in a wide variety of lending and other financial activities.

Capital One, National Association ( CONA ) which offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients.

Capital One Auto Finance, Inc. ( COAF ) which offers automobile and other motor vehicle financing products. Another subsidiary of the Corporation, Superior Savings of New England, N.A. ( Superior ) focuses on telephonic and media-based generation of deposits.

In the third quarter of 2007, the Company shutdown the mortgage origination operations of its wholesale mortgage banking unit, GreenPoint Mortgage (GreenPoint), an operating subsidiary of CONA. Additional information is included in this Quarterly Report under the heading Notes to Condensed Reported Consolidated Financial Statements Note 2 Discontinued Operations.

The Corporation and its subsidiaries are hereafter collectively referred to as the Company .

## **Basis of Presentation**

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

All significant intercompany balances and transactions have been eliminated. Certain prior years amounts have been reclassified to conform to the 2007 presentation. All amounts in the following notes, excluding share and per share data, are presented in thousands.

The notes to the reported consolidated financial statements contained in the Annual Report on Form 10-K for the year ended December 31, 2006 should be read in conjunction with these condensed reported consolidated financial statements.

### **Recent Accounting Pronouncements**

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 159, *The Fair Value Option for Financial Assets and Liabilities*, (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and

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certain other items at fair value with changes in fair value included in current earnings. The election is made on specified election dates, can be made on an instrument by instrument basis, and is irrevocable. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact of adoption of SFAS 159 on the consolidated earnings and financial position of the Company.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). This statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact of adoption of SFAS 157 on the consolidated earnings and financial position of the Company.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 156, *Accounting for Servicing of Financial Assets*, and (SFAS 156), which amends Statement of Financial Accounting Standards No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (SFAS 140). SFAS 156 changes the accounting for, and reporting of, the recognition and measurement of separately recognized servicing assets and liabilities. Effective January 1, 2007, the Company adopted SFAS 156 resulting in an \$8.8 million cumulative effect, net of taxes, increase to the beginning balance of retained earnings.

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

## Adoption of FIN 48

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, *Accounting for Income Taxes,* and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company adopted the provisions of FIN 48 effective January 1, 2007. As a result of adoption, the Company recorded a \$31.8 million reduction in retained earnings. The reduction in retained earnings upon adoption is the net impact of a \$48.7 million increase in the liability for unrecognized tax benefits and a \$16.8 million increase in deferred tax assets. In addition, the Company reclassified \$471.1 million of unrecognized tax benefits from deferred tax liabilities to current taxes payable to conform to the deferred tax measurement and balance sheet presentation requirements of FIN 48.

The balance of unrecognized tax benefits at January 1, 2007 was \$661.6 million. Included in the balance at January 1, 2007, are \$83.5 million of tax positions which, if recognized, would affect the effective tax rate and \$58.0 million of tax positions which, if recognized, would result in a reduction in goodwill. Also included in the balance is \$466.4 million of tax positions related to items of income and expense for which the ultimate taxability or deductibility is highly certain, but for which there is uncertainty about the timing of recognition. Because of the impact of deferred tax accounting, other than interest and penalties, the acceleration of taxability or deferral of deductibility of these items would not affect the annual effective tax rate but may accelerate the payment of taxes to an earlier period.

The Company continues to recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense, consistent with its policy prior to adoption of FIN 48. The accrued balance of interest and penalties related to unrecognized tax benefits at January 1, 2007 is \$119.1 million.

The Company is subject to examination by the Internal Revenue Service (IRS) and other tax authorities in certain countries and states in which the Company has significant business operations. The tax years subject to examination vary by jurisdiction. The IRS is currently examining the Company s federal income tax returns for the years 2003 and 2004 as well as the tax returns of certain acquired subsidiaries for the year 2004. During 2006, the IRS concluded its examination of the Company s federal income tax returns for the years 2003 returns for the years 2000-2002. Tax issues for years 1995-1999 are pending in the U.S. Tax Court and the conclusion of those matters could impact tax years after 1999.

As of September 30, 2007, the IRS has proposed adjustments with respect to the timing of recognition of items of income and expense derived from the Company s credit card business in various tax years. The ultimate resolution of these issues is not expected to have a material effect on the Company s operations or financial condition. However, the Company anticipates that it is reasonably possible that a payment of up to \$250 million, principally related to these timing issues, will be made within twelve months of the reporting date resulting in a significant reduction to the Company s liability for unrecognized tax benefits.

## **Significant Accounting Policies**

See the Company's Annual Report on Form 10-K for the year ended December 31, 2006, Item 8 Notes to Condensed Reported Financial Statements Note 1 Summary of Significant Accounting Policies for a summary of the Company's accounting policies. Refer also to the discussion below for accounting policies that may supplement or modify the discussion of accounting policies in the Company's Form 10-K for the year December 31, 2006.

## **Consumer Loan Securitizations**

The Company primarily securitizes credit card loans, auto loans and installment loans. Securitization provides the Company with a significant source of liquidity and favorable capital treatment for securitizations accounted for as off-balance sheet arrangements. See Item 8 Notes to Condensed Reported Financial Statements Note 22 Off-Balance Sheet Securitizations in the Company's Form 10-K for the year ended December 31, 2006 for additional detail.

Loan securitization involves the transfer of a pool of loan receivables to a trust or other special purpose entity. The trust sells an undivided interest in the pool of loan receivables to third-party investors through the issuance of asset backed securities and distributes the proceeds to the Company as consideration for the loans transferred. The Company removes loans from the Reported Consolidated Balance Sheets for se