CAPITAL ONE FINANCIAL CORP
Form 10-Q
November 09, 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 September 30, 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 x No ¨

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

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

As of October 31, 2009 there were 449,924,631 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)

	September 30, 2009	December 31, 2008
Assets:		
Cash and due from banks	**$ 2,719,100**	$ 2,047,839
Federal funds sold and resale agreements	**544,793**	636,752
Interest-bearing deposits at other banks	**863,310**	4,806,752
Cash and cash equivalents	**4,127,203**	7,491,343
Securities available for sale	**37,693,001**	31,003,271
Securities held to maturity	**83,608**	
Mortgage loans held for sale	**141,158**	68,462
Loans held for investment	**96,783,165**	101,017,771
Less: Allowance for loan and lease losses	**(4,513,493)**	(4,523,960)
Net loans held for investment	**92,269,672**	96,493,811
Accounts receivable from securitizations	**6,985,200**	6,342,754
Premises and equipment, net	**2,773,173**	2,313,106
Interest receivable	**947,738**	827,909
Goodwill	**13,524,978**	11,964,487
Other	**9,958,190**	9,408,309
Total assets	**$ 168,503,921**	$ 165,913,452
Liabilities:		
Non-interest-bearing deposits	**$ 12,734,589**	$ 11,293,852
Interest-bearing deposits	**101,768,522**	97,326,937
Total deposits	**114,503,111**	108,620,789
Senior and subordinated notes	**9,208,769**	8,308,843
Other borrowings	**12,126,181**	14,869,648
Interest payable	**582,969**	676,398
Other	**5,860,739**	6,825,341
Total liabilities	**142,281,769**	139,301,019
Stockholders Equity:		
Preferred stock, par value $.01 per share; authorized 50,000,000 shares, zero and 3,555,199 issued or outstanding as of September 30, 2009 and December 31, 2008, respectively		3,096,466
Common stock, par value $.01 per share; authorized 1,000,000,000 shares, 502,097,580 and 438,434,235 issued as of September 30, 2009 and December 31, 2008, respectively	**5,021**	4,384
Paid-in capital, net	**18,928,719**	17,278,102

Retained earnings	**10,404,255**	10,621,164
Cumulative other comprehensive income (loss)	**56,524**	(1,221,796)
Less: Treasury stock, at cost; 47,014,878 and 46,637,241 shares as of September 30, 2009 and December 31, 2008, respectively	**(3,172,367)**	(3,165,887)
Total stockholders equity	**26,222,152**	26,612,433
Total liabilities and stockholders equity	**$ 168,503,921**	$ 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 September 30		Nine Months Ended September 30	
	2009	**2008**	**2009**	**2008**
Interest Income:				
Loans held for investment, including past-due fees	**$ 2,265,720**	$ 2,347,480	**$ 6,689,859**	$ 7,153,582
Investment securities	**398,835**	317,268	**1,206,460**	856,093
Other	**83,195**	107,048	**214,294**	333,503
Total interest income	**2,747,750**	2,771,796	**8,110,613**	8,343,178
Interest Expense:				
Deposits	**479,178**	624,319	**1,666,605**	1,827,284
Senior and subordinated notes	**74,032**	96,568	**189,189**	352,335
Other borrowings	**143,860**	244,264	**470,802**	817,241
Total interest expense	**697,070**	965,151	**2,326,596**	2,996,860
Net interest income	**2,050,680**	1,806,645	**5,784,017**	5,346,318
Provision for loan and lease losses	**1,173,165**	1,093,917	**3,386,340**	3,002,119
Net interest income after provision for loan and lease losses	**877,515**	712,728	**2,397,677**	2,344,199
Non-Interest Income:				
Servicing and securitizations	**720,698**	875,718	**1,536,751**	2,793,520
Service charges and other customer-related fees	**496,404**	576,762	**1,494,292**	1,675,032
Mortgage servicing and other	**8,656**	39,183	**45,199**	90,990
Interchange	**122,585**	148,076	**389,378**	432,708
Net impairment losses recognized in earnings[1]	**(11,173)**		**(21,567)**	
Other	**215,210**	57,152	**430,348**	383,435
Total non-interest income	**1,552,380**	1,696,891	**3,874,401**	5,375,685
Non-Interest Expense:				
Salaries and associate benefits	**648,180**	571,686	**1,836,430**	1,761,538
Marketing	**103,698**	267,372	**400,380**	853,265
Communications and data processing	**175,575**	176,720	**569,257**	559,065
Supplies and equipment	**122,777**	126,781	**370,160**	389,649
Occupancy	**113,913**	96,483	**329,049**	264,700
Restructuring expense	**26,357**	15,306	**87,358**	81,625
Other	**611,978**	555,858	**1,876,692**	1,542,242
Total non-interest expense	**1,802,478**	1,810,206	**5,469,326**	5,452,084
Income from continuing operations before income taxes	**627,417**	599,413	**802,752**	2,267,800
Income tax provision	**158,191**	213,624	**190,246**	786,958
Income from continuing operations, net of tax	**469,226**	385,789	**612,506**	1,480,842
Loss from discontinued operations, net of tax	**(43,587)**	(11,650)	**(74,543)**	(105,294)

Net income	**$ 425,639**	$ 374,139	**$ 537,963**	$ 1,375,548
Net income (loss) available to common shareholders	**$ 425,639**	$ 374,139	**$ (25,945)**	$ 1,375,548
Basic earnings per common share:				
Income from continuing operations	**$ 1.04**	$ 1.03	**$ 0.12**	$ 3.98
Loss from discontinued operations	**(0.09)**	(0.03)	**(0.18)**	(0.28)
Net income (loss)	**$ 0.95**	$ 1.00	**$ (0.06)**	$ 3.70
Diluted earnings per common share:				
Income (loss) from continuing operations	**$ 1.03**	$ 1.03	**$ 0.12**	$ 3.96
Loss from discontinued operations	**(0.09)**	(0.03)	**(0.18)**	(0.28)
Net income (loss)	**$ 0.94**	$ 1.00	**$ (0.06)**	$ 3.68
Dividends paid per common share	**$ 0.05**	$ 0.375	**$ 0.475**	$ 1.125

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(1) For the three and nine months ended September 30, 2009, the Company recorded other-than-temporary impairment losses of $11.2 million and $21.6 million, respectively. Total unrealized losses on these securities recognized in other comprehensive income as a component of stockholders equity at September 30, 2009 was $158.8 million.

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 Income (Loss)		Total Stockholders Equity
(In Thousands, Except Per Share Data)	**Shares**	**Amount**	**Preferred Stock**	**Paid-In Capital, Net**	**Retained Earnings**		**Treasury Stock**	
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 for post retirement benefits of ASC 715-20 of the Codification, net of income tax benefit of $317					572	(1,161)		(589)
Comprehensive income:								
Net income					1,375,548			1,375,548
Other comprehensive income, net of income tax:								
Unrealized losses on securities, net of income tax benefit of $144,858						(269,022)		(269,022)
Defined benefit pension plans, net of income tax benefit of $2,089						(4,032)		(4,032)
Foreign currency translation adjustments						(253,790)		(253,790)
Unrealized loss on cash flow hedging instruments, net of income tax benefit of $5,964						11,077		11,077
Other comprehensive income (loss)						(515,767)		(515,767)
Comprehensive income								859,781
Cash dividends Common stock $1.125 per share					(421,518)			(421,518)
Purchase of treasury stock							(12,025)	(12,025)
Issuances of common stock and restricted stock, net of forfeitures	17,170,062	172		758,602				758,774
Exercise of stock options and tax benefits of exercises and restricted stock vesting	1,910,252	19		60,699				60,718
Compensation expense for restricted stock awards and stock options				67,576				67,576
Allocation of ESOP shares				4,711				4,711
Balance, September 30, 2008	438,305,214	$ 4,383		$ 16,752,078	$ 12,222,170	$ (201,680)	$ (3,165,411)	$ 25,611,540
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 income					**537,963**			**537,963**
Other comprehensive income (loss), net of income tax:								
Unrealized gains on securities, net of income taxes of $544,333						**1,026,279**		**1,026,279**
Defined benefit pension plans, net of net income tax benefit of $1,641						**(2,944)**		**(2,944)**
Foreign currency translation adjustments						**177,489**		**177,489**
Unrealized gains in cash flow hedging instruments, net of income taxes of $51,792						**77,496**		**77,496**

Other comprehensive income (loss)						1,278,320		1,278,320
Comprehensive income (loss)								1,816,283
Cash dividends-Common stock $0.475 per share					(190,964)			(190,964)
Cash dividends-Preferred stock 5% per annum			(22,714)		(82,461)			(105,175)
Purchase of treasury stock							(6,480)	(6,480)
Issuances of common stock and restricted stock, net of forfeitures	61,009,827	610		1,528,688				1,529,298
Exercise of stock options and tax benefits of exercises and restricted stock vesting	92,917	1		894				895
Accretion of preferred stock discount			33,554		(33,554)			
Redemption of preferred stock			(3,107,306)		(447,893)			(3,555,199)
Compensation expense for restricted stock awards and stock options				88,972				88,972
Issuance of common stock for acquisition	2,560,601	26		30,830				30,856
Allocation of ESOP shares				1,233				1,233
Balance, September 30, 2009	**502,097,580**	**$ 5,021**	**$**	**$ 18,928,719**	**$ 10,404,255**	**$ 56,524**	**$ (3,172,367)**	**$ 26,222,152**

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

Consolidated Statements of Cash Flows

(Dollars in thousands) (unaudited)

	Nine Months Ended September 30,	
	2009	2008
Operating Activities:		
Income from continuing operations, net of tax	$ 612,506	$ 1,480,842
Loss from discontinued operations, net of tax	(74,543)	(105,294)
Net Income	537,963	1,375,548
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan and lease losses	3,386,340	3,002,119
Depreciation and amortization, net	585,874	536,436
Gain on sales of securities available for sale	(217,044)	(13,713)
Gain on sales of auto loans		(2,428)
Gain on repurchase of senior notes		(53,860)
Mortgage loans held for sale:		
Transfers and originations	(6,765,798)	(1,639,636)
Loss (Gain) on sales	399	(26,062)
Proceeds from sales	6,924,248	1,864,311
Stock plan compensation expense	102,036	81,239
Changes in assets and liabilities:		
(Increase) Decrease in interest receivable	(119,829)	88,600
Increase in accounts receivable from securitizations	(642,446)	(262,944)
Decrease (Increase) in other assets	1,105,795	(960,113)
Decreases in interest payable	(93,429)	(123,518)
(Decreases) Increase in other liabilities	(1,712,839)	85,499
Net cash used in operating activities attributable to discontinued operations	39,984	129,659
Net cash provided by operating activities	3,131,254	4,081,137
Investing Activities:		
Purchases of securities available for sale	(22,368,668)	(15,266,177)
Proceeds from maturities of securities available for sale	7,710,694	5,189,006
Proceeds from sales of securities available for sale	10,977,685	2,504,289
Proceeds from securitizations of loans	8,816,378	8,446,956
Net (increase) decrease in loans held for investment	375,936	(7,649,922)
Principal recoveries of loans previously charged off	592,514	501,970
Additions of premises and equipment, net	(213,799)	(270,064)
Net payment for companies acquired	(448,151)	
Net cash provided by investing activities attributable to discontinued operations	451	11,659
Net cash provided by (used in) investing activities	5,443,040	(6,532,283)
Financing Activities:		
Net (decrease) increase in deposits	(7,674,317)	16,151,798
Net decreases in other borrowings	(4,748,368)	(10,834,872)
Maturities of senior notes	(1,447,365)	(1,318,694)
Repurchases of senior notes		(1,120,724)

Redemptions of acquired company debt and noncontrolling interest	**(464,915)**	
Issuance of junior subordinated notes	**1,000,000**	
Issuance of senior notes	**1,000,000**	
Issuance of subordinated notes	**1,500,000**	
Redemption of preferred stock	**(3,555,199)**	
Purchases of treasury stock	**(6,480)**	(12,025)
Dividends paid-common stock	**(190,964)**	(421,518)
Dividends paid-preferred stock	**(105,175)**	
Net proceeds from issuances of common stock	**1,530,531**	763,485
Proceeds from share based payment activities	**895**	60,718
Net cash used in financing activities attributable to discontinued operations	**(3,394)**	(17,690)
Net cash (used in) provided by financing activities	**(13,164,751)**	3,250,478
Net (decrease) increase in cash and cash equivalents	**(4,590,457)**	799,332

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	Nine Months Ended September 30, 2009	2008
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	**$ 4,127,203**	$ 5,620,741

See Notes to Consolidated Financial Statements.

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.

On February 27, 2009, the Corporation acquired Chevy Chase Bank, F.S.B. (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.

On July 30, 2009 the Company merged Chevy Chase Bank with and into CONA.

During the third quarter of 2009, the Company realigned its business segment reporting structure to better reflect the manner in which the performance of the Company s operations are evaluated. The Company now reports the results of its business through three operating segments: Credit Card, Commercial Banking and Consumer Banking.

Segment and sub-segment results where presented have been recast for all periods presented. The three segments consist of the following:

- Credit Card includes the Company s domestic consumer and small business card lending, domestic national small business lending, national closed end installment lending and the international card lending businesses in Canada and the United Kingdom.
- Commercial Banking includes the Company s lending, deposit gathering and treasury management services to commercial real estate and middle market customers. The Commercial segment also includes the financial results of a national portfolio of small ticket commercial real estate loans that are in run-off mode.
- Consumer Banking includes the Company s branch based lending and deposit gathering activities for small business customers as well as its branch based consumer deposit gathering and lending activities, national deposit gathering, consumer mortgage lending and servicing activities and national automobile lending.

The segment reorganization includes the allocation of Chevy Chase Bank to the appropriate segments. Chevy Chase Bank s operations are included in the Commercial Banking and Consumer Banking segments beginning in the second quarter 2009. Chevy Chase Bank s operations for the first quarter of 2009 remain in the Other category due to the short duration since acquisition. The Other category includes GreenPoint originated consumer mortgages originated for sale but held for investment since originations were suspended in 2007, the results of corporate treasury activities, including asset-liability management and the investment portfolio, the net impact of transfer pricing, brokered deposits, certain unallocated expenses, gains/losses related to the securitization of assets, and restructuring charges related to the Company s cost initiative and to the Chevy Chase Bank 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 and COBNA 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. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of operations in these financial statements, have been made.

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.

During the second quarter of 2009, the Financial Accounting Standards Board (FASB) issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (ASC 105-10-65/SFAS 168). This standard establishes the Accounting Standards Codification for the FASB (Codification or ASC) as the single source of authoritative U.S. GAAP. The Codification does not change GAAP, but rather how the guidance is organized and presented to users. Effective July 1, 2009, changes to the source of authoritative U.S. GAAP are communicated through an Accounting Standards Update (ASU). ASUs will be published for all authoritative U.S. GAAP promulgated by the FASB, regardless of the form in which such guidance may have been issued prior to release of the FASB Codification (e.g., FASB Statements, EITF Abstracts, FASB Staff Positions, etc.). ASUs also will be issued for amendments to the SEC content in the FASB Codification as well as for editorial changes. Subsequently, the Codification will require companies to change how they reference GAAP throughout the financial statements. The Company has adopted the Codification for the third quarter of 2009 and has provided the pre-Codification references along with the related ASC references to allow readers an opportunity to see the impact of the Codification on our financial statements and disclosures.

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* (ASC 860-10/SFAS 140) and the VIE framework under Financial Accounting Standards Board Interpretation No. 46 (Revised 2003), *Consolidation of Variable Interest Entities (VIE),* (ASC 810-10/FIN 46(R)).

QSPEs are passive entities that are commonly used in mortgage, credit card, auto and installment loan securitization transactions. ASC 860-10/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 14 for more information on the Company s off-balance sheet securitization activities.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, *An Amendment of FASB Statement No. 140* (SFAS 166), and Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167). SFAS 166 removes the concept of a qualifying special-purpose entity (QSPE) from SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* and removes the exception from applying FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (ASC 810-10/FIN 46(R)), to variable interest entities that are qualifying special-purpose entities. SFAS 167 retains the scope of FIN 46(R) with the addition of entities previously considered qualifying special-purpose entities. SFAS 166 and SFAS 167 are effective for the Company s annual reporting period beginning January 1, 2010. The adoption of SFAS 166 and SFAS 167 could have a significant impact on the Company s consolidated financial statements because the Company expects it will be required to consolidate at least some of its special purpose entities to which pools of loan receivables have been transferred in transactions previously qualifying as sales. Holding more of these assets on the Company s balance sheet may require it to take various actions, including raising additional capital, in order to meet regulatory capital requirements. Such capital may not be available on terms favorable to the Company, if at all, and could have a negative impact on the Company s financial results. As of September 30, 2009, the Company had approximately $44.3 billion of credit card receivables held by QSPEs of which $41.3 billion are backed securities held by external investors; and $4.8 billion in mortgage receivables that are considered at risk for consolidation. Additionally, the Company has mortgage loans, HELOC s and manufactured housing loans serviced for others that the Company does not believe will be consolidated under the new guidance.

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VIEs Special purpose entities that are not QSPEs are considered for consolidation in accordance with ASC 810-10/FIN 46(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. The adoption of SFAS 167 could have an impact on the Company s consolidated financial statements because the Corporation expects it will consolidate certain VIE s as a result of applying the qualitative considerations called for in SFAS 167 versus the quantitative requirements under FIN 46(R). We are currently assessing the impact of SFAS 167 on our VIE structures at this time. See Note 11 Mortgage Servicing Rights; Note 14 Securitizations; Note 15 Commitments, Contingencies and Guarantees; and Note 16 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 September 30, 2009 the Company had recorded $343.9 million for the right to reclaim cash collateral and $406.9 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* (ASC 805-10/SFAS 141(R)) or Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (ASC 310-10/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. During the evaluation of whether a loan was considered impaired under ASC 310-10/SOP 03-3 or performing under ASC 805-10/SFAS 141(R), the Company considered 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), the geographic location of the borrower or collateral, the loan-to-value ratio and the risk rating assigned to the loans. Based on the criteria, the Company considered the entire Chevy Chase Bank option arm portfolio to be impaired and accounted for under ASC 310-10/SOP 03-3. Portions of the Chevy Chase Bank commercial loan portfolio, HELOC portfolio and the fixed mortgage portfolio were also considered impaired.

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. In addition, net charge-offs on such loans are applied to the nonaccretable difference recorded at acquisition for the estimated future credit losses.

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 ASC 805-10/SFAS 141(R) and ASC 310-10/SOP 03-3.

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Securities Available for Sale

The Company considers debt securities in its investment portfolio as available for sale. These securities are stated at fair value, with the unrealized gains and losses, net of tax, reported as a component of cumulative other comprehensive income. The fair values of securities is based on quoted market prices, or if quoted market prices are not available, then the fair value is estimated using the quoted market prices for similar securities, pricing models or discounted cash flow analyses, using observable market data where available. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization or accretion is included in interest income. Realized gains and losses on sales of securities are determined using the specific identification method. The Company evaluates its unrealized loss positions for impairment in accordance with ASC 320-10/SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, as amended by FSP No. 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairment.* As such, when there is other-than-temporary impairment, the Company recognizes credit related impairments in earnings while other impairments are recorded in other comprehensive income. See Note 6 for additional details.

Income Taxes

The Company accounts for income taxes in accordance with SFAS 109, *Accounting for Income Taxes* (ASC740-10/SFAS 109), recognizing the current and deferred tax consequences of all transactions that have been recognized in the financial statements using the provisions of the enacted tax laws.

The Company recorded income tax expense of $158.2 million and $190.2 million for the three and nine month periods ended September 30, 2009. The related effective income tax rates were 25.2% and 23.7% for the three month and nine month periods ended September 30, 2009, respectively, compared to 35.6% and 34.7% for the same periods in the prior year. The decrease in the tax rates were primarily due to increases in permanent tax preferences, including tax-exempt interest and business tax credits, relative to the lower net income before tax in 2009.

On September 21, 2009, the U.S. Tax Court issued a decision with respect to certain tax issues for the years 1995-1999, with both parties prevailing on certain issues. At issue were proposed adjustments by the IRS with respect to the timing of recognition of items of income and expense derived from the Company s credit card business in various tax years. As a result of the Tax Court decision, the Company reduced the amount of unrecognized tax benefits by approximately $69.3 million. The time period for an appeal by each party of the Tax Court decision is pending and the ultimate outcome may also impact tax years after 1999. It is reasonably possible that a settlement related to these timing issues may be made within twelve months of the reporting date. At this time, an estimate of the potential change to the amount of unrecognized tax benefits resulting from such a settlement cannot be made.

Also during the third quarter of 2009, the IRS concluded its examination of the Company s federal income tax returns for the years 2005 and 2006 and the Company made cash payments to the IRS related to these concluded examinations which resulted in a reduction of approximately $220.6 million to the balance of net unrecognized tax benefits.

Primarily as a result of the U.S. Tax Court decision, the Company recorded a $30.3 million discrete tax benefit during the third quarter.

Recent Accounting Pronouncements

In September 2009, the FASB issued ASU No. 2009-08, *Earnings per Share- Amendments to Section 260-10-S99 (SEC Update)* (ASU 2009-08), which provided corrections to various parts of the Codification regarding EPS. ASU 2009-08 is effective immediately upon being issued. The initial adoption of ASU 2009-08 did not have an impact on the consolidated earnings or financial position of the Company as the update amended the reference between the Codification and pre-Codification references.

In September 2009, the FASB issued ASU No. 2009-07, *Accounting for Various Topics- Technical Corrections to SEC Paragraphs (SEC Update)* (ASU 2009-07), which provided corrections to various parts of the Codification including Regulation S-X. ASU 2009-07 is effective immediately upon being issued. The initial adoption of ASU 2009-07 did not have an impact on the consolidated earnings or financial position of the Company as the update amended the reference between the Codification and pre-Codification references.

In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820)- Measuring Liabilities at Fair Value* (ASU 2009-05), which provided additional details on calculating the fair value of liabilities. ASU 2009-05 is effective immediately upon being issued. The initial adoption of ASU 2009-05 did not have an impact on the consolidated earnings or financial position of the Company as the Company already uses the prescribed valuation techniques within ASU 2009-05.

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In August 2009, the FASB issued ASU No. 2009-03, *SEC Update- Amendments to Various Topics Containing SEC Staff Accounting Bulletins (SEC Update)* (ASU 2009-03), which provided corrections to various parts of the Codification. ASU 2009-03 is effective immediately upon being issued. The initial adoption of ASU 2009-03 did not have an impact on the consolidated earnings or financial position of the Company as the update amended the reference between the Codification and pre-Codification references.

On June 30, 2009, the FASB issued ASU No. 2009-02, *Omnibus Update- Amendments to Various Topics for Technical Corrections* (ASU 2009-02), which provided corrections to various parts of the Codification. ASU 2009-02 is effective immediately upon being issued. The initial adoption of ASU 2009-02 did not have an impact on the consolidated earnings or financial position of the Company as the update amended the reference between the Codification and pre-Codification references.

On June 30, 2009, the FASB issued ASU No. 2009-01, *Topic 105- Generally Accepted Accounting Principles- amendments based on- Statement of Financial Accounting Standards No. 168- The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles* (ASU 2009-01), which made the Codification effective for interim and annual periods ending after September 15, 2009, and will supersede all existing non-SEC accounting and reporting standards. All non-grandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. Once ASU 2009-01 is effective, the FASB will no longer issue updates in the form of statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; rather it will issue ASUs. The initial adoption of the FASB s Accounting Standards Codification did not have an impact on the consolidated earnings or financial position of the Company because it only amends the referencing to existing accounting standards.

On June 12, 2009, the FASB issued SFAS No. 167, *Determining Amendments to FASB Interpretation No. 46(R),* which provides additional guidance on how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. SFAS 167 will be effective for interim and annual reporting periods beginning after November 15, 2009, and early adoption is prohibited. On June 12, 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets* (SFAS 166), which will require more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a QSPE, changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS 166 will be effective for interim and annual reporting periods beginning after November 15, 2009, and early adoption is prohibited. The adoption of SFAS 166 and SFAS 167 could have a significant impact on the Company s consolidated financial statements because the Company expects it will be required to consolidate at least some of its special purpose entities to which pools of loan receivables have been transferred in transactions previously qualifying as sales. Holding more of these assets on the Company s balance sheet may require it to take various actions, including raising additional capital, in order to meet regulatory capital requirements. Such capital may not be available on terms favorable to the Company, if at all, and could have a negative impact on the Company s financial results. As of September 30, 2009, the Company had approximately $44.3 billion of credit card receivables held by QSPEs of which $41.3 billion are backed securities held by external investors; and $4.8 billion in mortgage receivables that are considered at risk for consolidation. Additionally, the Company has mortgage loans, HELOC s and manufactured housing loans serviced for others that the Company does not believe will be consolidated.

On May 28, 2009, the FASB issued SFAS No. 165, *Subsequent Events* (ASC 855-10/SFAS 165). This Statement establishes general standards of accounting for and disclosing events that occur after the balance sheet date, but prior to the issuance of financial statements. The Statement requires companies to disclose subsequent events as defined within ASC 855-10/SFAS 165 and disclose the date through which subsequent events have been evaluated. The Statement is effective for interim and annual periods ending after June 15, 2009. The adoption of ASC 855-10/SFAS 165 occurred during the second quarter of 2009 and did not have a material effect on consolidated earnings or financial position of the Company. See Note 17 for additional details.

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* (ASC 820-10-65-4/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* (ASC 820-10/SFAS 157). The adoption of ASC 820-10-65-4/FSP 157-4 occurred during the second quarter of 2009, and did not have a material effect 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* (ASC 320-10-65/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 requires 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. ASC 320-10-65/FSP 115-2 and FAS 124-2are effective for interim and annual reporting periods ending after June 15, 2009. The adoption of ASC 320-10-65/FSP 115-2 and FAS 124-2occurred during the second quarter of 2009. See Note 6 for additional detail.

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* (ASC 825-10-65/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. ASC 825-10-65/FSP 107-1 and APB 28-1 is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of ASC 825-10-65/FSP 107-1 and APB 28-1 occurred during the second quarter of 2009, and did not have a material effect on the consolidated earnings and financial position of the Company because it only amends the disclosure requirements. See Note 7 for additional details.

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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* (ASC 325-40-65/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,* (ASC 320-10/SFAS 115) and other related guidance. ASC 325-40-65/FSP EITF 99-20 emphasizes that any other-than-temporary impairment resulting from the application of ASC 320-10/SFAS 115 or ASC 325-40-65/FSP 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. ASC 325-40-65/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 ASC 325-40-65/FSP EITF 99-20 did not have impact on consolidated earnings or financial position of the Company.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (ASC 260-10-65/FSP EITF 03-6-1) 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* (ASC 260-10/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 ASC 260-10-65/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* (ASC 815-10/FSP FAS 133-1 and FIN 45-4). ASC 815-10/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* (ASC 460-10/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 ASC 815-10/FSP FAS 133-1 and FIN 45-4 did not have a material impact on the consolidated earnings or financial position of the Company. ASC 460-10/FIN 45 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 15 for additional detail.

Effective January 1, 2008, the Company adopted ASC 820-10/SFAS 157 for all financial assets and liabilities measured at fair value; and for nonfinancial assets and liabilities measured at fair value on a recurring basis. ASC 820-10/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 ASC 820-10/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 7 for additional detail.

Effective January 1, 2008, the Company adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* (ASC 825-10/SFAS 159). ASC 825-10/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 ASC 825-10/SFAS 159 did not have a material impact on the consolidated earnings and financial position of the Company. See Note 7 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*, (ASC 815-10-65/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 ASC 815-10-65/SFAS 161 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 ASC 815-10-65/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 13 for derivatives disclosures under ASC 815-10-65/SFAS 161.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No.* 51, (ASC 810-10-65/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 ASC810-10/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 ASC 810-10-65/SFAS 160 did not have a material impact on the consolidated earnings or financial position of the Company.

In December 2007, the FASB issued ASC 805-10/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. ASC 805-10/SFAS No. 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 ASC 805-10/SFAS No. 141(R) to the Chevy Chase Bank acquisition.

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). The maximum payment under the earn-out is $300.0 million and would occur after December 31, 2013. As of September 30, 2009, the Company has not recognized a liability nor does it expect to make any payments associated with the earn-out based on our expectations for credit losses on the portfolio. 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, and brings a strong customer base in an attractive banking market. 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. 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 $1.6 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. During the third quarter of 2009, the Company continued the analysis of the fair values and purchase price allocation of Chevy Chase Bank s assets and liabilities. The Company recorded an increase to goodwill of $146.9 million as a result. The change was predominantly related to a reduction in the fair value of net loans. The Company has not finalized the analysis and still considers goodwill to be preliminary, except as it relates to deposits and borrowings. Upon completion of the analysis, the Company expects to recast previously presented information as if all adjustments to the purchase price allocation had occurred at the date of acquisition. The Company has not recast previously presented information as adjustments to the initial purchase price allocation made during the second and third quarters of 2009 have not been considered material. The fair value of the non-controlling 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 non-controlling interest.

	Previous Allocation	Adjustments	Revised Allocation
Costs to acquire Chevy Chase Bank:			
Cash consideration paid	$ 445,000		$ 445,000
Capital One common stock issued (2,560,601 shares)	30,855		30,855
Fair value of contingent consideration			
Transfer taxes paid on behalf of Chevy Chase Bank	3,151		3,151
Total consideration paid for Chevy Chase Bank	$ 479,006		$ 479,006

Fair value of noncontrolling interest		283,900	283,900
Fair value of Chevy Chase Bank	$	762,906	$ 762,906
Chevy Chase Bank s net assets at fair value:			
Chevy Chase Bank s stockholders equity at February 27, 2009		641,537	641,537
Elimination of Chevy Chase Bank s intangible assets (including goodwill)		(18,383)	(18,383)

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	Previous Allocation	Adjustments	Revised Allocation
Adjustments to reflect assets and liabilities acquired at fair value:			
Net loans	(1,895,741)	$ (73,129)	(1,968,870)
Investment securities	(51,263)		(51,263)
Intangible assets	286,750	(8,500)	278,250
Other assets	563,834	(39,571)	524,263
Deposits	(109,861)		(109,861)
Borrowings	(12,871)		(12,871)
Other liabilities	(46,244)	(25,668)	(71,912)
Less: Adjusted identifiable net liabilities acquired	(642,242)	(146,868)	(789,110)
Total preliminary goodwill(1)	$ 1,405,148	$ 146,868	$ 1,552,016

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

The following condensed balance sheet of Chevy Chase Bank discloses the amount assigned to each major asset and liability caption as of September 30, 2009. The allocation of the final purchase price is still subject to refinement as the integration process continues and additional information becomes available.

	Previous Allocation	Adjustments	Revised Allocation
Assets:			
Cash and cash equivalents	$ 1,217,837	$	$ 1,217,837
Interest-bearing deposits	8,480		8,480
Investment securities	1,425,611		1,425,611
Net loans	9,373,098	(73,129)	9,299,969
Other Intangible assets	44,830	(8,500)	36,330
Core deposit intangibles	241,920		241,920
Other assets	2,372,357	(39,571)	2,332,786
Total assets	$ 14,684,133	$ (121,200)	$ 14,562,933
Liabilities:			
Deposits	$ 13,556,639	$	$ 13,556,639
Securities sold under repurchase agreements	806,575		806,575
Other borrowings	376,600		376,600
Other liabilities	586,561	25,668	612,229
Total liabilities	15,326,375	25,668	15,352,043
Net liabilities acquired	$ (642,242)	$ (146,868)	$ (789,110)

The following table discloses the impact of Chevy Chase Bank since the acquisition on February 27, 2009, through the end of the third 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. The pro forma financial information includes the impact of purchase accounting adjustments and the amortization of certain intangible assets. The pro-forma does not include 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.

	Chevy Chase Bank Actual since acquisition for the period ending September 30, 2009	Total Company Pro-Forma results for the nine months ending September 30, 2009	2008
Revenue	$ 336,379	$ 9,706,523	$ 11,359,410
Income from continuing operations, net of tax	$ 20,555	$ 586,723	$ 1,595,251

Note 3

Loans Acquired in a Transfer

The Company s acquired loans from the Chevy Chase Bank acquisition, subject to ASC 805-10/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 ASC 310-10/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. The

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Company has performed its analysis of the loans to be accounted for as impaired under ASC 310-10/SOP 03-3 (Impaired Loans in the tables below). The loans acquired with the Chevy Chase Bank acquisition not accounted for under ASC 310-10/SOP 03-3 have been accounted for under ASC 805-10/SFAS 141(R) (Non-Impaired Loans in the tables below) and are considered performing. The accounting treatment is essentially the same under both standards. The disclosure requirements under ASC 310-10/SOP 03-3 are more extensive, though the Company has elected to provide such disclosures for all of the acquired Chevy Chase Bank loans. During the evaluation of whether a loan was considered impaired under ASC 310-10/SOP 03-3 or performing under ASC 805-10/SFAS 141(R), the Company considered a number of factors, including the delinquency status of the loan, payment options and other loan features (i.e. reduced documentation, interest only, or negative amortization features), the geographic location of the borrower or collateral and the risk rating assigned to the loans. Based on the criteria, the Company considered the entire Chevy Chase Bank option arm, hybrid arm and construction to permanent portfolios to be impaired and accounted for under ASC 310-10/SOP 03-3. Portions of the Chevy Chase Bank commercial loan, auto, HELOC and other consumer loan portfolios and the fixed mortgage portfolio were also considered impaired.

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 allowance for loan loss. 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 ASC 310-10/SOP 03-3 or ASC 805-10/SFAS 141(R) at fair value and they are as follows:

(In Thousands)	**Impaired Loans**	**At Acquisition Non-Impaired Loans**	**Total Loans**
Contractually required principal and interest at acquisition	$ 11,141,180	$ 3,353,188	$ 14,494,368
Nonaccretable difference (expected losses of $2,205,853 and foregone interest of $760,958) [(1)]	2,792,107	174,704	2,966,811
Cash flows expected to be collected at acquisition	$ 8,349,073	$ 3,178,484	$ 11,527,557
Accretable yield (interest component of expected cash flows)	1,952,129	510,243	2,462,372
Basis in acquired loans at acquisition[(2)]	$ 6,396,944	$ 2,668,241	$ 9,065,185

(1) Expected losses and foregone interest on the ASC 310-10/SOP 03-3 loans are $2,052,151 and $739,956, respectively. Expected losses and foregone interest on the non ASC 310-10/SOP 03-3 loans are $153,702 and $21,002, respectively.

(2) A portion of the acquired loans from Chevy Chase Bank acquisition were held for sale and are not included in these tabular disclosures. These held for sale loans were assigned a fair value of $235.1 million through purchase price allocation.

The carrying amount of these loans is included in the balance sheet amounts of loans receivable at September 30, 2009 and is as follows:

	Impaired Loans	**Non-Impaired Loans**	**Total Loans**
Outstanding Balance	$ 7,613,196	$ 2,504,756	$ 10,117,952
Carrying Amount	$ 5,647,290	$ 2,240,528	$ 7,887,818

Accretable Yield

	Impaired Loans	Non-Impaired Loans	Total Loans
Balance at January 1, 2009	$	$	$
Additions	1,952,129	510,243	2,462,372
Accretion	(200,394)	(73,709)	(274,103)
Balance at September 30, 2009	$ 1,751,735	$ 463,534	$ 2,188,269

	Impaired Loans	Credit Mark Non-Impaired Loans	Total Loans
Balance at January 1, 2009	$	$	$

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	Impaired Loans	Credit Mark Non-Impaired Loans	Total Loans
Additions	(2,052,151)	(153,702)	(2,205,853)
Principal and nonprincipal losses	297,071	28,841	325,912
Balance at September 30, 2009	$ (1,755,080)	$ (124,861)	$ (1,879,941)

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 and nine months ended September 30, 2009 and 2008. 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 and nine months ended September 30, 2009 includes an expense of $83.0 million and $109.0 million, respectively, 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 expense for representations and warranties is offset by a valuation adjustment for expected returns of spread account funding for certain securitization transactions.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	**2009**	2008
Net interest income	**$**	$ 1,612	**$ 776**	$ 5,332
Non-interest income	**2,150**	2,287	**2,275**	5,517
Non-interest expense	**69,853**	22,125	**118,837**	175,577
Income tax benefit	**(24,116)**	(6,576)	**(41,243)**	(59,434)
Loss from discontinued operations, net of taxes	**$ (43,587)**	$ (11,650)	**$ (74,543)**	$ (105,294)

The Company s wholesale mortgage banking unit had assets of approximately $31.5 million as of September 30, 2009 consisting of $15.8 million of mortgage loans held for sale and 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

During the third quarter of 2009, the Company realigned its business segment reporting structure to better reflect the manner in which the performance of the Company s operations are evaluated. The Company now reports the results of its business through three operating segments: Credit Card, Commercial Banking and Consumer Banking.

Segment and sub-segment results where presented have been recast for all periods presented. The three segments consist of the following:

Credit Card includes the Company s domestic consumer and small business card lending, domestic national small business lending, national closed end installment lending and the international card lending businesses in Canada and the United Kingdom.

Commercial Banking includes the Company s lending, deposit gathering and treasury management services to commercial real estate and middle market customers. The Commercial segment also includes the financial results of a national portfolio of small ticket commercial real estate loans that are in run-off mode.

Consumer Banking includes the Company s branch based lending and deposit gathering activities for small business customers as well as its branch based consumer deposit gathering and lending activities, national deposit gathering, consumer mortgage lending and servicing activities and national automobile lending.

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The segment reorganization includes the allocation of Chevy Chase Bank to the appropriate segments. Chevy Chase Bank s operations are included in the Commercial Banking and Consumer Banking segments beginning in the second quarter 2009. Chevy Chase Bank s operations for the first quarter of 2009 remain in the Other category due to the short duration since acquisition. The Other category includes GreenPoint originated consumer mortgages originated for sale but held for investment since originations were suspended in 2007, the results of corporate treasury activities, including asset-liability management and the investment portfolio, the net impact of transfer pricing, brokered deposits, certain unallocated expenses, gains/losses related to the securitization of assets, and restructuring charges related to the Company s cost initiative and Chevy Chase Bank acquisition.

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 systems, which is maintained on a line of business level through allocations from the consolidated financial results.

	Three Months Ended September 30, 2009						
	Credit Card	Commercial Banking	Consumer Banking	Other	Total Managed (Non-GAAP)	Securitization Adjustments	Total Reported
Net interest income	**$ 2,024,250**	**$ 297,484**	**$ 908,744**	**$ 27,069**	**$ 3,257,547**	**$ (1,206,867)**	**$ 2,050,680**
Non-interest income	**966,862**	**43,299**	**212,716**	**149,803**	**1,372,680**	**179,700**	**1,552,380**
Provisions for loan and lease losses	**1,643,721**	**375,095**	**156,052**	**25,464**	**2,200,332**	**(1,027,167)**	**1,173,165**
Restructuring expenses				**26,357**	**26,357**		**26,357**
Core deposit intangible amortization		**9,664**	**45,856**		**55,520**		**55,520**
Other non-interest expenses	**897,578**	**156,379**	**635,535**	**31,109**	**1,720,601**		**1,720,601**
Income tax provision (benefit)	**158,074**	**(70,125)**	**99,406**	**(29,164)**	**158,191**		**158,191**
Net income (loss)	**$ 291,739**	**$ (130,230)**	**$ 184,611**	**$ 123,106**	**$ 469,226**	**$**	**$ 469,226**
Loans held for investment	**$ 70,368,809**	**$ 29,862,418**	**$ 40,479,805**	**$ 347,483**	**$ 141,058,515**	**$ (44,275,350)**	**$ 96,783,165**
Total deposits	**$**	**$ 18,617,112**	**$ 72,252,596**	**$ 23,633,403**	**$ 114,503,111**	**$**	**$ 114,503,111**

	Three Months Ended September 30, 2008						
	Credit Card	Commercial Banking	Consumer Banking	Other	Total Managed (Non-GAAP)	Securitization Adjustments	Total Reported
Net interest income	$ 1,862,034	$ 238,641	$ 754,439	$ 34,216	$ 2,889,330	$ (1,082,685)	$ 1,806,645
Non-interest income	1,181,015	35,608	194,741	(85,805)	1,325,559	371,332	1,696,891
Provisions for loan and lease losses	1,434,435	41,706	283,424	45,705	1,805,270	(711,353)	1,093,917
Restructuring expenses				15,306	15,306		15,306
Core deposit intangible amortization		9,614	37,637		47,251		47,251
Other non-interest expenses	1,059,641	111,944	577,103	(1,039)	1,747,649		1,747,649
Income tax provision (benefit)	192,461	38,845	17,856	(35,538)	213,624		213,624
Net income (loss)	$ 356,512	$ 72,140	$ 33,160	$ (76,023)	$ 385,789	$	$ 385,789
Loans held for investment	$ 79,616,456	$ 29,095,313	$ 38,077,606	$ 556,371	$ 147,345,746	$ (49,380,395)	$ 97,965,351
Total deposits	$	$ 16,764,330	$ 57,492,140	$ 24,656,504	$ 98,912,974	$	$ 98,912,974

	Nine Months Ended September 30, 2009						
	Credit Card	Commercial Banking	Consumer Banking	Other	Total Managed (Non-GAAP)	Securitization Adjustments	Total Reported
Net interest income	**$ 5,513,241**	**$ 817,870**	**$ 2,471,702**	**$ 157,681**	**$ 8,960,494**	**$ (3,176,477)**	**$ 5,784,017**
Non-interest income	**2,849,783**	**133,556**	**601,600**	**(37,093)**	**3,547,846**	**326,555**	**3,874,401**
Provisions for loan and lease losses	**4,846,799**	**614,896**	**626,340**	**148,227**	**6,236,262**	**(2,849,922)**	**3,386,340**

Restructuring expenses				**87,358**	**87,358**		**87,358**
Core deposit intangible amortization		**28,731**	**128,896**		**157,627**		**157,627**
Other non-interest expenses	**2,795,802**	**434,708**	**1,856,979**	**136,852**	**5,224,341**		**5,224,341**
Income tax provision (benefit)	**252,727**	**(44,419)**	**161,380**	**(179,442)**	**190,246**		**190,246**
Net income (loss)	**$ 467,696**	**$ (82,490)**	**$ 299,707**	**$ (72,407)**	**$ 612,506**	**$**	**$ 612,506**
Loans held for investment	**$ 70,368,809**	**$ 29,862,418**	**$ 40,479,805**	**$ 347,483**	**$ 141,058,515**	**$ (44,275,350)**	**$ 96,783,165**
Total deposits	**$**	**$ 18,617,112**	**$ 72,252,596**	**$ 23,633,403**	**$ 114,503,111**	**$**	**$ 114,503,111**

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	Nine Months Ended September 30, 2008						
	Credit Card	Commercial Banking	Consumer Banking	Other	Total Managed (Non-GAAP)	Securitization Adjustments	Total Reported
Net interest income	$ 5,646,995	$ 712,459	$ 2,228,246	$ 66,475	$ 8,654,175	$ (3,307,857)	$ 5,346,318
Non-interest income	3,540,158	101,423	568,874	23,763	4,234,218	1,141,467	5,375,685
Provisions for loan and lease losses	3,943,432	100,723	1,015,709	108,645	5,168,509	(2,166,390)	3,002,119
Restructuring expenses				81,625	81,625		81,625
Core deposit intangible amortization		29,626	115,978		145,604		145,604
Other non-interest expenses	3,317,525	329,937	1,707,402	(130,009)	5,224,855		5,224,855
Income tax provision (benefit)	671,961	123,759	(14,689)	5,927	786,958		786,958
Net income (loss)	$ 1,254,235	$ 229,837	$ (27,280)	$ 24,050	$ 1,480,842	$	$ 1,480,842
Loans held for investment	$ 79,616,456	$ 29,095,313	$ 38,077,606	$ 556,371	$ 147,345,746	$ (49,380,395)	$ 97,965,351
Total deposits	$	$ 16,764,330	$ 57,492,140	$ 24,656,504	$ 98,912,974	$	$ 98,912,974

Note 6

Securities Available for Sale

Expected maturities aggregated by investment category, gross unrealized gains and gross unrealized losses on securities available-for sale as of September 30, 2009 and December 31, 2008 were as follows:

	Expected Maturity Schedule							
	1 Year or Less	1 5 Years	5 10 Years	Over 10 Years	Market Value Totals	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost Totals
September 30, 2009								
U.S. Treasury and other U.S. government agency obligations								
U.S. Treasury	$ 30,000	$ 394,301	$	$	$ 424,301	$ 14,096	$	$ 410,205
FNMA	77,914	161,150			239,064	10,645		228,419
FHLMC		214,063			214,063	14,425		199,638
Other GSE and FDIC Debt Guaranteed Program (DGP)		1,073			1,073	77		996
Total U.S. Treasury and other U.S. government agency obligations	107,914	770,587			878,501	39,243		839,258
Collateralized mortgage obligations (CMO)								
FNMA	51,163	2,493,631	671,825		3,216,619	102,484	(12,912)	3,127,047
FHLMC	74,583	1,977,531	696,389		2,748,503	85,969	(10,108)	2,672,642
GNMA	7,023	179,671	809,158		995,852	17,428	(88)	978,512
Non GSE	50,807	1,144,781	165,746	125,789	1,487,123		(304,221)	1,791,344
Total CMO	183,576	5,795,614	2,343,118	125,789	8,448,097	205,881	(327,329)	8,569,545
Mortgage backed securities (MBS)								
FNMA	27,909	3,241,173	4,603,616	103,953	7,976,651	257,054	(1,311)	7,720,908
FHLMC	75,087	1,951,156	2,678,215	546	4,705,004	136,690	(11,956)	4,580,270
GNMA	48	70,971	7,962,608		8,033,627	115,079	(667)	7,919,215
Other GSE		843			843	1	(3)	845
Non GSE		141,290	656,028	60,825	858,143		(210,231)	1,068,374

Total MBS	**103,044**	**5,405,433**	**15,900,467**	**165,324**	**21,574,268**	**508,824**	**(224,168)**	**21,289,612**

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	Expected Maturity Schedule							
	1 Year or Less	**1 5 Years**	**5 10 Years**	**Over 10 Years**	**Market Value Totals**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Amortized Cost Totals**
Asset backed securities	**2,324,220**	**3,844,643**	**192,097**		**6,360,960**	**162,349**	**(7,070)**	**6,205,681**
Other	**137,634**	**133,282**	**40,613**	**119,646**	**431,175**	**9,922**	**(3,827)**	**425,080**
Total	**$ 2,856,388**	**$ 15,949,559**	**$ 18,476,295**	**$ 410,759**	**$ 37,693,001**	**$ 926,219**	**$ (562,394)**	**$ 37,329,176**

	Expected Maturity Schedule							
	1 Year or Less	**1 5 Years**	**5 10 Years**	**Over 10 Years**	**Market Value Totals**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Amortized Cost Totals**
December 31, 2008								
U.S. Treasury and other U.S. government agency obligations								
U.S. Treasury	$ 40,751	$ 181,925	$	$	$ 222,676	$ 21,371	$	$ 201,305
FNMA	86,584	245,427			332,011	15,262		316,749
FHLMC	30,097	109,219			139,316	9,567	(821)	130,570
Other GSE and FDIC Debt Guaranteed Program (DGP)	265,733	650,593			916,326	16,099	(272)	900,499
Total U.S. Treasury and other U.S. government agency obligations	423,165	1,187,164			1,610,329	62,299	(1,093)	1,549,123
Collateralized mortgage obligations (CMO)								
FNMA	836,826	2,830,452	78,555		3,745,833	55,582	(21,699)	3,711,950
FHLMC	467,790	4,745,804			5,213,594	79,673	(27,851)	5,161,772
GNMA	63,168	74,852			138,020	1,584	(224)	136,660
Other GSE		78,860			78,860	3,753		75,107
Non GSE	167,221	1,750,758	730	7,209	1,925,918		(604,306)	2,530,224
Total CMO	1,535,005	9,480,726	79,285	7,209	11,102,225	140,592	(654,080)	11,615,713
Mortgage backed securities (MBS)								
FNMA	29,206	7,651,869	18,976		7,700,051	93,591	(11,600)	7,618,060
FHLMC	80,504	4,619,503	1,295		4,701,302	54,917	(24,056)	4,670,441
GNMA	617	486,294			486,911	14,580	(1,120)	473,451
Other GSE		1,389			1,389		(14)	1,403
Non GSE	40,118	783,098			823,216		(430,936)	1,254,152
Total MBS	150,445	13,542,153	20,271		13,712,869	163,088	(467,726)	14,017,507
Asset backed securities	1,508,087	2,369,443	218,527		4,096,057	2,123	(339,494)	4,433,428
Other	162,975	128,267	44,566	145,983	481,791	5,166	(19,235)	495,860
Total	$ 3,779,677	$ 26,707,753	$ 362,649	$ 153,192	$ 31,003,271	$ 373,268	$ (1,481,628)	$ 32,111,631

At September 30, 2009, the expected maturities of the Company s mortgage-backed and asset-backed securities and the contractual maturities of the Company s other debt securities were used to assign the securities into the above maturity groupings. The Company believes that the use of expected maturities aligns with how the securities will actually perform and provides information regarding liquidity needs and potential impacts on portfolio yields. The maturity distribution based solely on contractual maturities is: 1 Year or Less - $302.1 million, 1-5 Years - $6,121.7 million, 5-10 Years - $1,879.9 million, and Over 10 Years - $29,389.4 million. Actual maturities may differ from the contractual or expected maturities since borrowers may have the right to prepay obligations with or without prepayment penalties.

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The following table shows the weighted average yield by investment category as of September 30, 2009 and December 31, 2008:

	Weighted Average Yield Schedule			
	1 Year or Less	1 5 Years	5 10 Years	Over 10 Years
September 30, 2009				
U.S. Treasury and other U.S. government agency obligations				
U.S. Treasury	**0.59%**	**2.37%**	**%**	**%**
FNMA	**4.30**	**4.47**		
FHLMC		**4.63**		
Other GSE and FDIC Debt Guaranteed Program (DGP)		**5.44**		
Total U.S. Treasury and other U.S. government agency obligations	**3.25**	**3.43**		
Collateralized mortgage obligations (CMO)				
FNMA	**4.96**	**5.44**	**4.66**	
FHLMC	**5.18**	**5.35**	**4.98**	
GNMA	**4.76**	**4.58**	**4.38**	
Non GSE	**5.53**	**5.69**	**4.93**	**5.53**
Total CMO	**5.22**	**5.44**	**4.68**	**5.53**
Mortgage backed securities (MBS)				
FNMA	**5.18**	**5.16**	**4.93**	**4.70**
FHLMC	**5.60**	**4.21**	**5.02**	**5.18**
GNMA	**7.11**	**6.11**	**4.87**	
Other GSE		**3.44**		
Non GSE		**5.61**	**6.07**	**5.59**
Total MBS	**5.27**	**5.16**	**4.93**	**5.30**
Asset backed securities	**3.77**	**4.20**	**5.21**	
Other	**3.14**	**4.27**	**4.52**	**6.12**
Total	**3.85%**	**4.84%**	**4.94%**	**5.58%**

	Weighted Average Yield Schedule			
	1 Year or Less	1 5 Years	5 10 Years	Over 10 Years
December 31, 2008				
U.S. Treasury and other U.S. government agency obligations				
U.S. Treasury	4.04%	4.15%	%	%
FNMA	4.68	4.41		
FHLMC	4.00	4.59		
Other GSE and FDIC Debt Guaranteed Program (DGP)	4.81	3.13		
Total U.S. Treasury and other U.S. government agency obligations	4.65	3.67		
Collateralized mortgage obligations (CMO)				
FNMA	4.98	5.53	5.50	
FHLMC	5.23	5.22		
GNMA	4.61	4.89		
Other GSE		5.27		

Non GSE	5.72	5.51	6.10	6.58
Total CMO	5.14	5.37	5.51	6.58
Mortgage backed securities (MBS)				
FNMA	4.05	5.31	5.48	
FHLMC	6.00	4.79	5.89	
GNMA	7.08	5.65		
Other GSE		3.43		
Non GSE	6.30	5.96		
Total MBS	5.76	5.21	5.50	
Asset backed securities	4.07	4.72	5.16	
Other	3.74	4.21	4.75	5.49
Total	4.63%	5.15%	5.20%	5.53%

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The available for sale portfolio continues to be heavily concentrated in high credit quality assets like government-sponsored enterprise (GSE) mortgage-backed securities and AAA rated asset-backed securities. In addition to debt securities held in the investment portfolio, the Company reports certain equity securities related to Community Reinvestment Act (CRA) investments as available for sale securities.

At September 30, 2009, the portfolio was 90% rated AAA, 4% rated other investment grade (AA to BBB), and 6% non investment grade or not rated.

The following table shows the fair value of investments and amount of unrealized losses segregated by those investments that have been in a continuous unrealized loss position for less than twelve months and those that have been in a continuous unrealized loss position for twelve months or longer as of September 30, 2009 and December 31, 2008.

	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2009						
Collateralized mortgage obligations						
FNMA	**$ 36,483**	**$ 70**	**$ 334,796**	**$ 12,842**	**$ 371,279**	**$ 12,912**
FHLMC	**660**	**2**	**427,454**	**10,106**	**428,114**	**10,108**
Other GSE			**4,943**	**88**	**4,943**	**88**
Non GSE	**3,013**	**339**	**1,466,948**	**303,882**	**1,469,961**	**304,221**
Total CMO	**40,156**	**411**	**2,234,141**	**326,918**	**2,274,297**	**327,329**
Mortgage backed securities						
FNMA	**219,667**	**1,088**	**21,944**	**223**	**241,611**	**1,311**
FHLMC	**278,706**	**2,363**	**327,499**	**9,593**	**606,205**	**11,956**
GNMA	**153,463**	**498**	**10,829**	**169**	**164,292**	**667**
Other GSE	**808**	**3**			**808**	**3**
Non GSE	**36,812**	**5,991**	**810,243**	**204,240**	**847,055**	**210,231**
Total MBS	**689,456**	**9,943**	**1,170,515**	**214,225**	**1,859,971**	**224,168**
Asset backed securities	**158,545**	**110**	**191,521**	**6,960**	**350,066**	**7,070**
Other	**25,361**	**86**	**120,405**	**3,741**	**145,766**	**3,827**
Total	**$ 913,518**	**$ 10,550**	**$ 3,716,582**	**$ 551,844**	**$ 4,630,100**	**$ 562,394**

	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2008						
U.S. Treasury and other U.S. government agency obligations						
Freddie Mac	$	$	$ 30,097	$ 821	$ 30,097	$ 821
Other GSE and DGP	179,728	272			179,728	272
Total U.S. Treasury and other U.S. government agency obligations	179,728	272	30,097	821	209,825	1,093
Collateralized mortgage obligations						
FNMA	266,344	8,125	367,472	13,574	633,816	21,699
FHLMC	307,667	2,445	729,283	25,406	1,036,950	27,851

GNMA			11,159	224	11,159	224
Non GSE	1,652,139	523,952	265,608	80,354	1,917,747	604,306
Total CMO	2,226,150	534,522	1,373,522	119,558	3,599,672	654,080
Mortgage backed securities						
FNMA	982,232	10,782	160,456	818	1,142,688	11,600
FHLMC	721,443	20,671	155,234	3,385	876,677	24,056
GNMA	24,876	957	7,108	163	31,984	1,120
Other GSE	1,389	14			1,389	14
Non GSE	668,837	349,753	158,870	81,183	827,707	430,936
Total MBS	2,398,777	382,177	481,668	85,549	2,880,445	467,726

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	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset backed securities	2,660,798	194,024	692,928	145,470	3,353,726	339,494
Other	107,126	2,705	120,183	16,530	227,309	19,235
Total	$ 7,572,579	$ 1,113,700	$ 2,698,398	$ 367,928	$ 10,270,977	$ 1,481,628

The Company monitors securities in its available for sale investment portfolio for other-than-temporary impairment based on a number of criteria, including the size of the unrealized loss position, the duration for which that security has been in a loss position, credit rating, the nature of the investments, and current market conditions. For debt securities, the Company also considers any intent to sell the security and the likelihood it will be required to sell the security before its anticipated recovery. The Company continually monitors the ratings of its security holdings and conducts regular reviews of the Company s credit sensitive assets to monitor collateral performance by tracking collateral trends and looking for any potential collateral degradation.

Based on the evaluation, the Company recognized other-than-temporary impairment of $11.2 million and $21.2 million related to credit through earnings for the three and nine months ended September 30, 2009, respectively. For these impaired securities, unrealized losses not related to credit and therefore recognized in other comprehensive income was $158.8 million (net of tax was $101.8 million) as of September 30, 2009. Cumulative other-than-temporary impairment related to credit losses recognized in earnings for available-for-sale securities is as follows:

OTTI credit losses recognized for AFS debt securities	Beginning balance of OTTI credit losses recognized for securities held at the beginning of the period for which a portion of OTTI was recognized in OCI	Additional increases to the amount related to credit loss for which an OTTI was previously recognized	Additions for the amount related to credit loss for which OTTI was not previously recognized	Reductions for securities sold during the period	Ending balance of the amount related to credit losses held at the end of the period for which a portion of OTTI was recognized in OCI
Three months ended September 30, 2009					
CMO	$ 3,622	$ 674	$ 5,003	$	$ 9,299
MBS	5,592	2,023	3,473		11,088
Other-Home equity	817				817
Total	$ 10,031	$ 2,697	$ 8,476	$	$ 21,204
Nine months ended September 30, 2009					
CMO	$	$	$ 9,299	$	$ 9,299
MBS			11,088		11,088
Other-Home equity			817		817
Total	$	$	$ 21,204	$	$ 21,204

Collateralized Mortgage Obligations The Company s portfolio includes investments in GSE collateralized mortgage obligations and prime non-agency collateralized mortgage obligations. The unrealized losses on the Company s investment in collateralized mortgage obligations were primarily caused by higher credit spreads and interest rates. As of September 30, 2009, the majority of the unrealized losses in this category are due to prime non-agency collateralized mortgage obligations, of which 6% are rated AAA, 23% are rated other investment grade and 71% are non investment grade or not rated.

The Company recognized credit related other-than-temporary impairment of $5.7 million and $9.3 million through earnings for the three and nine months ended September 30, 2009, respectively, for seven prime non-agency collateralized mortgage obligations. For these impaired securities, unrealized losses not related to credit and therefore recognized in other comprehensive income was $66.2 million (net of tax was $42.4 million) as of September 30, 2009. While these securities experienced significant decreases in fair value due to deteriorating credit fundamentals and elevated liquidity premiums in the second half of 2008, there has been substantial improvement in fair value as market has stabilized, risk premiums have fallen and interest rates have declined. The credit related impairment was calculated based on internal forecasts using security specific delinquencies, product specific delinquency roll rates and expected severities, using industry standard third party modeling tools. The significant key assumptions used to measure the credit related component of securities deemed to be other-than-temporary impaired in the third quarter are as follows: a weighted average credit default rate of 6.86% and a weighted average expected severity of 49%. Based on its view of each security s current credit performance along with the sufficiency of subordination to protect cash flows, the Company expects to recover the entire amortized cost basis of its remaining collateralized mortgage obligations. However, future declines could result in other-than-temporary impairment being recognized. Furthermore, since the Company does not have the intent to sell nor will it more likely than not be required to sell before anticipated recovery, it does not consider any of its remaining collateralized mortgage obligations in unrealized loss positions to be other-than-temporarily impaired at September 30, 2009.

Mortgage-Backed Securities The Company s portfolio includes investments in GSE mortgage-backed securities and prime non-agency mortgage-backed securities. As of September 30, 2009, the unrealized losses on the Company s investment in GSE mortgage-backed securities were primarily caused by higher credit spreads and interest rates. However, since the contractual cash flows of these investments are guaranteed by a GSE of the U.S. government, it is expected that the securities will not be settled at a price less than the Company s amortized cost. However, future declines could result in other-than-temporary impairment being recognized. Furthermore, since the Company does not have the intent to sell nor will it more likely than not be required to sell before anticipated recovery, it does not consider any of its GSE mortgage-backed securities in unrealized loss positions to be other-than-temporarily impaired at September 30, 2009.

As of September 30, 2009, the majority of unrealized losses is due to prime non-agency mortgage-backed securities of which 11% are rated AAA, 8% are rated other investment grade and 81% are non investment grade or not rated.

The Company recognized credit related other-than-temporary impairment of $5.5 million and $11.1 million through earnings for the three and nine months ended September 30, 2009, respectively, for twelve prime non-agency mortgage-backed securities. For these impaired securities, unrealized losses not related to credit and therefore recognized in other comprehensive income was $92.1 million (net of tax was $59.0 million) as of September 30, 2009. While these securities experienced significant decreases in fair value due to deteriorating credit fundamentals and elevated liquidity premiums in the second half of 2008, there has been substantial improvement in fair value as market has stabilized, risk premiums have fallen and interest rates have declined. The credit related impairment was calculated based on internal forecasts using security specific delinquencies, product specific delinquency roll rates and expected severities, using industry standard third party modeling tools. The significant key assumptions used to measure the credit related component of securities deemed to be other-than-temporary impaired in the third quarter of 2009 are as follows: a weighted average credit default rate of 6.49% and a weighted average expected severity of 47%. Based on its view of each security s current credit performance along with the sufficiency of subordination to protect cash flows, the Company expects to recover the entire amortized cost basis of its remaining non GSE mortgage backed securities. Furthermore, since the Company does not have the intent to sell nor will it more likely than not be required to sell before anticipated recovery, it does not consider any of its remaining non-agency mortgage backed securities in unrealized loss positions to be other-than-temporarily impaired at September 30, 2009.

Asset-Backed Securities This category is comprised of investments backed by credit card, auto and student loans; commercial mortgage backed loans; and minor investments backed by home equity lines of credit. As of September 30, 2009, the portfolio is 85.1% rated AAA and is comprised of 71.3% credit card, 19.0% auto, 8.1% student loans, 1.2% dealer floor securities, 0.3% home equity lines of credit, and 0.1% equipment-backed securities. The unrealized losses on the Company s investments in asset-backed securities were primarily caused by higher credit spreads and interest rates.

The Company recognized $0.8 million in credit related other-than-temporary impairment through earnings for the three and nine months ended September 30, 2009 related to one home equity line of credit security. For this security, unrealized losses not related to credit and therefore recognized in other comprehensive income was $0.5 million (net of tax was $0.3 million) as of September 30, 2009.

The Company did not recognize any credit related other-than-temporary impairment in the third quarter of 2009. Based on its view of each security s current credit performance along with the sufficiency of subordination to protect cash flows, the Company expects to recover the entire amortized cost basis of its remaining asset backed securities. Furthermore, since the Company does not have the intent to sell nor will it more likely than not be required to sell before anticipated recovery, it does not consider any of its remaining asset-backed securities in unrealized loss positions to be other-than-temporarily impaired at September 30, 2009.

Other This category consists primarily of municipal securities and limited investments in equity securities, primarily related to CRA activities. The unrealized losses on the Company s investments in other items were primarily caused by higher risk premiums and interest rates. The Company expects to recover the entire amortized cost basis of the securities in this category. Furthermore, since the Company does not have the intent to sell nor will it more likely than not be required to sell before anticipated recovery, it does not consider any of the securities in unrealized loss positions to be other-than-temporarily impaired at September 30, 2009.

Gross realized gains on sales and calls of securities were $157.7 million and $210.5 million for the three and nine months ended September 30, 2009, respectively. Gross realized losses on sales and calls of securities were $11.8 million and $12.8 million for the three and nine months ended September 30, 2009, respectively. Tax expense on net realized gains was $51.6 million and $70.4 million for the three and nine months ended September 30, 2009, respectively.

The Company s sale of securities resulted in the reclassification of $49.2 million and $59.5 million of net gains after tax, from cumulative other comprehensive income into earnings, for the three and nine months ended September 30, 2009, respectively.

Securities available for sale included pledged securities of $11.4 billion at September 30, 2009.

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Note 7

Fair Values of Assets and Liabilities

ASC 820-10/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. ASC 820-10/SFAS 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820-10/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.

ASC 825-10/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 ASC 825-10/SFAS 159 elections as of the end of the third quarter of 2009.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	September 30, 2009 Fair Value Measurements Using [3]			Assets/Liabilities
	Level 1	**Level 2**	**Level 3**	**at Fair Value**
Assets				
Securities available for sale				
U.S. Treasury and other U.S. Gov t agency	**424,301**	**454,200**		**878,501**
Collateralized mortgage obligations		**7,204,977**	**1,243,120**	**8,448,097**
Mortgage-backed securities		**21,007,992**	**566,276**	**21,574,268**
Asset-backed securities		**6,285,960**	**75,000**	**6,360,960**
Other	**70,019**	**335,909**	**25,247**	**431,175**
Total securities available for sale	**$ 494,320**	**$ 35,289,038**	**$ 1,909,643**	**$ 37,693,001**
Other assets				
Mortgage servicing rights			**271,518**	**271,518**
Derivative receivables[1]	**10,514**	**877,022**	**537,137**	**1,424,673**
Retained interests in securitizations			**3,871,050**	**3,871,050**
Total Assets	**$ 504,834**	**$ 36,166,060**	**$ 6,589,348**	**$ 43,260,242**
Liabilities				
Other liabilities				
Derivative payables[1]	**$ 2,899**	**$ 925,503**	**$ 40,175**	**$ 968,577**

Total Liabilities	**$ 2,899**	**$ 925,503**	**$ 40,175**	**$ 968,577**

	December 31, 2008 Fair Value Measurements Using Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
Assets				
Securities available for sale[2]	$ 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

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	September 30, 2009 Fair Value Measurements Using [3] Level 1	Level 2	Level 3	Assets/Liabilities at Fair Value
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.

(2) Securities available for sale were not broken-out by security type as of December 31, 2008, as ASC 820-10-65-4/FSP FAS 157-4 is applied prospectively.

(3) The above table does not reflect ($0.5) million of counterparty credit risk. Counterparty credit risk is reflected in other assets/liabilities on the balance sheet and offset through the income statement in other income.

Financial instruments are considered Level 3 when their values are determined using pricing models, which include comparison of prices from multiple sources, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable or there is significant variability among pricing sources. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The 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 ASC 825-10/SFAS 159.

Level 3 Instruments Only

	Three Months Ended September 30, 2009 Securities Available for Sale	Mortgage Servicing Rights[1]	Derivative Receivables[2]	Retained Interests in Securitizations[3]	Derivative Payables[2]
Balance, June 30, 2009	$ 1,969,423	$ 280,742	$ 541,052	$ 3,939,213	$ 37,095
Total realized and unrealized gains (losses):					
Included in earnings	47	(7,868)	16,995	22,846	3,212
Included in other comprehensive income	147,508			40,644	
Purchases, issuances and settlements, net	(32,250)	(1,356)	7,807	(131,653)	57
Transfers in/out of Level 3[4]	(175,085)		(28,717)		(189)
Balance, September 30, 2009	$ 1,909,643	$ 271,518	$ 537,137	$ 3,871,050	$ 40,175
Change in unrealized gains (losses) included in earnings related to financial instruments held at September 30, 2009	$ 47	$ (7,868)	$ 16,995	$ 54,612	$ 3,212

Securities Available for Sale	Three Months Ended September 30, 2009 U.S. Treasury & other U.S. Gov t agency obligations	Collateralized mortgage obligations	Mortgage-backed securities	Asset-backed securities	Other	Total
Balance, June 30, 2009	$	$ 1,309,089	$ 629,322	$ 1,716	$ 29,296	$ 1,969,423
Total realized and unrealized gains (losses):						
Included in earnings		47				47
Included in other comprehensive income		102,865	44,643			147,508
Purchases, issuances and settlements, net		(103,201)		75,000	(4,049)	(32,250)
Transfers in/out of Level 3[4]		(65,680)	(107,689)	(1,716)		(175,085)

Balance, September 30, 2009	$		1,243,120	566,276	75,000	25,247	$ 1,909,643
Change in unrealized gains (losses) included in earnings related to financial instruments held at September 30, 2009	$	$	47	$	$	$	$ 47

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	Nine Months Ended September 30, 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	55	19,588	(136,564)	(195,620)	(19,855)
Included in other comprehensive income	(105,757)			91,851	
Purchases, issuances and settlements, net	(62,508)	101,386	53,385	2,504,434	595
Transfers in/out of Level 3(4)	(302,408)		560,421		(1,237)
Balance, September 30, 2009	$ 1,909,643	$ 271,518	$ 537,137	$ 3,871,050	$ 40,175
Change in unrealized gains (losses) included in earnings related to financial instruments held at September 30, 2009	$ 55	$ 19,588	$ (136,564)	$ 70,651	$ (19,855)

	Nine Months Ended September 30, 2009					
Securities Available for Sale	U.S. Treasury & other U.S. Govt agency	Collateralized mortgage obligations	Mortgage-backed securities	Asset-backed securities	Other	Total
Balance, January 1, 2009	$	$ 1,579,909	$ 773,200	$	$ 27,152	$ 2,380,261
Total realized and unrealized gains (losses):						
Included in earnings		169		(114)		55
Included in other comprehensive income		(119,415)	13,658			(105,757)
Purchases, issuances and settlements, net		(183,151)	48,347	74,201	(1,905)	(62,508)
Transfers in/out of Level 3(4)		(34,392)	(268,929)	913		(302,408)
Balance, September 30, 2009	$	$ 1,243,120	$ 566,276	$ 75,000	$ 25,247	$ 1,909,643
Change in unrealized gains (losses) included in earnings related to financial instruments held at September 30, 2009	$	$ 169	$	$ (114)	$	$ 55

(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 securities available for sale assets decreased $175.1 million and $302.4 million for the three and nine months ended September 30, 2009, respectively. These assets consist primarily of senior-classes of collateralized mortgage obligations backed by prime jumbo collateral.

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 September 30, 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.

	September 30, 2009				
	Fair Value Measurements Using			Assets at	Total
	Level 1	Level 2	Level 3	Fair Value	Losses
Assets					
Mortgage loans held for sale	$	$ 137,221	$	$ 137,221	$ 9,144
Loans held for investment		105,077	230,698	335,775	135,984
Foreclosed assets[1]		138,545		138,545	20,059
Other		31,310		31,310	150
Total	$	$ 412,153	$ 230,698	$ 642,851	$ 165,337

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	December 31, 2008				
	Fair Value Measurements Using			Assets at Fair Value	Total Losses in 2008
	Level 1	Level 2	Level 3		
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.

Fair Value of Financial Instruments

The following reflects the fair value of financial instruments whether or not recognized on the consolidated balance sheet at fair value.

	September 30, 2009		December 31, 2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 4,127,203	$ 4,127,203	$ 7,491,343	$ 7,491,343
Securities available for sale	37,693,001	37,693,001	31,003,271	31,003,271
Mortgage loans held for sale	141,158	141,158	68,462	68,462
Net loans held for investment	92,269,672	89,808,701	96,493,811	86,370,194
Interest receivable	947,738	947,738	827,909	827,909
Accounts receivable from securitization	6,985,200	6,985,200	6,342,754	6,342,754
Derivatives	1,424,673	1,424,673	1,836,817	1,836,817
Mortgage servicing rights	271,518	271,518	150,544	150,544
Financial Liabilities				
Non-interest bearing deposits	$ 12,734,589	$ 12,734,589	$ 11,293,852	$ 11,293,852
Interest-bearing deposits	101,768,522	102,504,372	97,326,937	98,031,913
Senior and subordinated notes	9,208,769	9, 777,447	8,308,843	6,922,300
Other borrowings	12,126,181	11,659,910	14,869,648	12,948,145
Interest payable	582,969	582,969	676,398	676,398
Derivatives	968,577	968,577	1,321,671	1,321,671

The following describes the valuation techniques used in estimating the fair value of the Company s financial instruments as of September 30, 2009 and December 31, 2008. The Company applied the provisions of ASC 820-10/SFAS 157 to the fair value measurements of financial instruments not recognized on the consolidated balance sheet at fair value, which include loans held for investment, interest receivable, non-interest bearing and interest bearing deposits, other borrowings, senior and subordinated notes, and interest payable. The provisions requiring the Company to maximize the use of observable inputs and to measure fair value using a notion of exit price were factored into the Company s selection of inputs into its established valuation techniques.

Financial Assets

Cash and cash equivalents

The carrying amounts of cash and due from banks, federal funds sold and resale agreements and interest-bearing deposits at other banks approximate fair value.

Securities available for sale

Quoted prices in active markets are used to measure the fair value of U.S. Treasury securities. For other investment categories, the Company engages third party pricing services to provide fair value measurements. The techniques used by the pricing services utilize observable market data to the extent available. The Company corroborates the pricing obtained from the pricing services through comparison of pricing to additional sources, including other pricing services, securities dealers, and internal sources.

Certain securities available for sale are classified as Level 3, the majority of which are non-agency collateralized mortgage obligations 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. As of September 30, 2009, we saw significant improvements in the market value of our portfolio holdings driven by stabilization of the financial markets, reduced risk premiums and a general decline in interest rates.

Mortgage loans held for sale

Mortgage loans held for sale are carried at the lower of aggregate cost, net of deferred fees, deferred origination costs and effects of hedge accounting, or fair value. The fair value of mortgage loans held for sale is determined using current secondary market prices for portfolios with similar characteristics. The carrying amounts as of September 30, 2009 and December 31, 2008 approximate fair value.

Loans held for investment, net

The fair values of credit card loans, installment loans, auto loans, mortgage loans and commercial loans were estimated using a discounted cash flow method, a form of the income approach. Discount rates were determined considering rates at which similar portfolios of loans would be made under current conditions and considering liquidity spreads applicable to each loan portfolio based on the secondary market. The fair value of credit card loans excluded any value related to customer account relationships. The decrease in fair value below carrying amount at December 31, 2008 is primarily due to the significant level of illiquidity in the secondary market experienced during 2008. During 2009 these markets have begun to recover resulting in an improvement in the fair value of our loans held for investment. The most significant discounts to carrying amount were seen in the Company s commercial and mortgage portfolios.

Commercial loans are considered impaired when it is probable that all amounts due in accordance with the contractual terms will not be collected. From time to time, the Company records nonrecurring fair value adjustments to reflect the fair value of the loan s collateral. See table within Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis above.

Interest Receivable

The carrying amount approximates the fair value of this asset due to its relatively short-term nature.

Accounts receivable from securitizations

Accounts receivable from securitizations include the interest-only strip, retained notes accrued interest receivable, cash reserve accounts and cash spread accounts. 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 including adjustments for liquidity, and contractual interest and fees. Other retained interests related to securitizations are carried at cost, which approximates fair value.

Derivative Assets

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 counterparty non-performance risk is considered when measuring the fair value of derivative assets. These derivatives are included in other assets on the balance sheet.

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. 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 11 Mortgage Servicing Rights.

Financial Liabilities

Non-interest bearing deposits

The carrying amount approximates fair value.

Interest bearing deposits

The fair values of savings, NOW accounts and money market accounts were the amounts payable on demand at September 30, 2009 and December 31, 2008 and therefore carrying value approximates fair value. The fair value of other interest-bearing deposits, include retail, brokered, and institutional CDs, was calculated by discounting the future cash flows using discount rates based on the expected current market rates for similar products with similar remaining terms.

Other borrowings

The carrying amount of federal funds purchased and resale agreements, FHLB advances, and other short-term borrowings approximates fair value. The fair value of secured borrowings was measured using the trade price for bonds that have traded recently. For others, trade information for bonds with similar duration and credit quality was used, with adjustments based on relevant credit information of the issuer. The fair value of junior subordinated debentures was estimated using the same methodology as described for senior and subordinated notes below. The decreases in fair value of the secured borrowings and the junior subordinated debentures below carrying amounts at September 30, 2009 are primarily due to significant interest rate spreads in the auto securitization market experienced in 2008 which was continued into 2009 and the significant discounts in secondary trading activity seen in junior subordinated debentures beginning in 2008.

Senior and subordinated notes

The Company engages third party pricing services in order to estimate the fair value of senior and subordinated notes. The pricing service utilizes a pricing model that incorporates available trade, bid and other market information. It also incorporates spread assumptions, volatility assumptions and relevant credit information into the pricing models. The decrease in fair value below carrying amount at September 30, 2009 is primarily due to an increase in credit spreads across the industry only partially offset by lower interest rates.

Interest payable

The carrying amount approximates the fair value of this liability due to its relatively short-term nature.

Derivative Liabilities

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. These derivatives are included in other liabilities on the balance sheet.

Commitments to extend credit and letters of credit

These financial instruments are generally not sold or traded. The fair value of the financial guarantees outstanding at September 30, 2009 that have been issued since January 1, 2003, was $2.6 million and was included in other liabilities. The estimated fair values of extensions of credit and letters of credit are not readily available. However, the fair value of commitments to extend credit and letters of credit is based on fees currently charged to enter into similar agreements with comparable credit risks and the current creditworthiness of the counterparties. Commitments to extend credit issued by the Company are generally short-term in nature and, if drawn upon, are issued under current market terms and conditions for credits with comparable risks. At September 30, 2009 there was no material unrealized appreciation or depreciation on these financial instruments.

Note 8

Goodwill and Other Intangible Assets

During the first quarter of 2009, the Company acquired Chevy Chase Bank, the largest retail branch presence in the Washington, D.C. region, which created $1.6 billion of goodwill. The goodwill associated with the acquisition of Chevy Chase Bank was initially held in the Other category. During the third quarter of 2009, the Company realigned its business segment reporting structure to better reflect the manner in which the performance of the Company s operations are evaluated. The Company now reports the results of its business through three operating segments: Credit Card, Commercial Banking and Consumer Banking. As a result goodwill was reassigned to the new reporting units using a relative fair value allocation approach. As part of the segment reorganization in the third quarter of 2009, discussed below, the goodwill associated with the Chevy Chase Bank acquisition was assigned to the Commercial Banking and Consumer Banking segments. 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. The Company s reporting units are Domestic Card, International Card, Auto, Commercial Banking, and Retail Banking, which is comprised of in footprint retail banking and residential mortgage activities. 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. The Company has continued to monitor its market capitalization, regulatory actions and assessments, as well as overall economic conditions and other events or circumstances.

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The following table provides a summary of goodwill.

Total Company	National Lending	Local Banking	Credit Card	Commercial	Consumer	Other	Total
Balance at December 31, 2008	$ 5,303,299	$ 6,661,188	$	$	$	$	$ 11,964,487
Additions						1,405,148	1,405,148
Other adjustments		(4)				146,868	146,864
Foreign currency translation	8,479						8,479
Segment reorganization	(5,311,778)	(6,661,184)	4,692,266	4,281,605	4,551,117	(1,552,016)	
Balance at September 30, 2009	$	$	$ 4,692,266	$ 4,281,605	$ 4,551,117	$	$ 13,524,978

	Domestic Card	Credit Card International Card	Total Credit Card	Auto	Consumer Banking Retail Banking	Total Consumer Banking
Balance at December 31, 2008	$	$	$	$	$	$
Additions						
Other adjustments						
Foreign currency translation						
Segment reorganization	3,761,318	930,948	4,692,266	619,512	3,931,605	4,551,117
Balance at September 30, 2009	$ 3,761,318	$ 930,948	$ 4,692,266	$ 619,512	$ 3,931,605	$ 4,551,117

In connection with the acquisition of Chevy Chase Bank, the Company recorded intangible assets of $278.3 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.

	September 30, 2009			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Weighted Avg. Amortization Period
Core deposit intangibles	$ 1,561,920	$ (659,298)	$ 902,622	8.2 years
Lease intangibles	53,992	(21,452)	32,540	23.0 years
Trust intangibles	10,500	(4,030)	6,470	14.2 years
Other intangibles	35,148	(11,831)	23,317	3.5 years
Total	$ 1,661,560	$ (696,611)	$ 964,949	

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 8.7 years.

The following table summarizes the Company s current period and estimated future amortization expense for intangible assets as of September 30, 2009:

(in thousands)		**Current Period Amortization Amount**
Nine months ended September 30, 2009	$	175,617
		Estimated Future Amortization Amounts
Years ended December 31,		
2009 (remaining three months)	$	58,735
2010	$	215,484
2011	$	183,188
2012	$	150,731
2013	$	121,790
2014	$	93,791
Thereafter	$	141,230
Total	$	964,949

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Note 9

Deposits and Borrowings

Borrowings as of September 30, 2009 and December 31, 2008 were as follows:

	September 30, 2009 Outstanding	December 31, 2008 Outstanding
Deposits		
Non-interest bearing deposits	**$ 12,734,589**	$ 11,293,852
Interest-bearing deposits [1]	**101,768,522**	97,326,937
Total deposits	**$ 114,503,111**	$ 108,620,789
Senior and subordinated notes		
Bank notes:		
5.00% Senior Fixed Notes par value of $417,539 due 2009	**$**	$ 417,419
5.75% Senior Fixed Notes par value of $516,722 due 2010	**516,691**	516,621
5.125% Senior Fixed Notes par value of $274,696 due 2014	**274,553**	274,520
9.25% Subordinated Fixed Notes par value of $150,000 due 2010	**155,752**	159,851
6.50% Subordinated Fixed Notes par value of $500,000 due 2013	**499,333**	499,216
8.80% Subordinated Fixed Notes par value of $1,500,000 due 2019	**1,499,411**	
Fair value hedge-related basis adjustments	**118,125**	55,800
Corporation notes:		
5.70% Senior Fixed Notes par value of $854,451 due 2011	**854,274**	854,135
4.80% Senior Fixed Notes par value of $282,335 due 2012	**281,937**	281,815
6.25% Senior Fixed Notes par value of $277,665 due 2013	**277,015**	276,903
7.375% Senior Fixed Notes par value of $1,000,000 due 2014	**995,321**	
5.50% Senior Fixed Notes par value of $375,005 due 2015	**374,780**	374,745
5.25% Senior Fixed Notes par value of $226,290 due 2017	**225,764**	225,712
6.75% Senior Fixed Notes par value of $1,341,045 due 2017	**1,337,820**	1,337,466
5.875% Subordinated Fixed Notes par value of $350,000 due 2012	**355,561**	356,888
5.35% Subordinated Fixed Notes par value of $100,000 due 2014	**98,581**	98,379
6.15% Subordinated Fixed Notes par value of $1,000,000 due 2016	**997,637**	997,365
Floating Rate Senior Notes due 2009[2]		1,029,826
Fair value hedge-related basis adjustments	**346,214**	552,182
Total senior and subordinated notes	**$ 9,208,769**	$ 8,308,843
Other borrowings		
Junior subordinated debentures		
8.00% Subordinated Fixed Notes par value of $103,093 due 2027	**$ 108,815**	$ 108,937
8.17% Subordinated Fixed Notes par value of $46,547 due 2028	**49,586**	49,639
4.5175% Subordinated Floating Notes par value of $10,310 due 2033	**10,847**	10,851
7.686% Subordinated Fixed Notes par value of $651,000 due 2036	**650,962**	650,911
6.745% Subordinated Fixed Notes par value of $500,010 due 2037	**499,990**	499,956
7.50% Subordinated Fixed Notes par value of $346,000 due 2066	**346,000**	346,000
10.25% Subordinated Fixed Notes par value of $1,000,010 due 2039	**988,198**	
Unamortized Fees	**(15,353)**	(18,026)
Total junior subordinated debentures	**$ 2,639,045**	$ 1,648,268
Secured borrowings [5]		
Fixed, interest rates ranging from 4.48% to 5.76%, due 2009 to 2011	**$ 1,310,105**	$ 2,698,381

Variable, interest rates ranging from 0.243% to 1.11% due 2010 to 2020		**3,298,158**		4,812,457
Total secured borrowings	**$**	**4,608,263**	$	7,510,838
FHLB advances [3]				
Fixed, interest rates ranging from 2.394% to 8.25%, due 2009 to 2023	**$**	**2,333,006**	$	2,777,179
Variable, interest rate of 0.4175% due 2014		**925,000**		2,100,000
Total FHLB advances	**$**	**3,258,006**	$	4,877,179
Federal funds purchased and resale agreements due 2009 [4]	**$**	**1,620,551**	$	832,961
Other short-term borrowings		**316**		402
Total other borrowings	**$**	**12,126,181**	$	14,869,648

(1) Interest bearing deposits have a weighted average rate of 1.88% and 2.64% at September 30, 2009 and December 31, 2008, respectively.

(2) Floating rate senior and subordinated notes have a weighted average rate of zero and 2.47% at September 30, 2009 and December 31, 2008, respectively.
(3) FHLB advances have a weighted average rate of 0.4175% and 2.85% at September 30, 2009 and December 31, 2008, respectively.
(4) Federal funds purchased have a weighted average rate of 0.33% and 0.01% at September 30, 2009 and December 31, 2008, respectively.
(5) Secured borrowings have a weighted average rate of 0.28% and 1.24% at September 30, 2009 and December 31, 2008, respectively.

Deposits

Interest-Bearing Deposits

As of September 30, 2009, the Company had $101.8 billion in interest-bearing deposits of which $9.9 billion represents large denomination certificates of $100 thousand or more. As of December 31, 2008, the Company had $97.3 billion in interest-bearing deposits of which $11.3 billion represents large denomination certificates of $100 thousand or more.

On July 26, 2009, the Company sold its U.K. deposits business. The amount of deposits sold totaled approximately $1.2 billion. The Company recorded a small loss on the sale.

Borrowings

Senior and Subordinated Notes

The Senior and Subordinated Global Bank Note Program gives COBNA the ability to issue securities to both U.S. and non-U.S. lenders and to raise funds in U.S. and foreign currencies. The Senior and Subordinated Global Bank Note Program had $1.3 billion and $1.8 billion outstanding at September 30, 2009 and December 31, 2008, respectively.

The Company issued senior and subordinated notes that as of September 30, 2009 had an outstanding balance of $9.2 billion. The outstanding balance of senior and subordinated bank notes include a fair value adjustments of $464.3 million and $608.0 million related to fair value accounting hedges at September 30, 2009 and December 31, 2008, respectively. See Note 13 for a further discussion of fair value interest rate hedges. The weighted average stated rate included in the table above is before the impact of these interest rate derivatives.

During the third quarter of 2009, notes totaling $1.0 billion were called or matured.

Corporation Shelf Registration Statement

As of September 30, 2009, the Corporation had an effective shelf registration statement under which the Corporation may offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depositary shares representing preferred stock, common stock, warrants, trust preferred securities, junior subordinated debt securities, guarantees of trust preferred securities and certain back-up obligations, purchase contracts and units. There is no limit under this shelf registration statement to the amount or number of such securities that the Corporation may offer and sell. Under SEC rules, the Automatic Shelf Registration Statement expires three years after filing. Accordingly, the Corporation must file a new Automatic Shelf Registration Statement at least once every three years. The Automatic Shelf Registration Statement is effective through May 2012.

Other Borrowings

Secured Borrowings

The Company issued securitizations in which it transfers pools of auto loans that are accounted for as secured borrowings at September 30, 2009. Principal payments on the borrowings are based on principal collections, net of losses, on the transferred auto loans. The secured borrowings accrue interest predominantly at fixed rates and mature between October 2009 and June 2011, but may mature earlier or later, depending upon the repayment of the underlying auto loans. At September 30, 2009 and December 31, 2008, $4.6 billion and $7.4 billion, respectively, of the secured borrowings were outstanding. See Note 14 for further discussion of secured borrowings. Secured borrowings also include tender option bonds of $16.6 million and $140.4 million at September 30, 2009 and December 31, 2008, respectively.

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Junior Subordinated Debentures

At September 30, 2009 and December 31, 2008, the Company had junior subordinated debentures outstanding of $2.7 billion and $1.7 billion, respectively.

The Company had previously established special purpose trusts for the purpose of issuing trust preferred securities. The proceeds from such issuances, together with the proceeds of the related issuances of common securities of the trusts, were invested by the trusts in junior subordinated deferrable interest debentures issued by the Company. Prior to ASC 810-10/FIN 46(R), these trusts were consolidated subsidiaries of the Company. As a result of the adoption of ASC 810-10/FIN 46(R), the Company deconsolidated all such special purpose trusts, as the Company is not considered to be the primary beneficiary.

For the nine months ended September 30, 2009, no securities were called or matured. On August 5, 2009 the Company issued $1.0 billion of 10.25% trust preferred securities, due 2039.

FHLB Advances

The Company utilizes FHLB advances which are secured by the Company s investment in FHLB stock and by a blanket floating lien on portions of the Company s residential mortgage loan portfolio. FHLB advances outstanding were $3.3 billion and $4.9 billion at September 30, 2009 and December 31, 2008, respectively and include fixed and variable rate advances. FHLB stock totaled $297.8 million and $267.5 million at September 30, 2009 and December 31, 2008, respectively, and is included in other assets.

Note 10

Shareholders Equity, Comprehensive Income and Earnings Per Common Share

Comprehensive Income

Comprehensive income for the three months ended September 30, 2009 and 2008, respectively was as follows:

	Three Months Ended September 30	
	2009	**2008**
Comprehensive Income:		
Net income	**$ 425,639**	$ 374,139
Other comprehensive income (loss), net of tax	**455,303**	(328,283)
Total comprehensive income	**$ 880,942**	$ 45,856

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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 September 30 2009	2008	Nine Months Ended September 30 2009	2008
Numerator:				
Income from continuing operations, net of tax	**$ 469,226**	$ 385,789	**$ 612,506**	$ 1,480,842
Loss from discontinued operations, net of tax	**(43,587)**	(11,650)	**(74,543)**	(105,294)
Net income	**$ 425,639**	$ 374,139	**$ 537,963**	$ 1,375,548
Preferred stock dividends and accretion of discount	**$**	$	**$ 563,908**	$
Net income (loss) available to common shareholders	**$ 425,639**	$ 374,139	**$ (25,945)**	$ 1,375,548
Denominator:				
Denominator for basic earnings per share-weighted-average shares	**449,408**	372,928	**420,788**	372,010
Effect of dilutive securities [1]:				
Stock options	**942**	328		491
Restricted stock and units	**3,376**	1,037		909
Dilutive potential common shares	**4,318**	1,365		1,400
Denominator for diluted earnings per share-adjusted weighted-average shares	**453,726**	374,293	**420,788**	373,410
Basic earnings per share				
Income from continuing operations	**$ 1.04**	$ 1.03	**$ 0.12**	$ 3.98
Loss from discontinued operations	**(0.09)**	(0.03)	**(0.18)**	(0.28)
Net income (loss)	**$ 0.95**	$ 1.00	**$ (0.06)**	$ 3.70
Diluted earnings per share				
Income from continuing operations	**$ 1.03**	$ 1.03	**$ 0.12**	$ 3.96
Loss from discontinued operations	**(0.09)**	(0.03)	**(0.18)**	(0.28)
Net income	**$ 0.94**	$ 1.00	**$ (0.06)**	$ 3.68

(1) Antidilutive weighted shares excluded from the computation of diluted earnings per share were 32.4 million and 24.4 million for the three months ended September 30, 2009 and 2008, respectively, and 36.1 million and 24.6 million for the nine months ended September 30, 2009 and 2008, respectively.

Note 11

Mortgage Servicing Rights

MSRs are recognized in conjunction with loan sales and securitization transactions when servicing rights are retained or acquired by the Company; 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 has sold mortgage loans through whole loan sale transactions, and in some instances the loans were subsequently securitized by the third party purchaser and transferred into a VIE, and also through securitization transactions. The Company records the MSR at estimated fair value and has no other loss exposure in excess of the recorded fair value.

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 and nine months ended September 30, 2009 and September 30, 2008:

	Three Months Ended September 30		**Nine Months Ended September 30**	
Mortgage Servicing Rights:	**2009**	**2008**	**2009**	**2008**
Balance, beginning of period	**$ 280,742**	$ 232,423	**$ 150,544**	$ 247,589
Acquired in acquisitions [1]			**109,538**	
Originations	**6,532**		**13,772**	
Sales				(273)
Change in fair value, net	**(15,756)**	(5,322)	**(2,336)**	(20,215)
Balance, end of period	**$ 271,518**	$ 227,101	**$ 271,518**	$ 227,101
Ratio of mortgage servicing rights to related loans serviced for others	**0.88%**	0.90%	**0.88%**	0.90%

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Mortgage Servicing Rights:	Three Months Ended September 30 2009	2008	Nine Months Ended September 30 2009	2008
Weighted average service fee	**0.29**	0.28	**0.29**	0.28

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

Fair value adjustments to the MSRs for the three and nine months ended September 30, 2009 included a $7.9 million and $21.9 million decrease due to run-off, respectively, and a $7.9 million decrease and $19.6 million increase due to changes in the valuation inputs and assumptions, respectively.

The valuation adjustments for the MSR were partially offset by changes in the fair value of economic hedging instruments of $10.3 million and $15.4 million for the three months ended September 30, 2009 and 2008, respectively, which were recognized in non-interest income. For additional information on hedging activities, refer to Note 13.

The significant assumptions used in estimating the fair value of the servicing assets at September 30, 2009 and 2008 were as follows:

	September 30, 2009	September 30, 2008
Weighted average prepayment rate (includes default rate)	**18.04%**	22.61%
Weighted average life (in years)	**4.9**	4.5
Weighted average servicing cost per loan	**$ 129.1**	$ 111.6
Discount rate	**11.47%**	11.07%

The decrease in the weighted average prepayment rate and the increase in the weighted average life were both driven by a reduction in voluntary attrition due to market conditions. The increase in weighted average servicing cost per loan from 2008 is a result of increased delinquencies during 2009 resulting in higher collection costs. The increase in the discount rate from 2008 is due to inclusion of Chevy Chase Bank during 2009.

At September 30, 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 $11.4 million and $21.9 million, respectively.

As of September 30, 2009, the Company s mortgage loan servicing portfolio consisted of mortgage loans with an aggregate unpaid principal balance of $43.9 billion, of which $30.7 billion was serviced for investors other than the Company. The Chevy Chase Bank acquisition added $17.4 billion to the mortgage loan servicing portfolio, of which $10.0 billion was serviced for other investors. As of September 30, 2008, the Company s mortgage loan servicing portfolio consisted of mortgage loans with an aggregate unpaid principal balance of $36.4 billion, of which $25.4 billion was serviced for investors other than the Company.

Servicing income, which includes contractual servicing fees, late fees and ancillary fees, totaled $16.0 million and $22.4 million for the three months ended September 30, 2009 and 2008, respectively.

Note 12

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.

The Company anticipates recording charges of approximately $60.0 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. Since the start of the initiative the Company has incurred charges of $340.1 million.

The Company has recorded certain restructuring charges within the income statement associated with the integration of Chevy Chase Bank into the operations of the Company. Expenses for employee termination benefits presented below represent one-time activities and do not represent ongoing costs to fully integrate Chevy Chase Bank. The Company also expects to incur costs associated with contract and lease terminations and consolidation of facilities and infrastructure.

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

	Chevy Chase Acquisition		2007 Company Initiative	
	Three months ended September 30, 2009	Nine months ended September 30, 2009	Three months ended September 30, 2009	Nine months ended September 30, 2009
Restructuring expenses:				
Employee termination benefits	$ 5,542	$ 19,953	$ 8,448	$ 36,339
Communication and data processing			40	745
Supplies and equipment			406	3,135
Occupancy			9,817	21,248
Other			2,104	5,938
Total restructuring expenses	$ 5,542	$ 19,953	$ 20,815	$ 67,405

Employee termination benefits include for the 2007 company initiative charges for executives of the Company for the three and nine months ended September 30, 2009 of $6.2 million and $9.5 million, respectively, and charges for associates of $2.2 million and $26.8 million for the three and nine months ended September 30, 2009, respectively.

The Company made $20.5 million ($19.6 million related to 2007 initiative and $0.9 related to the Chevy Chase acquisition) and $59.5 million ($52.3 million related to 2007 initiative and $7.2 million related to the Chevy Chase acquisition) in cash payments for restructuring charges during the three and nine months ended September 30, 2009, respectively that related to employee termination benefits. Restructuring accrual activity for the three and nine months ended September 30, 2009, was as follows:

	Chevy Chase Acquisition		2007 Company Initiative	
	Three months ended September 30, 2009	Nine months ended September 30, 2009	Three months ended September 30, 2009	Nine months ended September 30, 2009
Restructuring accrual activity:				
Balance, beginning of period	$ 10,582	$	$ 110,465	$ 92,749
Restructuring charges	5,542	19,953	20,815	67,405
Cash payments	(947)	(7,216)	(19,615)	(52,277)
Noncash write-downs and other adjustments		2,440		3,788
Balance, end of period	$ 15,177	$ 15,177	$ 111,665	$ 111,665

Note 13

Derivative Instruments and Hedging Activities

The Company manages market risk within conservative limits governed by its risk management policies as established by the Asset and Liability Management Committee (ALCO) and approved by the Board of Directors. The Company utilizes derivatives to manage and position its sensitivity within the approved limits. These derivatives are used to primarily manage risk related to changes in interest rates and to a lesser extent, foreign exchange rates. The Company uses interest rate swaps, interest rate caps, floors, options, futures and forward contracts to manage interest rate risk.

By using derivative instruments, the Company is exposed to credit and market risk on those derivative positions. The Company manages both market risk and credit 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. 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.

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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, assets and liabilities hedged by fair value instruments 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 accounting hedges. These derivatives are in many cases associated with asset, liability, and securitization transactions or may be used outright to manage our interest rate risk exposures. These derivatives are carried at fair value and changes in value are included in current earnings.

The Company also enters into customer oriented derivative instruments. These transactions are provided as a service to our customers and the interest rate risk is typically hedged with offsetting derivative trades.

The following table provides the notional amount and fair values of the Company s derivative instruments, by category, as of September 30, 2009:

		Asset Derivatives		Liability Derivatives	
	Notional Amount	Balance Sheet Location	Positive Fair Value	Balance Sheet Location	Negative Fair Value
Derivatives designated as hedging instruments					
Cash Flow Interest Rate Contracts	$ 2,939,498	Other assets	$	Other liabilities	$ (113,882)
Cash Flow Foreign Exchange Contracts	1,715,530	Other assets	26,925	Other liabilities	(31,899)
Fair Value Interest Rate Contracts	17,290,776	Other assets	529,509	Other liabilities	(13,283)
Net Investment Foreign Exchange Contracts	52,734	Other assets	746	Other liabilities	
Subtotal	$ 21,998,538		$ 557,180		$ (159,064)
Derivatives not designated as hedging instruments					
Trading Interest Rate Contracts	$ 9,500,005	Other assets	$ 234,730	Other liabilities	$ (219,823)
Non-Trading Interest Rate Contracts	25,088,710	Other assets	611,599	Other liabilities	(569,016)
Non-Trading MSR Interest Rate Contracts	980,000	Other assets	11,240	Other liabilities	(17,775)
Non-Trading Other Contracts	879,977	Other assets	9,924	Other liabilities	(2,899)
Subtotal	$ 36,448,692		$ 867,493		$ (809,513)
Total Derivatives	$ 58,447,230		$ 1,424,673		$ (968,577)

(1) The above table does not reflect $(0.5) million recognized as a valuation allowance on derivative assets and liabilities for non-performance risk. Non-performance risk is reflected in other assets/liabilities on the balance sheet and offset through the income statement in other income. For additional information, see Non-Performance Risk section of this footnote.

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 of movements in exchange rates.

The Company has 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, subordinated notes, public fund certificates of deposit, and U.S. Agency investments from fixed rates to variable rates with maturities ranging from 2010 to 2019. 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.

During the second quarter of 2009, the Company 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 brokered CD liabilities from fixed rate to variable rates with maturities ranging from 2010 to 2018. 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. The Company realized interest expense savings of $31.9 million and $41.7 million for the three and nine months ended September 30, 2009, respectively.

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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.

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 with maturities ranging from 2010 to 2013. 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 September 30, 2009, the Company expects to reclassify $3.5 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. This amount could change in future periods if the Company decides to terminate additional swaps in the context of managing its overall market risk profile.

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 purpose of these hedges is to protect against adverse movements in exchange rates.

Trading Interest Rate Contracts

The Company enters into customer-oriented derivative financial instruments, including interest rate swaps, options, caps, floors, and foreign exchange contracts. These customer-oriented positions may be matched with offsetting positions to minimize risk to the Company.

These derivatives do not qualify as hedges and are recorded on the balance sheet at fair value with changes in value included in current earnings in non-interest income.

Non-Trading Interest Rate Contracts

The Company uses interest rate swaps to manage interest rate sensitivity related to loan securitizations of the Company s non-mortgage related securitization programs. The Company enters into interest rate swaps with its securitization trust and essentially offsets the derivative with separate interest rate swaps with third parties. The Company is exposed to higher credit risk related to interest rate swaps with the trust, and has charged a higher rate to offset this risk. The trust is unable to post collateral because of its QSPE status. At September 30, 2009, the Company has recorded a $25.7 million valuation allowance in other non-interest income against the asset value for the counterparty credit risk, of which $45.0 million was recorded during the first quarter of 2009 and releases of $12.7 million and $6.6 million were recorded in the second and third quarters of 2009, respectively.

The Company uses interest rate cap agreements and reciprocal basis swap agreements in conjunction with the securitization of certain payment option mortgage loans. The interest rate cap agreements limit the Company s exposure to interest rate risk by providing for payments to be made to the Company by third parties when the one-month LIBOR rate exceeds the applicable strike rate. These agreements have individual predetermined notional schedules and stated expiration dates, and relate to both currently outstanding and previously called securitization trusts. The reciprocal basis swap agreements are held with external counterparties and are structured to mirror the basis swap agreements within securitization programs. The basis swaps in the securitization structures fund the payment of uncapped floating rate interest to note holders in the trust. While payments on the basis swaps and the reciprocal basis swaps may be similar in amounts, the Company is not a party to any of the derivative contracts between the derivative providers and the securitization trusts.

The Company uses interest rate swaps in conjunction with its auto securitizations. These swaps have zero balance notional amounts unless the pay down of auto securitizations differs from its scheduled amortization.

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The Company enters into commitments to originate loans whereby the interest rate of the loan is determined prior to funding (interest rate lock commitment). Interest rate lock commitments on mortgage loans that the Company intends to sell in the secondary market are considered freestanding derivatives. These derivatives are carried at fair value with changes in fair value reported as a component of other non-interest income. The Company initially values interest rate lock commitments at zero in accordance with current accounting requirements. Changes in fair value subsequent to inception are determined based on current secondary market prices for underlying loans with similar coupons, maturity and credit quality, subject to the anticipated probability that the loans will fund within the terms of the commitment. The initial value inherent in the loan commitments at origination is recognized through gain on sale of loans when the underlying loan is sold. Both the interest rate lock commitments and the related hedging instruments are recorded at fair value with changes in fair value recorded in current earnings as a component of gain on sale of loans. As of September 30, 2009, the Company has $187.9 million in loan commitments.

These derivatives do not qualify as hedges and are recorded on the balance sheet at fair value with changes in value included in current earnings in non-interest income.

Non-Trading Other Contracts

The Company uses interest rate swaps and To Be Announced (TBA) forward contracts and futures contracts in conjunction with hedging the economic risk associated with its mortgage servicing rights portfolio. These derivatives are designed to offset changes in the value of mortgage servicing rights attributable to interest rate fluctuations.

The Company uses TBA forward contracts and whole loan commitments in conjunction with its interest rate locks and held-for-sale fixed rate mortgages (collectively mortgage commitments). These derivatives are designed to provide a known future price for these mortgage commitments.

The following table shows the effect of the Company s derivative instruments, by category, on the income statement for the three months and nine months ended September 30, 2009:

Derivatives in Fair Value Hedging Relationships

	Location of Gain/(Loss) in Income on Derivative	Gain/(Loss) in Income on Derivative	Hedged Items in Fair Value Hedge Relationship	Location of Gain/(Loss) Recognized in Income on Related Hedged Item	Gain/(Loss) Recognized in Income on Related Hedged Items	Net Gain/(Loss)
For Three Months Ended September 30, 2009						
Interest Rate Contracts	Other Non-Interest Income	$ 227,863	Fixed-rate Debt	Other Non-Interest Income	$ (213,507)	$ 14,356
For Nine Months Ended September 30, 2009						
Interest Rate Contracts	Other Non-Interest Income	$ (81,307)	Fixed-rate Debt	Other Non-Interest Income	$ 102,880	$ 21,573

Derivatives in Cash Flow Hedging Relationships

	Gain/(Loss) Recognized in OCI (Effective Portion)	Location of Gain/(Loss) Reclassified from OCI	Gain/(Loss) Reclassified from OCI into Income	Location of Gain/(Loss) Recognized in Income (Ineffectiveness)	Gain/(Loss) Recognized Due to Ineffectiveness

			into Income					
For Three Months Ended September 30, 2009								
Interest Rate Contracts	$	35,233	Interest Income (Expense)	$	(11,539)	None	$	
Foreign Exchange Contracts		(4,072)	Other Non-Interest Income		2,072	None		
	$	31,161		$	(9,467)		$	
For Nine Months Ended September 30, 2009								
Interest Rate Contracts	$	141,697	Interest Income (Expense)	$	(71,355)	None	$	
Foreign Exchange Contracts		7,952	Other Non-Interest Income		(798)	None		
	$	149,649		$	(72,153)		$	

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Derivatives in Net Investment Hedging Relationships

	Gain/(Loss) Recognized in OCI	Location of Gain/(Loss) Reclassified from OCI into Income (Effective Portion)	Gain/(Loss) Reclassified from OCI into Income (Effective Portion)	Location 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)
For Three Months Ended September 30, 2009					
Foreign Exchange Contracts	$ (2,593)	None	$	None	$
For Nine Months Ended September 30, 2009					
Foreign Exchange Contracts	$ (6,431)	None	$	None	$

Derivatives Not Designated as Hedging Instruments

For Three Months Ended September 30, 2009	Location of Gain (Loss) in Income	Gain (Loss) in Income
Trading Interest Rate Contracts	Other Non-Interest Income	$ 1,664
Non-Trading Interest Rate Contracts	Other Non-Interest Income	16,190
Non-Trading MSR Interest Rate Contracts	Mortgage Banking Operations	(3,217)
Non-Trading Other Contracts	Mortgage Banking Operations	13,737
Non-Trading Other Contracts	Other Non-Interest Income	(3,564)
Subtotal		$ 24,810

For Nine Months Ended September 30, 2009	Location of Gain (Loss) in Income	Gain (Loss) in Income
Trading Interest Rate Contracts	Other Non-Interest Income	$ 8,893
Non-Trading Interest Rate Contracts	Other Non-Interest Income	11,310
Non-Trading MSR Interest Rate Contracts	Mortgage Banking Operations	(20,373)
Non-Trading Other Contracts	Mortgage Banking Operations	1,715
Non-Trading Other Contracts	Other Non-Interest Income	(3,564)
Subtotal		$ (2,019)

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Credit Default Swaps

The Company has credit exposure resulting from swap agreements related to loss mitigation for certain manufactured housing securitizations issued by GreenPoint Credit LLC in 2000. The maximum credit exposure from these swap agreements is $34.4 million as of September 30, 2009. The fair value of the Company s obligations under the swap agreements was $20.0 million at September 30, 2009 and is recorded as other liabilities. See Note 14 for additional information about manufactured housing securitization transactions.

Credit Risk Related Contingency Features

Certain of the Company s derivative instruments contain provisions that require the Company s debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the Company s debt were to fall below investment grade, it would be in violation of those provisions, and the counterparties of the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on September 30, 2009, is $968.6 million for which the Company has posted collateral of $447.0 million during the normal course of business, which consists of a combination of securities and cash. If the credit-risk-related features underlying these agreements had been triggered on September 30, 2009, the Company would be required to post an additional $32.4 million of collateral to its counterparties.

Non-performance Risk

In the event of counterparty default our economic loss may be higher than the uncollateralized exposure of our derivatives if we were not able to replace the defaulted derivatives in a timely fashion. We monitor the risk that our uncollateralized exposure to each of our OTC counterparties for interest-rate swaps and foreign currency swaps will increase under certain adverse market conditions by performing periodic market stress tests. These tests evaluate the potential additional uncollateralized exposure we would have to each of these derivative counterparties assuming changes in the level of market rates over a brief time period. During the third quarter, the Company recorded a $1.9 million reduction to fair value for assets and a $1.4 million reduction to fair value for liabilities in other non-interest income.

Note 14

Securitizations

The Company engages in securitization transactions of loans for funding purposes. The Company receives the proceeds from third party investors for securities issued from the Company s securitization trusts which are collateralized by transferred receivables from the Company s portfolio. The Company removes loans from the reported financial statements for securitizations that qualify as sales in accordance with ASC 860-10/SFAS 140. Alternatively, when the transfer is not considered a sale but rather a financing, the assets will remain on the Company s reported financial statements with an offsetting liability recognized in the amount of proceeds received.

The Company uses QSPEs to conduct off-balance sheet securitization activities and SPEs that are considered VIEs to conduct other securitization activities. Interests in the securitized and sold loans may be retained in the form of interest-only strips, retained senior tranches, retained subordinated tranches, cash collateral accounts, cash reserve accounts and unpaid interest and fees on the investors portion of the transferred principal receivables. The Company also retains a transferor s interest in the securitized non mortgage loan receivables transferred to the trusts which is carried on a historical cost basis and reported as loans held for investment on the Reported Consolidated Balance Sheet.

Accounts Receivable from Securitizations

The following is a breakdown of Accounts Receivable From Securitizations as of September 30, 2009:

	As of September 30, 2009		
	Non Mortgage	Mortgage	Total
Interest-only strip classified as trading	$ 4,190	$ 253,508	$ 257,698
Retained interests classified as trading:			
Retained notes	551,593		551,593
Cash collateral	502,344	868	503,212

Investor accrued interest receivable	775,191		775,191
Total retained interests classified as trading	1,829,128	868	1,829,996
Retained notes classified as available for sale	1,783,356		1,783,356
Other retained interests		12,923	