CAPITAL ONE FINANCIAL CORP
Form 10-Q
May 08, 2009
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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 March 31, 2009.

¨ **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	**54-1719854**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
1680 Capital One Drive McLean, Virginia	**22102**
(Address of Principal Executive Offices)	**(Zip Code)**

(703) 720-1000

Registrant s telephone number, including area code:

(Not applicable)

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

As of April 30, 2009 there were 395,855,999 shares of the registrant s Common Stock, par value $.01 per share, outstanding.

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Part 1. Financial Information

Item 1. ***Financial Statements***
CAPITAL ONE FINANCIAL CORPORATION

Consolidated Balance Sheets

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

	March 31, 2009	December 31, 2008
Assets:		
Cash and due from banks	$ 3,076,926	$ 2,047,839
Federal funds sold and resale agreements	663,721	636,752
Interest-bearing deposits at other banks	4,013,678	4,806,752
Cash and cash equivalents	7,754,325	7,491,343
Securities available for sale	36,326,951	31,003,271
Securities held to maturity	90,990	
Mortgage loans held for sale	289,337	68,462
Loans held for investment	105,526,911	101,017,771
Less: Allowance for loan and lease losses	(4,648,031)	(4,523,960)
Net loans held for investment	100,878,880	96,493,811
Accounts receivable from securitizations	4,850,508	6,342,754
Premises and equipment, net	2,790,733	2,313,106
Interest receivable	815,738	827,909
Goodwill	13,076,754	11,964,487
Other	10,513,243	9,408,309
Total assets	$ 177,387,459	$ 165,913,452
Liabilities:		
Non-interest-bearing deposits	$ 12,422,456	$ 11,293,852
Interest-bearing deposits	108,696,442	97,326,937
Total deposits	121,118,898	108,620,789
Senior and subordinated notes	8,258,212	8,308,843
Other borrowings	14,610,092	14,869,648
Interest payable	656,769	676,398
Other	5,999,327	6,825,341
Total liabilities	150,643,298	139,301,019
Stockholders Equity:		
Preferred stock, par value $.01 per share; authorized 50,000,000 shares, 3,555,199 issued or outstanding	3,115,722	3,096,466
Common stock, par value $.01 per share; authorized 1,000,000,000 shares, 442,540,141 and 438,434,235 issued as of March 31, 2009 and December 31, 2008, respectively	4,425	4,384
Paid-in capital, net	17,348,217	17,278,102

Retained earnings	**10,296,686**	**10,621,164**
Cumulative other comprehensive loss	**(852,047)**	**(1,221,796)**
Less: Treasury stock, at cost; 46,878,786 and 46,637,241 shares as of March 31, 2009 and December 31, 2008, respectively	**(3,168,842)**	**(3,165,887)**
Total stockholders equity	**26,744,161**	**26,612,433**
Total liabilities and stockholders equity	**$ 177,387,459**	**$ 165,913,452**

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

Consolidated Statements of Income

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

	Three Months Ended March 31	
	2009	**2008**
Interest Income:		
Loans held for investment, including past-due fees	**$ 2,190,331**	$ 2,508,393
Investment securities	**394,780**	257,741
Other	**63,117**	113,391
Total interest income	**2,648,228**	2,879,525
Interest Expense:		
Deposits	**631,848**	610,389
Senior and subordinated notes	**58,044**	140,970
Other borrowings	**171,585**	316,249
Total interest expense	**861,477**	1,067,608
Net interest income	**1,786,751**	1,811,917
Provision for loan and lease losses	**1,279,137**	1,079,072
Net interest income after provision for loan and lease losses	**507,614**	732,845
Non-Interest Income:		
Servicing and securitizations	**453,637**	1,083,062
Service charges and other customer-related fees	**506,125**	574,061
Mortgage servicing and other	**23,380**	35,255
Interchange	**140,091**	151,902
Other	**(32,899)**	212,198
Total non-interest income	**1,090,334**	2,056,478
Non-Interest Expense:		
Salaries and associate benefits	**554,431**	611,280
Marketing	**162,712**	297,793
Communications and data processing	**199,104**	187,243
Supplies and equipment	**118,900**	130,931
Occupancy	**100,251**	88,080
Restructuring expense	**17,627**	52,759
Other	**592,067**	454,191
Total non-interest expense	**1,745,092**	1,822,277
Income (loss) from continuing operations before income taxes	**(147,144)**	967,046
Income tax (benefit) provision	**(60,223)**	334,491
Income (loss) from continuing operations, net of tax	**(86,921)**	632,555
Loss from discontinued operations, net of tax	**(24,958)**	(84,051)
Net income (loss)	**$ (111,879)**	$ 548,504

Net income (loss) available to common shareholders	**$**	**(176,069)**	$	548,504
Basic earnings per common share:				
Income (loss) from continuing operations	**$**	**(0.39)**	$	1.71
Loss from discontinued operations		**(0.06)**		(0.23)
Net income (loss)	**$**	**(0.45)**	$	1.48
Diluted earnings per common share:				
Income (loss) from continuing operations	**$**	**(0.39)**	$	1.70
Loss from discontinued operations		**(0.06)**		(0.23)
Net income (loss)	**$**	**(0.45)**	$	1.47
Dividends paid per common share	**$**	**0.375**	$	0.375

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

Consolidated Statements of Changes in Stockholders Equity

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

	Common Stock					Cumulative Other Comprehensive		Total
(In Thousands, Except Per Share Data)	**Shares**	**Amount**	**Preferred Stock**	**Paid-In Capital, Net**	**Retained Earnings**	**Income (Loss)**	**Treasury Stock**	**Stockholders Equity**
Balance, December 31, 2007	419,224,900	$ 4,192	$	$ 15,860,490	$ 11,267,568	$ 315,248	$ (3,153,386)	$ 24,294,112
Adjustment to initially apply the measurement date provision of FAS 158, net of income tax benefit of $317					572	(1,161)		(589)
Comprehensive income:								
Net income					548,504			548,504
Other comprehensive income (loss), net of income tax:								
Unrealized losses on securities, net of income tax benefit of $5,661						(10,513)		(10,513)
Defined benefit pension plans						(1,441)		(1,441)
Foreign currency translation adjustments						(37,415)		(37,415)
Unrealized loss on cash flow hedging instruments, net of income tax benefit of $43,694						(81,145)		(81,145)
Other comprehensive income						(130,514)		(130,514)
Comprehensive income								417,990
Cash dividends $0.375 per share					(139,929)			(139,929)
Purchase of treasury stock							(9,818)	(9,818)
Issuances of common stock and restricted stock, net of forfeitures	1,359,327	14		9,376				9,390
Exercise of stock options and tax benefits of exercises and restricted stock vesting	723,822	7		25,195				25,202
Compensation expense for restricted stock awards and stock options				21,579				21,579
Allocation of ESOP shares				1,590				1,590
Balance, March 31, 2008	421,308,049	4,213		15,918,230	11,676,715	183,573	(3,163,204)	24,619,527
Balance, December 31, 2008	**438,434.235**	**$ 4,384**	**$ 3,096,466**	**$ 17,278,102**	**$ 10,621,164**	**$ (1,221,796)**	**$ (3,165,887)**	**$ 26,612,433**
Comprehensive income:								
Net loss					**(111,879)**			**(111,879)**
Other comprehensive income (loss), net of income tax:								
Unrealized gains on securities, net of income taxes of $175,598						**373,492**		**373,492**
Defined benefit pension plans, net of net income tax benefit of $163						**(293)**		**(293)**
Foreign currency translation adjustments						**(38,993)**		**(38,993)**
Unrealized gains in cash flow hedging instruments, net of income taxes of $28,223						**35,543**		**35,543**
Other comprehensive income (loss)						**369,749**		**369,749**
Comprehensive income (loss)								**257,870**
Cash dividends-Common stock $0.375 per share					**(148,409)**			**(148,409)**

Cash dividends-Preferred stock 5% per annum			(494)		(44,440)			(44,934)
Purchase of treasury stock							(2,955)	(2,955)
Issuances of common stock and restricted stock, net of forfeitures	1,543,405	15		7,981				7,996
Exercise of stock options and tax benefits of exercises and restricted stock vesting	1,900			(1,599)				(1,599)
Accretion of preferred stock discount			19,750		(19,750)			
Compensation expense for restricted stock awards and stock options				31,670				31,670
Issuance of common stock for acquisition	2,560,601	26		30,830				30,856
Allocation of ESOP shares				1,233				1,233
Balance, March 31, 2009	**442,540,141**	**$ 4,425**	**$ 3,115,722**	**$ 17,348,217**	**$ 10,296,686**	**$ (852,047)**	**$ (3,168,842)**	**$ 26,744,161**

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

Consolidated Statements of Cash Flows

(Dollars in thousands) (unaudited)

	Three Months Ended March 31,	
	2009	**2008**
Operating Activities:		
Income from continuing operations, net of tax	**$ (86,921)**	$ 632,555
Loss from discontinued operations, net of tax	**(24,958)**	(84,051)
Net Income	**(111,879)**	548,504
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan and lease losses	**1,279,137**	1,079,072
Depreciation and amortization, net	**151,278**	185,507
Gains on sales of securities available for sale	**(4,335)**	(8,630)
Gains on sales of auto loans		(1,220)
Gains on repurchase of senior notes		(51,971)
Mortgage loans held for sale:		
Transfers and originations	**(281,981)**	(729,299)
(Gain) loss on sales	**1,567**	(14,172)
Proceeds from sales	**291,208**	900,663
Stock plan compensation expense	**24,715**	23,757
Changes in assets and liabilities:		
Increase in interest receivable	**12,171**	88,998
(Increase) Decrease in accounts receivable from securitizations	**1,492,246**	(679,064)
(Increase) Decrease in other assets	**811,763**	(737,979)
Decrease in interest payable	**(19,629)**	(122,331)
(Decrease) Increase in other liabilities	**(1,598,693)**	700,940
Net cash (used in) provided by operating activities attributable to discontinued operations	**13,646**	(24,704)
Net cash provided by operating activities	**2,061,214**	1,158,071
Investing Activities:		
Purchases of securities available for sale	**(5,980,615)**	(5,545,022)
Proceeds from maturities of securities available for sale	**1,794,765**	1,433,076
Proceeds from sales of securities available for sale	**740,191**	1,707,539
Proceeds from securitizations of loans	**2,892,903**	2,346,225
Net increase in loans held for investment	**834,305**	128,911
Principal recoveries of loans previously charged off	**192,928**	170,107
Additions of premises and equipment, net	**(74,587)**	(101,254)
Net payments for companies acquired	**(448,151)**	
Net cash provided by investing activities attributable to discontinued operations	**3**	
Net cash provided by (used in) investing activities	**(48,258)**	139,582
Financing Activities:		
Net increase (decrease) in deposits	**(1,058,530)**	4,933,766
Net increase (decrease) in other borrowings	**(1,260,905)**	(5,107,097)
Repurchases of senior notes		(965,847)
Redemptions of acquired company debt and noncontrolling interest	**(464,915)**	

Purchases of treasury stock	**(2,955)**	(9,818)
Dividends paid- common stock	**(148,409)**	(139,929)
Dividends paid- preferred stock	**(44,934)**	
Net proceeds from issuances of common stock	**9,230**	10,980
Proceeds from share based payment activities	**(1,599)**	21,579
Net cash used in financing activities attributable to discontinued operations	**(3,274)**	(32,692)
Net cash used in financing activities	**(2,976,291)**	(1,289,058)
Net increase (decrease) in cash and cash equivalents	**(963,335)**	8,595
Cash and cash equivalents at beginning of year	**7,491,343**	4,821,409
Cash and cash equivalents of acquired companies	**1,226,317**	
Cash and cash equivalents at end of period	**$ 7,754,325**	$ 4,830,004

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

Notes to Consolidated Financial Statements

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

Note 1

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 (USA), National Association (COBNA) which currently offers credit and debit card products, other lending products and deposit products.

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

Chevy Chase Bank, F.S.B. (Chevy Chase Bank) which offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients.

On February 27, 2009, the Corporation acquired Chevy Chase Bank for $475.9 million comprised of cash of $445.0 million and 2.56 million shares of common stock valued at $30.9 million. Chevy Chase Bank has the largest retail branch presence in the Washington D.C. region. See Note 2 for more information regarding the acquisition.

During 2008, the Corporation completed several reorganizations and consolidations to streamline operations and regulatory relationships. On January 1, Capital One Auto Finance Inc. (COAF) moved from a direct subsidiary of the Corporation to become a direct operating subsidiary of CONA. In connection with the COAF move, one of COAF s direct operating subsidiaries, Onyx Acceptance Corporation (Onyx), became a direct subsidiary of the Corporation. On March 1, the Corporation converted Capital One Bank from a Virginia-state chartered bank to a national association called Capital One Bank (USA), National Association (COBNA). On March 8, Superior Savings of New England, N.A. (Superior) merged with and into CONA. Both COBNA and CONA are primarily regulated by the Office of the Comptroller of the Currency (the OCC). In May 2008, we consolidated the business and operations of two registered broker-dealers, Capital One Securities, LLC (dba Capital One Investments, LLC) and Capital One Investment Services Corporation (formerly NFB Investment Services Corporation), into Capital One Investments Services Corporation. In addition, in May 2008, we consolidated the business and operations of three insurance agencies, Capital One Agency Corp., GreenPoint Agency, Inc. and Hibernia Insurance Agency, LLC into Green Point Agency, Inc., which is now known as Capital One Agency LLC.

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

CONA, COBNA and Chevy Chase Bank are hereafter collectively referred to as the Banks .

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) that require 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.

The Consolidated Financial Statements include the accounts of the Company in which it has a controlling financial interest. Investments in unconsolidated entities where we have the ability to exercise significant influence over the operations of the investee are accounted for using the equity method of accounting. This includes interests in variable interest entities (VIEs) where we are not the primary beneficiary. Investments not meeting the criteria for equity method accounting are accounted for using the cost method of accounting. Investments in unconsolidated entities are included in other assets, and our share of income or loss is recorded in other non-interest income. All significant intercompany balances and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the 2009 presentation. All amounts in the following notes, excluding per share data, are presented in thousands unless noted otherwise.

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Special Purpose Entities and Variable Interest Entities

Special purpose entities (SPEs) are broadly defined as legal entities structured for a particular purpose. There are two different accounting frameworks applicable to SPEs: the qualifying SPE (QSPE) framework under Statement of Financial Accounting Standard (SFAS) No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140) and the VIE framework under Financial Accounting Standards Board Interpretation No. 46 (Revised 2003), *Consolidation of Variable Interest Entities (VIE),* (FIN 46(R)).

QSPEs QSPEs are passive entities that are commonly used in mortgage, credit card, auto and installment loan securitization transactions. SFAS 140 establishes the criteria an entity must satisfy to be a QSPE which includes restrictions on the types of assets a QSPE may hold, limits on repurchase of assets, the use of derivatives and financial guarantees, and the level of discretion a servicer may exercise to collect receivables. SPEs that meet the criteria for QSPE status are not required to be consolidated. The Company uses the QSPE model to conduct off-balance sheet securitization activities. See Note 12 for more information on the Company s off-balance sheet securitization activities.

In April 2008, The Financial Accounting Standards Board (FASB) voted to eliminate the concept of QSPEs from the accounting guidance. On September 15, 2008, the FASB issued exposure drafts to amend SFAS 140 and FIN46R. The two proposed Statements would significantly change accounting for transfers of financials assets, due to elimination of the concept of a QSPE, and would change the criteria for determining whether to consolidate a VIE. The proposals have gone through a public comment period and the FASB is redeliberating certain issues and final standards are expected to be released during the second quarter of 2009. As the proposals stand, the change would have a significant impact on the Company s consolidated financial statements as a result of the loss of sales treatment for assets previously sold to a QSPE, as well as for future sales. As of March 31, 2009, the total assets of QSPEs to which the Company has transferred and received sales treatment were $44.8 billion.

VIEs Special purpose entities that are not QSPEs are considered for consolidation in accordance with FIN46(R), which defines a VIE as an entity that (1) lacks sufficient equity to finance its activities without additional subordinated financial support; (2) has equity owners that lack the ability to make significant decisions about the entity; or (3) has equity owners that do not have the obligation to absorb expected losses or the right to receive expected returns. In general, a VIE may be formed as a corporation, partnership, limited liability corporation, or any other legal structure used to conduct activities or hold assets. A VIE often holds financial assets, including loans or receivables, real estate or other property.

The Company consolidates a VIE if the Company is considered to be its primary beneficiary. The primary beneficiary is subject to absorbing the majority of the expected losses from the VIE s activities, is entitled to receive a majority of the entity s residual returns, or both.

The Company, in the ordinary course of business, has involvement with or retains interests in VIEs in connection with some of its securitization activities, servicing activities and the purchase or sale of mortgage-backed and other asset-backed securities in connection with its investment portfolio. The Company also makes loans to VIEs that hold debt, equity, real estate or other assets. In certain instances, the Company provides guarantees to VIEs or holders of variable interests in VIEs. See Note 9 Mortgage Servicing Rights; Note 12 Securitizations; Note 13 Commitments, Contingencies and Guarantees; and Note 14 Other Variable Interest Entities for more detail on the Company s involvement and exposure related to non-consolidated VIEs.

Derivative Instruments and Hedging Activities

The Company recognizes all of its derivative instruments as either assets or liabilities in the balance sheet at fair value. These instruments are recorded in other assets or other liabilities on the Consolidated Balance Sheets and in the operating section of the Statements of Cash Flows as increases (decreases) of other assets and other liabilities. The Company s policy is not to offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments recognized at fair value executed with the same counterparty under netting arrangements. As of March 31, 2009 the Company had recorded $557.2 million for the right to reclaim cash collateral and $489.7 million for the obligation to return cash collateral under master netting arrangements.

Loans Acquired

Loans acquired in connection with acquisitions are accounted for under SFAS 141(R), *Business Combinations* (SFAS 141(R)) or Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3) if the loan has experienced a deterioration of credit quality at the time of acquisition. Under both statements, acquired loans are recorded at fair value and the carry-over of the related allowance for loan and lease losses is prohibited. Fair value of the loans involves estimating the principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest.

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized into interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the nonaccretable difference. The nonaccretable difference includes estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows will require the Company to evaluate the need for an additional allowance for loan and lease losses. Subsequent improvement in cash flows will result in the reversal of the nonaccretable difference which will then get reclassified as accretable yield and have a positive impact on interest income.

Loans acquired that were previously classified as nonaccrual are considered performing, regardless of whether the customer is contractually delinquent. The Company expects to fully collect the new carrying value of the loans. As such, the Company no longer considers the loans to be nonaccrual or nonperforming because we will continue to accrue interest on these loans because of the establishment of an accretable yield in accordance with SFAS 141(R) and SOP 03-03. In addition, net charge-offs on such loans are applied to the nonaccretable difference recorded at acquisition for the estimated future credit losses.

Recent Accounting Pronouncements

On April 9, 2009, the FASB issued FASB Staff Position (FSP) No. FAS 157-4, *Determining Whether a Market Is Not Active and a Transaction is Not Distressed* (FSP 157-4), which provides additional guidance on determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurements under SFAS No. 157, *Fair Value Measurements* (SFAS 157). The Company did not early adopt FSP 157-4 and, as such, FSP 157-4 will be effective for interim and annual reporting periods ending after June 15, 2009. The Company is currently assessing the impact of FSP 157-4 on the consolidated earnings and financial position of the Company.

On April 9, 2009, the FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairment* (FSP 115-2 and FAS 124-2), which eliminates the Company s requirement to assert its intent and ability to hold an investment until its forecasted recovery to avoid recognizing an impairment loss. The FSP will require the Company to recognize an other-than-temporary impairment when the Company intends to sell the security or it is more likely than not that it will be required to sell the security before recovery. Credit related impairments are recorded in income while other impairments are recorded in other comprehensive income. FSP 115-2 and FAS 124-2 will be effective for interim and annual reporting periods ending after June 15, 2009. The Company is currently assessing the impact of FSP 115-2 and FAS 124-2 on the consolidated earnings and financial position of the Company.

On April 9, 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1 and APB 28-1), which will require the Company to include fair value disclosures of financial instruments for each interim and annual period that financial statements are prepared. FSP 107-1 and APB 28-1 will be effective for interim and annual reporting periods ending after June 15, 2009. The initial adoption of FSP 107-1 and APB 28-1 will not have an impact on the consolidated earnings or financial position of the Company because it only amends the disclosure requirements for financial instruments.

In January 2009, the FASB issued FASB Staff Position No. EITF 99-20-1, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets* (FSP EITF 99-20). The FSP was issued to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* (SFAS 115) and other related guidance. FSP EITF 99-20 emphasizes that any other-than-temporary impairment resulting from the application of SFAS 115 or EITF 99-20 shall be recognized in earnings equal to the entire difference between the investment s cost and its fair value at the balance sheet date of the reporting period for which the assessment is made. FSP EITF 99-20 is effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application to a prior interim or annual reporting period is not permitted. The adoption of FSP EITF 99-20 did not have impact on consolidated earnings or financial position of the Company.

In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities,* (FSP FAS 140-4 and FIN 46 (R)-8). FSP FAS 140-4 and FIN 46(R)-8 amends SFAS 140 and FIN 46(R) and requires public companies to provide additional disclosures about their involvement with variable interest entities. This FSP is effective for the first reporting period ending after December 15, 2008. This FSP does not impact the consolidated earnings or financial position of the Company. See Note 13 for additional detail.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.* The FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and therefore need to be included in the earnings allocation in calculating earnings per share under the two-class method described in SFAS No. 128, *Earnings per Share* (SFAS 128). The FSP requires companies to treat unvested share-based payment awards that have non-forfeitable rights to dividend or dividend equivalents as a separate class of securities in calculating earnings per share. The FSP is effective for fiscal years beginning after December 15, 2008; earlier application is not permitted. The adoption of FSP EITF 03-6-1 did not have a material effect on our results of operations or earnings per share.

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161.* FSP FAS 133-1 and FIN 45-4 requires enhanced disclosures about credit derivatives and guarantees and amends FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45) to exclude credit derivative instruments accounted for at fair value under SFAS 133. The FSP is effective for financial statements issued for reporting periods ending after November 15, 2008. The adoption of FSP FAS 133-1 did not have a material impact on the consolidated earnings or financial position of the Company. FIN 45-4 only requires additional disclosures concerning guarantees, which did not have an impact on the consolidated earnings or financial position of the Company because it only amends the disclosure requirements. See Note 13 for additional detail.

Effective January 1, 2008, the Company adopted SFAS 157 for all financial assets and liabilities and for nonfinancial assets and liabilities measured at fair value on a recurring basis. Under FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), the Company elected to defer the adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities measured on a nonrecurring basis. SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. The initial adoption of SFAS 157 did not have a material impact on the consolidated earnings and financial position of the Company. There are no material assets or liabilities recognized or disclosed at fair value for which the Company has not applied the provisions of SFAS 157. See Note 6 for additional detail.

Effective January 1, 2008, the Company adopted SFAS 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 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. The initial adoption of SFAS 159 did not have a material impact on the consolidated earnings and financial position of the Company. See Note 6 for additional detail.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities-an amendment of FASB Statement No. 133*, (SFAS 161). This Statement changes the disclosure requirements for derivative and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning after November 15, 2008. The adoption of SFAS 161 did not have an impact on the consolidated earnings or financial position of the Company because it only amends the disclosure requirements for derivatives and hedged items. See Note 11 for derivatives disclosures under SFAS 161.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No.* 51, (SFAS 160). This Statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS 160 did not have an impact on the consolidated earnings or financial position of the Company.

In December 2007, the FASB issued SFAS No. 141(R), which applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This Statement replaces SFAS 141, *Business Combinations.* It retains the fundamental requirements in SFAS 141; however, the scope is broader than that of SFAS 141 by applying to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141(R) requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, at their fair values as of that date, with limited exceptions, thereby replacing SFAS 141 s cost-allocation process. This Statement also changes the requirements for recognizing acquisition related costs, restructuring costs, and assets acquired and liabilities assumed arising from contingencies. It also changes the accounting for step acquisitions. The Company applied the provisions of SFAS 141(R) with the Chevy Chase Bank acquisition.

In September 2006, the FASB issued SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No 87, 88, 106, and 132(R)*, (SFAS 158). SFAS 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, defined benefit plans) to recognize the funded status of their defined benefit plans in the consolidated balance sheet, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end consolidated balance sheet, and provide additional disclosures. On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS 158. On January 1, 2008 the Company adopted SFAS 158 s provisions regarding the change in the measurement date of defined benefit plans. The adoption of SFAS 158 did not have a material impact on the consolidated earnings or financial position of the Company.

Note 2

Acquisitions

Chevy Chase Bank

On February 27, 2009, the Company acquired all of the outstanding common stock of Chevy Chase Bank in exchange for Capital One common stock and cash with a total value of $475.9 million. Under the terms of the stock purchase agreement, Chevy Chase Bank common shareholders received $445.0 million in cash and 2.56 million shares of Capital One common stock. In addition, to the extent that losses on certain of Chevy Chase Bank s mortgage loans are less than the level reflected in the net credit mark estimated at the time the deal was signed, the Company will share a portion of the benefit with the former Chevy Chase Bank common shareholders (the earn-out). As of March 31, 2009 the Company has not recognized a liability associated with the earn-out due to the short time frame since the acquisition date. The maximum payment under the earn-out is $300.0 million and would occur after December 31, 2013. Subsequent to the closing of the acquisition all of the outstanding shares of preferred stock of Chevy Chase Bank and the subordinated debt of its wholly-owned REIT subsidiary, were redeemed. This acquisition improves the Company s core deposit funding base, increases readily available and committed liquidity, adds additional scale in bank operations,

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and brings a strong customer platform. Chevy Chase Bank s results of operations are included in the Company s results after the acquisition date of February 27, 2009.

The Chevy Chase Bank acquisition is being accounted for under the acquisition method of accounting in accordance with SFAS 141(R). Accordingly, the purchase price was allocated to the acquired assets and liabilities based on their estimated fair values at the Chevy Chase Bank acquisition date, as summarized in the following table. Preliminary goodwill of $1.1 billion is calculated as the purchase premium after adjusting for the fair value of net assets acquired and represents the value expected from the synergies created through the scale, operational and product enhancement benefits that will result from combining the operations of the two companies. The allocation of the purchase price is still preliminary due to the short duration since the acquisition date and will be finalized upon completion of the analysis of the fair values of Chevy Chase Bank s assets and liabilities. The fair value of the noncontrolling interest was calculated based on the redemption price of the interests, as well as any accrued but unpaid dividends. The shares of preferred stock of Chevy Chase Bank have been redeemed as noted above, and therefore, there is no longer a noncontrolling interest.

Costs to acquire Chevy Chase Bank:	
Cash consideration paid	$ 445,000
Capital One common stock issued (2,560,601 shares)	30,855
Fair value of contingent consideration	
Transfer taxes paid on behalf of Chevy Chase Bank	3,151
Total consideration paid for Chevy Chase Bank	$ 479,006
Fair value of noncontrolling interest	283,900
Fair value of Chevy Chase Bank	$ 762,906
Chevy Chase Bank s net assets at fair value:	
Chevy Chase Bank s stockholders equity at February 27, 2009	641,537
Elimination of Chevy Chase Bank s intangible assets (including goodwill)	(18,383)
Adjustments to reflect assets and liabilities acquired at fair value:	
Net loans	(1,427,161)
Investment securities	(53,306)
Intangible assets	276,195
Other assets	398,029
Deposits	(109,861)
Borrowings	(12,871)
Other liabilities	(45,291)
Less: Adjusted identifiable net liabilities acquired	(351,112)
Total preliminary goodwill[(1)]	$ 1,114,018

(1) No goodwill is expected to be deductible for federal income tax purposes. The goodwill has been allocated to the Other segment for the first quarter of 2009 and will be reallocated during the second quarter of 2009, along with the operations of Chevy Chase Bank to the appropriate segments.

The following condensed balance sheet of Chevy Chase Bank discloses the amount assigned to each major asset and liability caption at the acquisition date. The allocation of the final purchase price is still subject to refinement as the integration process continues and additional information becomes available.

	February 27, 2009
Assets:	
Cash and cash equivalents	$ 1,217,837

Interest-bearing deposits		8,480
Investment securities		1,423,568
Net loans		9,841,678
Other Intangible assets		44,830
Core deposit intangibles		231,365
Other assets		2,206,552
Total assets	$	14,974,310
Liabilities:		
Deposits	$	13,556,639
Securities sold under repurchase agreements		806,575
Other borrowings		376,600
Other liabilities		585,608
Total liabilities		15,325,422
Net liabilities acquired	$	(351,112)

The following table discloses the impact of Chevy Chase Bank since the acquisition on February 27, 2009, through the end of the first quarter 2009. The table also presents what the pro-forma Company results would have been had the acquisition taken place on January 1, 2009 and January 1, 2008. These results include the impact of amortizing certain purchase accounting adjustments. The pro forma financial information does not indicate the impact of possible business model changes nor does it consider any potential impacts of current market conditions or revenues, reduction of expenses, asset dispositions, or other factors.

	Actual since acquisition as of March 31, 2009	Pro-Forma results as of March 31, 2009	2008
Revenue	$ 35,905	$ 2,925,190	$ 4,035,748
Net income (loss) from continuing operations, net of tax	$ (9,786)	$ (181,181)	$ 604,142

Note 3

Loans Acquired in a Transfer

The Company s acquired loans from the Chevy Chase Bank acquisition, subject to SFAS 141(R), are recorded at fair value and no separate valuation allowance is recorded at the date of acquisition. The Company is required to review each loan at acquisition to determine if it should be accounted for under Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3) and if so, determines whether each such loan is to be accounted for individually or whether such loans will be aggregated into pools of loans based on common risk characteristics. Due to the short time period between the date of the acquisition and the reporting period, the Company has not completed its analysis of the loans to be accounted for as impaired under SOP 03-3 or as performing under SFAS 141(R). The accounting treatment is essentially the same under both pieces of guidance. The disclosure requirements under SOP 03-3 are more extensive, and the Company has elected to provide such disclosures for all of the acquired Chevy Chase Bank loans. The Company expects to complete its analysis during the second quarter and to specify loans as either SOP 03-3 or as performing under SFAS 141(R). For the evaluation of whether a loan should be accounted for under SOP 03-3, the Company is considering a number of factors including the delinquency status of the loan, payment options and other loan features (i.e. reduced documentation or stated income loans, interest only, or negative amortization features), underwriting standards applied during the year of origination, the geographic location of the borrower or collateral, the loan-to-value ratio and the risk rating assigned to the loans. The Company expects that a significant portion of the option arm portfolio will be considered impaired and accounted for under SOP 03-3.

The Company makes an estimate of the total cash flows it expects to collect from the loans (or pools of loans), which includes undiscounted expected principal and interest. The excess of that amount over the fair value of the loans is referred to as accretable yield. Accretable yield is recognized as interest income on a constant yield basis over the life of the loans. The Company also determines the loans contractual principal and contractual interest payments. The excess of that amount over the total cash flows it expects to collect from the loans is referred to as nonaccretable difference, which is not accreted into income. Judgmental prepayment assumptions are applied to both contractually required payments and cash flows expected to be collected at acquisition. The Company continues to estimate cash flows expected to be collected over the life of the loans. Subsequent increases in total cash flows it expects to collect are recognized as an adjustment to the accretable yield with the amount of periodic accretion adjusted over the remaining life of the loans. Subsequent decreases in cash flows expected to be collected over the life of the loans are recognized as impairment in the current period through a valuation allowance. Adjustments to the acquisition date fair value of the acquired loans made during the refinement of the allocation of purchase price could impact accretable yield and/or nonaccretable difference.

In conjunction with the Chevy Chase Bank acquisition, the acquired loan portfolio was accounted for under SFAS 141(R) at fair value and they are as follows:

(In Thousands)	At Acquisition
Contractually required principal and interest at acquisition	$ 14,991,802
Nonaccretable difference (expected losses of $2,205,854 and foregone interest of $1,229,349)	3,435,203
Cash flows expected to be collected at acquisition	$ 11,556,599
Accretable yield (interest component of expected cash flows)	1,714,921
Basis in acquired loans at acquisition	$ 9,841,678

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The carrying amount of these loans is included in the balance sheet amounts of loans receivable at March 31, 2009 and is as follows:

	March 31, 2009
Outstanding Balance	$ 11,400,331
Carrying Amount	$ 9,578,267

	Accretable Yield
Balance at January 1, 2009	$
Additions	1,714,921
Accretion	(31,989)
Balance at March 31, 2009	$ 1,682,932

Note 4

Discontinued Operations

Shutdown of Mortgage Origination Operations of Wholesale Mortgage Banking Unit

In the third quarter of 2007, the Company shut down the mortgage origination operations of its wholesale mortgage banking unit, GreenPoint Mortgage (GreenPoint). GreenPoint was acquired by the Company in December 2006 as part of the North Fork acquisition. The results of the mortgage origination operations of GreenPoint have been accounted for as a discontinued operation and have been removed from the Company s results from continuing operations for the three months ended March 31, 2009 and 2008.

The results of GreenPoint s mortgage servicing business continue to be reported as part of the Company s continuing operations. The mortgage servicing function was moved into the Local Banking segment in conjunction with the shutdown of the mortgage origination operation and the results of the Local Banking segment include the mortgage servicing results for the three months ended March 31, 2009 and 2008. The commercial and consumer mortgage loans held for investment portfolios were reported in the Local Banking segment and the Other segment, respectively, for the three months ended March 31, 2009 and 2008.

The Company retained $1.6 billion of certain GreenPoint loans and reclassified them from mortgage loans held for sale to loans held for investment during 2007. Continuing cash flows from the loans held for investment loan portfolio are included in the Company s results of continuing operations for the three months ended March 31, 2009 and 2008, and classified as operating cash flows in the Consolidated Statement of Cash Flows. The Company will have no significant continuing involvement in the operations of the originate and sell business of GreenPoint.

The loss from discontinued operations for the three months ended March 31, 2009 includes an expense of $26.0 million, recorded in non-interest expense, for representations and warranties provided by the Company on loans previously sold to third parties by GreenPoint s mortgage origination operation.

The following is summarized financial information for discontinued operations related to the closure of the Company s wholesale mortgage banking unit:

	Three Months Ended March 31	
	2009	2008
Net interest income[(1)]	**$ 723**	$ 1,923
Non-interest income	**55**	1,837
Non-interest expense	**39,533**	135,254
Income tax benefit	**(13,797)**	(47,443)
Loss from discontinued operations, net of taxes	**$ (24,958)**	$ (84,051)

(1) There is no provision for loan and lease losses because loans were reclassified to loans held for sale and recorded at the lower of cost or market.

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The Company s wholesale mortgage banking unit had assets of approximately $30.6 million as of March 31, 2009 consisting of $15.9 million of mortgage loans held for sale and $14.5 million of other related assets. The related liabilities consisted of obligations to fund these assets, and obligations for representations and warranties provided by the Company on loans previously sold to third parties.

Note 5

Segments

The segments reflect the manner in which financial information is currently evaluated. The Company strategically manages and reports the results of its business through two operating segment levels: Local Banking and National Lending. The Local Banking segment includes the Company s branch, treasury services and national deposit gathering activities; its commercial, branch based small business lending and certain branch originated consumer lending; and its mortgage servicing activities.

The results of the GreenPoint mortgage origination operations are being reported as discontinued operations for 2009 and 2008, and are not included in the segment results of the Company. The results of GreenPoint s mortgage servicing business and small ticket commercial real estate loans held for investment portfolio are reported as part of the Company s continuing operations and included in the Local Banking segment. The results of GreenPoint s consumer mortgage loans held for investment portfolio are reported as part of the Company s continuing operations and included in the Other segment.

The Local Banking and National Lending segments are considered reportable segments based on quantitative thresholds applied to the managed loan portfolio for reportable segments provided by SFAS 131, and are disclosed separately. The National Lending segment consists of the following sub-segments: U.S. Card, which consists of the Company s domestic credit card business, including small business credit cards, and the installment loan businesses, Auto Finance and International lending. The Other segment includes the Company s liquidity portfolio, emerging businesses not included in the reportable segments, and various non-lending activities. The Other segment also includes, the results of GreenPoint s consumer mortgage loans held for investment portfolio, the GreenPoint home equity line of credit portfolio, the net impact of transfer pricing, certain unallocated expenses, gains/losses related to the securitization of assets, and restructuring charges related to the Company s cost initiative announced in the second quarter of 2007.

The results of Chevy Chase Bank operations since acquisition are included in the Other segment and will be reclassified into appropriate reporting segments in the second quarter of 2009.

The Company maintains its books and records on a legal entity basis for the preparation of financial statements in conformity with GAAP. The following tables present information prepared from the Company s internal management information system, which is maintained on a line of business level through allocations from the consolidated financial results.

The following tables present certain information regarding the Company s continuing operations by segment:

	Three months ended March 31, 2009					
Total Company	**National Lending**	**Local Banking**	**Other**	**Total Managed**	**Securitization Adjustments(1)**	**Total Reported**
Net interest income	**$ 2,061,691**	**$ 599,029**	**$ 83,033**	**$ 2,743,753**	**$ (957,002)**	**$ 1,786,751**
Non-interest income	**1,005,446**	**184,510**	**(203,804)**	**986,152**	**104,182**	**1,090,334**
Provision for loan and lease losses	**1,848,955**	**219,369**	**63,633**	**2,131,957**	**(852,820)**	**1,279,137**
Restructuring expenses			**17,627**	**17,627**		**17,627**
Other non-interest expenses	**1,100,770**	**619,854**	**6,841**	**1,727,465**		**1,727,465**
Income tax provision (benefit)	**41,532**	**(19,490)**	**(82,265)**	**(60,223)**		**(60,223)**
Net income (loss)	**$ 75,880**	**$ (36,194)**	**$ (126,607)**	**$ (86,921)**	**$**	**$ (86,921)**
Loans held for investment	**$ 95,753,037**	**$ 44,458,675**	**$ 10,123,282**	**$ 150,334,994**	**$ (44,808,083)**	**$ 105,526,911**
Total deposits	**$ 1,279,562**	**$ 79,114,684**	**$ 40,724,652**	**$ 121,118,898**	**$**	**$ 121,118,898**

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	Three months ended March 31, 2008					
Total Company	**National Lending**	**Local Banking**	**Other**	**Total Managed**	**Securitization Adjustments(2)**	**Total Reported**
Net interest income	$ 2,408,583	$ 566,954	$ 1,313	$ 2,976,850	$ (1,164,933)	$ 1,811,917
Non-interest income	1,226,114	215,469	165,102	1,606,685	449,793	2,056,478
Provision for loan and lease losses	1,677,220	60,394	56,598	1,794,212	(715,140)	1,079,072
Restructuring expenses			52,759	52,759		52,759
Other non-interest expenses	1,279,171	605,351	(115,004)	1,769,518		1,769,518
Income tax provision (benefit)	236,203	40,837	57,451	334,491		334,491
Net income (loss)	$ 442,103	$ 75,841	$ 114,611	$ 632,555	$	$ 632,555
Loans held for investment	$ 103,003,402	$ 44,197,085	$ 836,041	$ 148,036,528	$ (49,680,440)	$ 98,356,088
Total deposits	$ 1,774,690	$ 73,387,227	$ 12,533,025	$ 87,694,942	$	$ 87,694,942

	Three months ended March 31, 2009			
National Lending	**U.S. Card**	**Auto Finance**	**International**	**Total National Lending**
Net interest income	**$ 1,504,695**	**$ 370,003**	**$ 186,993**	**$ 2,061,691**
Non-interest income	**883,891**	**19,965**	**101,590**	**1,005,446**
Provision for loan and lease losses	**1,521,997**	**166,169**	**160,789**	**1,848,955**
Non-interest expenses	**862,915**	**113,884**	**123,971**	**1,100,770**
Income tax provision (benefit)	**1,286**	**38,470**	**1,776**	**41,532**
Net income (loss)	**$ 2,388**	**$ 71,445**	**$ 2,047**	**$ 75,880**
Loans held for investment	**$ 67,015,166**	**$ 20,667,910**	**$ 8,069,961**	**$ 95,753,037**

	Three months ended March 31, 2008			
National Lending	**U.S. Card**	**Auto Finance**	**International**	**Total National Lending**
Net interest income	$ 1,743,714	$ 401,562	$ 263,307	$ 2,408,583
Non-interest income	1,070,831	16,110	139,173	1,226,114
Provision for loan and lease losses	1,120,025	408,251	148,944	1,677,220
Non-interest expenses	938,860	136,169	204,142	1,279,171
Income tax provision (benefit)	264,481	(44,362)	16,084	236,203
Net income (loss)	$ 491,179	$ (82,386)	$ 33,310	$ 442,103
Loans held for investment	$ 67,382,004	$ 24,633,665	$ 10,987,733	$ 103,003,402

(1) Income statement adjustments for the three months ended March 31, 2009 reclassify the net of finance charges of $1,072.8 million, past due fees of $201.6 million, other interest income of $(33.7) million and interest expense of $283.7 million; and net charge-offs of $852.8 million to non-interest income from net interest income and provision for loan and lease losses, respectively.

(2) Income statement adjustments for the three months ended March 31, 2008 reclassify the net of finance charges of $1,524.0 million, past due fees of $263.5 million, other interest income of $(38.8) million and interest expense of $583.8 million; and net charge-offs of $715.1 million to non-interest income from net interest income and provision for loan and lease losses, respectively.

Segment Adjustments That Affect Comparability

On February 27 2009, the Company acquired Chevy Chase Bank and its assets and results are recorded within the Other segment for the first quarter of 2009.

During the first quarter of 2008, the Company repurchased approximately $1.0 billion of certain senior unsecured debt, recognizing a gain of $52.0 million in non-interest income and reported in the Other segment. The Company initiated the repurchases to take advantage of the current market environment and replaced the repurchased debt with lower-rate unsecured funding.

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Note 6

Fair Values of Assets and Liabilities

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of the three levels. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 assets and liabilities include debt and equity securities traded in an active exchange market, as well as U.S. Treasury securities.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Valuation is determined using model-based techniques with significant assumptions not observable in the market. These unobservable assumptions reflect the Company s own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of third party pricing services, option pricing models, discounted cash flow models and similar techniques.

SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Company has not made any material SFAS 159 elections as of the end of the first quarter of 2009.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	March 31, 2009			
	Fair Value Measurements Using			Assets/Liabilities
	Level 1	Level 2	Level 3	at Fair Value
Assets				
Securities available for sale	$ 1,588,695	$ 32,427,396	$ 2,310,860	$ 36,326,951
Other assets				
Mortgage servicing rights			258,663	258,663
Derivative receivables[1]	8,997	994,070	654,146	1,657,213
Retained interests in securitizations			2,185,706	2,185,706
Total Assets	$ 1,597,692	$ 33,421,466	$ 5,409,375	$ 40,428,533
Liabilities				
Other liabilities				
Derivative payables[1]	$ 5,430	$ 1,172,299	$ 54,379	$ 1,232,108
Total Liabilities	$ 5,430	$ 1,172,299	$ 54,379	$ 1,232,108

	December 31, 2008			
	Fair Value Measurements Using			Assets/Liabilities
	Level 1	Level 2	Level 3	at Fair Value
Assets				

Securities available for sale	$ 291,907	$ 28,331,103	$ 2,380,261	$ 31,003,271
Other assets				
Mortgage servicing rights			150,544	150,544
Derivative receivables[1]	8,020	1,768,902	59,895	1,836,817
Retained interests in securitizations			1,470,385	1,470,385
Total Assets	$ 299,927	$ 30,100,005	$ 4,061,085	$ 34,461,017
Liabilities				
Other liabilities				
Derivative payables[1]	$ 937	$ 1,260,062	$ 60,672	$ 1,321,671
Total Liabilities	$ 937	$ 1,260,062	$ 60,672	$ 1,321,671

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

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The table below presents a reconciliation for all assets and liabilities measured and recognized at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2009. All Level 3 instruments presented in the table were carried at fair value prior to the adoption of SFAS 159.

Level 3 Instruments Only

			Three Months Ended March 31, 2009		
	Securities Available for Sale	Mortgage Servicing Rights[(1)]	Derivative Receivables[(2)]	Retained Interests in Securitizations[(3)]	Derivative Payables[(2)]
Balance, January 1, 2009	**$ 2,380,261**	**$ 150,544**	**$ 59,895**	**$ 1,470,385**	**$ 60,672**
Total realized and unrealized gains (losses):					
Included in earnings		**2,656**	**(5,870)**	**(101,127)**	**(5,898)**
Included in other comprehensive income	**(111,472)**			**22,898**	
Purchases, issuances and settlements	**61,938**	**105,463**	**600,121**	**793,550**	**(395)**
Transfers into Level 3[(4)]	**(19,867)**				
Balance, March 31, 2009	**$ 2,310,860**	**$ 258,663**	**$ 654,146**	**$ 2,185,706**	**$ 54,379**
Change in unrealized gains (losses) included in earnings related to financial instruments held at March 31, 2009	**$**	**$ 2,656**	**$ (5,870)**	**$ (25,696)**	**$ (5,898)**

			Year ended December 31, 2008		
	Securities Available for Sale	Mortgage Servicing Rights[(1)]	Derivative Receivables[(2)]	Retained Interests in Securitizations[(3)]	Derivative Payables[(2)]
Balance, January 1, 2008	$ 217,428	$ 247,589	$ 8,962	$ 1,295,498	$ 8,631
Total realized and unrealized gains (losses):					
Included in earnings	18	(72,516)	33,442	(187,934)	34,072
Included in other comprehensive income	(696,601)			(57,259)	
Purchases, issuances and settlements	180,631	(24,529)	17,491	420,080	17,969
Transfers into Level 3[(4)]	2,678,785				
Balance, December 31, 2008	$ 2,380,261	$ 150,544	$ 59,895	$ 1,470,385	$ 60,672
Change in unrealized gains (losses) included in earnings related to financial instruments held at December 31, 2008	$	$ (72,516)	$ 33,442	$ (41,055)	$ 34,072

(1) Gains (losses) related to Level 3 mortgage servicing rights are reported in mortgage servicing and other income, which is a component of non-interest income.

(2) An end of quarter convention is used to measure derivative activity, resulting in end of quarter values being reflected as purchases, issuances and settlements for derivatives having a zero fair value at inception. Gains (losses) related to Level 3 derivative receivables and derivative payables are reported in other non-interest income, which is a component of non-interest income.

(3) An end of quarter convention is used to reflect activity in retained interests in securitizations, resulting in all transactions and assumption changes being reflected as if they occurred on the last day of the quarter. Gains (losses) related to Level 3 retained interests in securitizations are reported in servicing and securitizations income, which is a component of non-interest income.

(4) Level 3 assets decreased $19.9 million for the three months ended March 31, 2009. Level 3 assets consist primarily of senior-classes of non-agency mortgage backed securities backed by prime jumbo collateral. The ongoing capital markets dislocation has decreased new issuance and secondary trading volumes for many fixed income markets. This lower level of activity makes it increasingly difficult to find consistent pricing of many fixed income securities. The pricing of our prime jumbo non-agency

mortgage-backed securities continued to exhibit a variation that was outside of our Level 2 assets policy tolerances. Consequently, we reassigned additional securities to Level 3.

The amount of Level 3 securities will likely continue to be a function of market conditions. An increase in dislocation and corresponding decrease in new issuance and trading volumes could result in the reclassification of additional securities to Level 3. If market conditions improve and pricing transparency and consistency increase, assets currently classified as Level 3 could be reclassified to Level 2.

Level 3 Valuation Techniques

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. A brief description of the valuation techniques used for Level 3 assets and liabilities is provided below.

Securities available for sale

Certain securities available for sale are classified as Level 3, the majority of which are non-agency mortgage-backed securities backed by prime collateral. Classification of Level 3 indicates that significant valuation assumptions are not consistently observable in the market. When significant assumptions are not consistently observable, fair values are derived using the best available data. Such data may include quotes provided by a dealer, the use of external pricing services, independent pricing models, or other model-based valuation techniques such as calculation of the present values of future cash flows incorporating assumptions such as benchmark yields, spreads, prepayment speeds, credit ratings, and losses.

Mortgage servicing rights

Mortgage servicing rights (MSRs) do not trade in an active market with readily observable prices. Accordingly, the Company determines the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment spreads, discount rate, cost to service, contractual servicing fee income, ancillary income and late fees. Since the adoption of SFAS No. 156, *Accounting for Servicing of Financial Assets-an amendment of FASB Statement No. 140*, (SFAS 156) in 2007, the Company records MSRs at fair value on a recurring basis. Fair value measurements of MSRs use significant unobservable inputs and, accordingly, are classified as Level 3. The valuation technique for these securities is discussed in more detail in Note 9 Mortgage Servicing Rights.

Derivatives

Most of the Company s derivatives are not exchange traded but instead traded in over the counter markets where quoted market prices are not readily available. The fair value of those derivatives is derived using models that use primarily market observable inputs, such as interest rate yield curves, credit curves, option volatility and currency rates. Any derivative fair value measurements using significant assumptions that are unobservable are classified as Level 3, which include interest rate swaps whose remaining terms extend beyond market observable interest rate yield curves. The impact of Capital One s non-performance risk is considered when measuring the fair value of derivative liabilities.

Retained interests in securitizations

Retained interests in securitizations include the interest-only strip, retained notes, cash reserve accounts and cash spread accounts. The Company uses a valuation model that calculates the present value of estimated future cash flows. The model incorporates the Company s own estimates of assumptions market participants use in determining fair value, including estimates of payment rates, defaults, discount rates, and contractual interest and fees.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company is also required to measure and recognize certain other financial assets at fair value on a nonrecurring basis in the consolidated balance sheet. For assets measured at fair value on a nonrecurring basis in 2009 and still held on the consolidated balance sheet at March 31, 2009, the following table provides the fair value measures by level of valuation assumptions used and the amount of fair value adjustments recorded in earnings for those assets in 2009. Fair value adjustments for mortgage loans held for sale, foreclosed assets, and other assets are recorded in other non-interest expense, and fair value adjustments for loans held for investment are recorded in provision for loan and lease losses in the consolidated statement of income.

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	March 31, 2009				
	Fair Value Measurements Using			Assets at	Total
	Level 1	Level 2	Level 3	Fair Value	Losses
Assets					
Mortgage loans held for sale	**$**	**$ 58,784**	**$**	**$ 58,784**	**$ 3,156**
Loans held for investment		**97,257**	**213,191**	**310,448**	**70,095**
Foreclosed assets[1]		**46,833**		**46,833**	**7,428**
Other		**3,725**		**3,725**	**735**
Total	**$**	**$ 206,599**	**$ 213,191**	**$ 419,790**	**$ 81,414**

	December 31, 2008				
	Fair Value Measurements Using			Assets at	Total Losses in
	Level 1	Level 2	Level 3	Fair Value	2008
Assets					
Mortgage loans held for sale	$	$ 68,462	$	$ 68, 462	$ 14,386
Loans held for investment		64,737	142,768	207,505	62,747
Total	$	$ 133,199	$ 142,768	$ 275,967	$ 77,133

(1) Represents the fair value and related losses of foreclosed properties that were written down subsequent to their initial classification as foreclosed properties.

Note 7

Goodwill and Other Intangible Assets

During Q1 2009, the Company acquired Chevy Chase Bank, the largest retail branch presence in the Washington, D.C. region, which created $1.1 billion of goodwill. The goodwill associated with the acquisition of Chevy Chase Bank was held in the Other segment in the first quarter of 2009. See Note 2 for information regarding the Chevy Chase Bank acquisition.

Goodwill impairment is tested at the reporting unit level, which is an operating segment or one level below on an annual basis in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. The Company s reporting units are Local Banking, U.S. Card, Auto Finance, and International. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit s fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment. For the three months ended March 31, 2009, no impairment of goodwill was recognized.

During the first quarter of 2009, our stock price, along with the stock prices of others in the financial services industry, declined significantly, resulting in a decline in our market capitalization subsequent to our annual goodwill impairment testing date in 2008. While this decline did not result in further goodwill impairment in the first quarter of 2009, the Company will continue to regularly monitor its market capitalization, overall economic conditions and other events or circumstances that might result in an impairment of goodwill in the future.

The following table provides a summary of goodwill.

Total Company	National Lending	Local Banking	Other	Total
Balance at December 31, 2008	**$ 5,303,299**	**$ 6,661,188**	**$**	**$ 11,964,487**
Additions			**1,114,018**	**1,114,018**
Other adjustments		**(4)**		**(4)**
Foreign currency translation	**(1,747)**			**(1,747)**

Balance at March 31, 2009	**$ 5,301,552**	**$ 6,661,184**	**$ 1,114,018**	**$ 13,076,754**

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National Lending Detail	U.S. Card	Auto Finance	International	National Lending Total
Balance at December 31, 2008	$ 3,761,318	$ 619,512	$ 922,469	$ 5,303,299
Foreign currency translation			(1,747)	(1,747)
Balance at March 31, 2009	$ 3,761,318	$ 619,512	$ 920,722	$ 5,301,552

In connection with the acquisition of Chevy Chase Bank, the Company recorded intangible assets of $276.2 million that consisted of core deposit intangibles, trust intangibles, lease intangibles, and other intangibles, which are subject to amortization. The core deposit and trust intangibles reflect the estimated value of deposit and trust relationships. The lease intangibles reflect the difference between the contractual obligation under current lease contracts and the fair market value of the lease contracts at the acquisition date. The other intangible items relate to customer lists and brokerage relationships. The following table summarizes the Company s intangible assets subject to amortization.

	March 31, 2009			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Weighted Avg. Amortization Period
Core deposit intangibles	$ 1,551,365	$ (546,355)	$ 1,005,010	8.8 years
Lease intangibles	53,993	(18,223)	35,770	23.5 years
Trust intangibles	10,500	(3,565)	6,935	14.7 years
Other intangibles	43,647	(5,061)	38,586	3.7 years
Total	$ 1,659,505	$ (573,204)	$ 1,086,301	

Intangibles are amortized on an accelerated basis using the sum of digits methodology over their respective estimated useful lives. Intangible assets are recorded in other assets on the balance sheet. Amortization expense for intangibles is recorded to non-interest expense. The weighted average amortization period for all purchase accounting intangibles is 9.1 years.

The following table summarizes the Company s current period and estimated future amortization expense for intangible assets as of March 31, 2009:

(in thousands)	Current Period Amortization Amount
Three months ended March 31, 2009	$ 52,430
	Estimated Future Amortization Amounts
Years ended December 31,	
2009 (remaining nine months)	$ 182,113
2010	$ 218,238
2011	$ 182,985
2012	$ 149,225
2013	$ 120,574
2014	$ 92,864
Thereafter	$ 140,302
Total	$ 1,086,301

Note 8

Comprehensive Income and Earnings Per Common Share

Comprehensive income for the three months ended March 31, 2009 and 2008, respectively was as follows:

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	Three Months Ended March 31	
	2009	**2008**
Comprehensive Income:		
Net income (loss)	**$ (111,879)**	$ 548,504
Other comprehensive income (loss), net of tax	**369,749**	(130,514)
Total comprehensive income	**$ 257,870**	$ 417,990

Earnings Per Common Share

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

(Shares in Thousands)	Three Months Ended March 31 2009	2008
Numerator:		
Income (loss) from continuing operations, net of tax	**$ (86,921)**	$ 632,555
Loss from discontinued operations, net of tax	**(24,958)**	(84,051)
Net income (loss)	**$ (111,879)**	$ 548,504
Preferred stock dividends and accretion of discount	**$ (64,190)**	$
Net income (loss) available to common shareholders	**$ (176,069)**	$ 548,504
Denominator:		
Denominator for basic earnings per share-weighted-average shares	**390,456**	370,743
Effect of dilutive securities [1]:		
Stock options		644
Contingently issuable shares		
Restricted stock and units		885
Dilutive potential common shares		1,529
Denominator for diluted earnings per share-adjusted weighted-average shares	**390,456**	372,272
Basic earnings per share		
Income (loss) from continuing operations	**$ (0.39)**	$ 1.71
Loss from discontinued operations	**(0.06)**	(0.23)
Net income (loss)	**$ (0.45)**	$ 1.48
Diluted earnings per share		
Income (loss) from continuing operations	**$ (0.39)**	$ 1.70
Loss from discontinued operations	**(0.06)**	(0.23)
Net income (loss)	**$ (0.45)**	$ 1.47

(1) Excluded from the computation of diluted earnings per share were 43.8 million and 24.3 million as of March 31, 2009 and 2008, respectively, because their inclusion would be antidilutive.

Note 9

Mortgage Servicing Rights

MSRs are recognized when mortgage loans are sold in the secondary market and the right to service these loans is retained for a fee and carried at fair value; changes in fair value are recognized in mortgage servicing and other income. The Company may enter into derivatives to economically hedge changes in fair value of MSRs. The Company originally sold mortgage loans through whole loan sales transactions and in some instances the loans were subsequently securitized by the third party purchaser and transferred into a VIE. The Company typically does not have any continuing involvement other than its right to service the loans, and the Company

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does not hold subordinate residual interests or enter into other guarantees or liquidity agreements with these structures. The Company records the MSR at estimated fair value and has no other loss exposure over and above the recorded fair value. The servicing fee does not represent a variable interest in the VIE and thus, the Company could not be deemed the primary beneficiary of these structures.

The Company continues to operate the mortgage servicing business and to report the changes in the fair value of MSRs in continuing operations. To evaluate and measure fair value, the underlying loans are stratified based on certain risk characteristics, including loan type, note rate and investor servicing requirements. The following table sets forth the changes in the fair value of mortgage servicing rights during the three months ended March 31, 2009 and March 31, 2008:

	Three Months Ended March 31	
Mortgage Servicing Rights:	**2009**	**2008**
Balance, beginning of period	**$ 150,544**	$ 247,589
Acquired in acquisitions [(1)]	**109,538**	
Originations	**2,342**	
Sales		(6)
Change in fair value, net	**(3,761)**	(41,473)
Balance, end of period	**$ 258,663**	$ 206,110
Ratio of mortgage servicing rights to related loans serviced for others	**0.79%**	0.75%
Weighted average service fee	**0.29**	0.28

(1) Related to the Chevy Chase Bank acquisition completed on February 27, 2009.

Fair value adjustments to the MSR for the three months ended March 31, 2009 and 2008 included a $6.4 million and a $7.3 million, respectively, decrease due to run-off in the serviced portfolio, and an increase of $2.7 million and a decrease of $34.2 million, respectively, due to changes in the valuation inputs and assumptions.

The valuation adjustments for the MSR were partially offset by changes in the fair value of economic hedging instruments of $4.4 million and $42.5 million for the three months ended March 31, 2009 and 2008, respectively, which were recognized in non-interest income. For additional information on hedging activities, refer to Note 11.

The significant assumptions used in estimating the fair value of the servicing assets at March 31, 2009 and 2008 were as follows:

	March 31, 2009	March 31, 2008
Weighted average prepayment rate (includes default rate)	**22.70%**	29.47%
Weighted average life (in years)	**3.8**	3.3
Discount rate	**11.55%**	10.44%

At March 31, 2009, the sensitivities to immediate 10% and 20% increases in the weighted average prepayment rates would decrease the fair value of mortgage servicing rights by $12.3 million and $23.4 million, respectively.

As of March 31, 2009, the Company s mortgage loan servicing portfolio consisted of mortgage loans with an aggregate unpaid principal balance of $47.0 billion, of which $32.5 billion was serviced for investors other than the Company. The Chevy Chase Bank acquisition added $18.3 billion to the mortgage loan servicing portfolio, of which $10.2 billion was serviced for other investors. As of March 31, 2008, the Company s mortgage loan servicing portfolio consisted of mortgage loans with an aggregate unpaid principal balance of $38.3 billion, of which $27.7 billion was serviced for investors other than the Company.

Servicing income, which includes contractual servicing fees, late fees and ancillary fees, totaled $15.1 million and $29.5 million for the three months ended March 31, 2009 and 2008, respectively.

Note 10

Restructuring

During the second quarter of 2007, the Company announced a broad-based initiative to reduce expenses and improve the competitive cost position of the Company. Restructuring initiatives leverage the capabilities of recently completed infrastructure projects in several of the Company s businesses. The scope and timing of the expected cost reductions are the result of an ongoing, comprehensive review of operations within and across the Company s businesses, which began early in 2007.

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The Company anticipates recording charges of approximately $30.0 million in excess of the original $300.0 million pre-tax over the course of the cost reduction initiative as the Company has extended the initiative due to the continued economic deterioration. Approximately half of these charges are related to severance benefits, while the remaining charges are associated with items such as contract and lease terminations and consolidation of facilities and infrastructure.

Restructuring expenses associated with continuing operations were comprised of the following:

	Three months ended March 31, 2009	Three months ended March 31, 2008
Restructuring expenses:		
Employee termination benefits	**$ 11,916**	$ 44,248
Communication and data processing	**663**	
Supplies and equipment	**1,214**	84
Occupancy	**653**	3,774
Other	**3,181**	4,653
Total restructuring expenses	**$ 17,627**	$ 52,759

Employee termination benefits include charges for executives of $3.1 million and $9.2 million and charges for associates of $8.8 million and $35.0 million for the three months ended March 31, 2009 and 2008, respectively.

The Company made $12.2 million and $26.2 million in cash payments for restructuring charges during the three months ended March 31, 2009 and 2008, respectively that related to employee termination benefits. Restructuring accrual activity associated with the Company s cost initiative for the three months ended March 31, 2009 and 2008 was as follows:

	Three months ended March 31, 2009	Three months ended March 31, 2008
Restructuring accrual activity:		
Balance, beginning of period	**$ 92,749**	$ 67,961
Restructuring charges	**17,627**	52,759
Cash payments	**(12,157)**	(26,207)
Noncash write-downs and other adjustments		(1,247)
Balance, end of period	**$ 98,219**	$ 93,266

Note 11

Derivative Instruments and Hedging Activities

The Company maintains a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate and foreign exchange rate volatility. The Company s goal is to manage sensitivity to changes in rates by hedging the repricing or maturity characteristics of certain balance sheet assets and liabilities, thereby limiting the impact on earnings. By using derivative instruments, the Company is exposed to credit and market risk on those derivative positions. The Company manages the market risk associated with interest rate and foreign exchange contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Credit risk is equal to the extent of the fair value gain in a derivative, if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes the Company, and, therefore, creates a repayment risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty, and therefore, has no repayment risk. The Company minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality

counterparties that are reviewed periodically by the Company s Asset and Liability Management Committee, a committee of Senior Management. The Company also maintains a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association Master Agreement; depending on the nature of the derivative transaction, bilateral collateral agreements are generally required as well. The Asset and Liability Management Committee, as part of that committee s oversight of the Company s asset/liability and treasury functions, monitors the Company s derivative activities. In accordance with the Company s asset/liability management policies, the Company reviews its risk profile on a monthly basis. The Company s Asset and Liability Management Committee is responsible for setting the

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asset/liability management policies which govern hedging strategies and activities and approving new products to be traded under such new or existing strategies.

The Company uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps generally involve the exchange of fixed and variable rate interest payments between two parties, based on a common notional principal amount and maturity date with no exchange of underlying principal amounts. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. To the extent that there is a high degree of correlation between the hedged asset or liability and the derivative instrument, the income or loss generated will generally offset the effect of this unrealized appreciation or depreciation.

The Company s foreign currency denominated assets and liabilities expose it to foreign currency exchange risk. The Company enters into various foreign exchange derivative contracts for managing foreign currency exchange risk. Changes in the fair value of the derivative instrument effectively offset the related foreign exchange gains or losses on the items to which they are designated.

The Company has non-trading and trading derivatives that do not qualify as hedges. These derivatives are carried at fair value and changes in value are included in current earnings.

The following table provides the notional value and fair values of the Company s derivative instruments, by category, as of March 31, 2009:

	As of March 31, 2009				
		Asset Derivatives		Liability Derivatives	
	Notional Value	Balance Sheet Classification	Positive Fair Value	Balance Sheet Classification	Negative Fair Value
Derivatives designated as hedging instruments under FAS					
Cash Flow Interest Rate Contracts	$ 6,239,583	Other assets	$	Other liabilities	$ 206,113
Cash Flow Foreign Exchange Contracts	1,185,732	Other assets	23,193	Other liabilities	6,902
Fair Value Interest Rate Contracts	6,360,477	Other assets	558,347	Other liabilities	8,289
Net Investment Foreign Exchange Contracts	47,311	Other assets	11,713	Other liabilities	
Subtotal	$ 13,833,103		$ 593,253		$ 221,304
Derivatives not designated as hedging instruments under FAS 133					
Trading Interest Rate Contracts	$ 8,804,731	Other assets	$ 294,794	Other liabilities	$ 282,759
Non-Trading Interest Rate Contracts	27,394,757	Other assets	761,063	Other liabilities	722,616
Non-Trading Other Contracts	1,497,234	Other assets	8,104	Other liabilities	5,430
Subtotal	$ 37,696,722		$ 1,063,961		$ 1,010,805
Total Derivatives	$ 51,529,825		$ 1,657,214		$ 1,232,109

The following table shows the effect of the Company s derivative instruments, by category, on the income statement for the period ended March 31, 2009, assuming no ineffectiveness within derivatives:

Derivatives in Fair Value Hedging Relationships

	Classification of Gain/(Loss) in Income on Derivative	Gain/(Loss) in Income on Derivative	Hedged Items in Fair Value Hedge Relationship	Classification of Gain/(Loss) Recognized in Income on Related Hedged Item	Gain/(Loss) Recognized in Income on Related Hedged Items	Net Gain/(Loss)
Interest Rate Contracts	Other Non-Interest Income	$ (47,781)	Fixed-rate Debt	Other Non-Interest Income	$ 47,780	$ (1)

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Cash Flow Hedging Relationships

	Gain/(Loss) Recognized in OCI (Effective Portion)	Classification of Gain/(Loss) Reclassified from OCI into Income	Gain/(Loss) Reclassified from OCI into Income	Classification of Gain/(Loss) Recognized in Income (Ineffectiveness)	Gain/(Loss) Recognized Due to Ineffectiveness
Interest Rate Contracts	$ 63,724	Interest Income (Expense)	$ (35,475)	None	$ 0
Foreign Exchange Contracts	16,153	Other Non - Interest Income	(10,348)	None	$ 0
	$ 79,877		$ (45,823)		$ 0

Net Investment Hedging Relationships

	Gain/(Loss) Recognized in OCI	Classification of Gain/(Loss) Reclassified from OCI into Income (Effective Portion)	Gain/(Loss) Reclassified from OCI into Income (Effective Portion)	Classification of Gain/(Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain/(Loss) Recognized in Income (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Foreign Exchange Contracts	$ 550	None	$	None	$

Derivatives Not Designated as Hedging Instruments under Statement 133

	Classification of Gain (Loss) in Income	Gain (Loss) Recognized in Income
Trading Interest Rate Contracts	Other Non-Interest Income	$ 2,453
Non-Trading Interest Rate Contracts	Other Non-Interest Income	(64,209)
Non-Trading Other Contracts	Other Non-Interest Income	2,234
Total		$ (59,522)

Fair Value Hedges

The Company has entered into forward exchange contracts to hedge foreign currency denominated investments against fluctuations in exchange rates. The purpose of the Company s foreign currency hedging activities is to protect the Company from the risk of adverse effects from movements in exchange rates.

The Company has also entered into interest rate swap agreements that modify the Company s exposure to interest rate risk by effectively converting a portion of the Company s senior notes, public fund certificates of deposit, and U.S. Agency investments from fixed rates to variable rates over the next eight years. The agreements involve the receipt of fixed rate amounts in exchange for floating rate interest payments over the life of the agreement without an exchange of underlying principal amounts.

Adjustments related to the ineffective portion of the fair value hedging instruments are recorded in interest income, interest expense or non-interest income depending on the hedged item. For the three months ended March 31, 2009, net gains or losses related to the ineffective

portion of the Company s fair value hedging instruments were not material.

Cash Flow Hedges

The Company has entered into interest rate swap agreements that effectively modify the Company s exposure to interest rate risk by converting floating rate debt to a fixed rate debt over the next four years. The agreements involve the receipt of floating rate amounts in exchange for fixed rate interest payments over the life of the agreement without an exchange of underlying principal amounts.

The Company has entered into forward exchange contracts to reduce the Company s sensitivity to foreign currency exchange rate changes on its foreign currency denominated loans. The forward rate agreements allow the Company to lock-in functional currency equivalent cash flows associated with the foreign currency denominated loans.

Any unrealized gains or losses related to cash flow hedging instruments are reclassified from other comprehensive income (loss) into earnings in the same period or periods during which the hedged forecasted transaction affects earnings and are recorded in interest income, interest expense or non-interest income depending on the hedged item.

Adjustments related to the ineffective portion of the cash flow hedging instruments are recorded in interest income, interest expense or non-interest income depending on the hedged item.

At March 31, 2009, the Company expects to reclassify $12.9 million of net gains, after tax, on derivative instruments from cumulative other comprehensive income to earnings during the next 12 months as terminated swaps are amortized and as interest payments and receipts on derivative instruments occur.

Hedge of Net Investment in Foreign Operations

The Company uses forward exchange contracts to protect the value of its investment in its foreign subsidiaries. Realized and unrealized foreign currency gains and losses from these hedges are not included in the income statement, but are shown in the translation adjustments in other comprehensive income. The p