CAPITAL ONE FINANCIAL CORP
Form 10-K
March 01, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 1-13300

CAPITAL ONE FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code: (703) 720-1000

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

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

Securities Registered Pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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 T	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the close of business on June 30, 2010.

Common Stock, $.01 Par Value: $18,249,844,321*

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* In determining this figure, the registrant assumed that the executive officers of the registrant and the registrant’s directors are affiliates of the registrant. Such assumption shall not be deemed to be conclusive for any other purpose. The number of shares outstanding of the registrant’s common stock as of the close of business on January 31, 2011.

Common Stock, $.01 Par Value: 457,346,953 shares

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the annual meeting of stockholders to be held on May 11, 2011 are incorporated by reference into Part III.

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PART I

Item 1. Business

OVERVIEW

Capital One Financial Corporation, which was established in 1995, is a diversified financial services holding company headquartered in McLean, Virginia. Capital One Financial Corporation and its subsidiaries (the "Company") offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. Our principal subsidiaries include:

- Capital One Bank (USA), National Association ("COBNA") 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.

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

We had $125.9 billion in total loans outstanding and $122.2 billion in deposits as of December 31, 2010, compared with $136.8 billion in total managed loans outstanding and $115.8 billion in deposits as of December 31, 2009. We serve banking customers through branch locations primarily in New York, New Jersey, Texas, Louisiana, Maryland, Virginia and the District of Columbia. In September 2010, we rebranded Chevy Chase Bank, F.S.B. ("Chevy Chase Bank"), strengthening the Capital One brand in the Washington, D.C. region. In addition to bank lending treasury management and depository services, we offer credit and debit card products, auto loans and mortgage banking in markets across the United States. As of December 31, 2010, we were the fourth largest issuer of Visa® ("Visa") and MasterCard® ("MasterCard") credit cards in the United States based on managed credit card loans outstanding and the ninth largest depository institution in the United States based on deposits. In addition, we offer products outside of the United States principally through Capital One (Europe) plc ("COEP"), an indirect subsidiary of COBNA organized and located in the United Kingdom (U.K.), and through a branch of COBNA in Canada. COEP has authority, among other things, to provide credit card and installment loans. On December 1, 2010, our U.K. operations transitioned to an Authorized Payment Institution (API), and, as a result, we are no longer authorized to accept deposits in the U.K. Prior to November 19, 2010, COEP was referred to as Capital One Bank (Europe) plc ("COBEP") and our U.K. business was referred to as the U.K. Bank. Our branch of COBNA in Canada has the authority to provide credit card loans.

Our common stock is listed on the NYSE and is traded under the symbol "COF." As of January 31, 2011, there were 16,065 holders of record of our common stock. Our principal executive office is located at 1680 Capital One Drive, McLean, Virginia 22102 (telephone number (703) 720-1000). We maintain a Web site at www.capitalone.com. Documents available on our Web site include: (i) Our Code of Business Conduct and Ethics for the Corporation; (ii) Our Corporate Governance Principles; and (iii) charters for the Audit and Risk, Compensation, Finance and Trust Oversight, and Governance and Nominating Committees of the Board of Directors.

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

BUSINESS SEGMENTS

Our principal operations are currently organized, for management reporting purposes, into three major business segments, which are defined based on the products and services provided, or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments.

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- Credit Card: Consists of our domestic consumer and small business card lending, national small business lending, national closed end installment lending and the international card lending businesses in Canada and the United Kingdom.

- Consumer Banking: Consists of our branch-based lending and deposit gathering activities for consumer and small businesses, national deposit gathering, national automobile lending and consumer home loan lending and servicing activities.

- Commercial Banking: Consists of our lending, deposit gathering and treasury management services to commercial real estate and middle market customers.

Certain activities that are not part of a segment are included in our “Other” category. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)—Executive Summary and Business Outlook,” “MD&A—Business Segment Financial Performance” and “Item 8. Financial Statement and Supplementary Data—Notes to Consolidated Financial Statements” for additional information about our business segments.

SUPERVISION AND REGULATION

General

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

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

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

Our election to become a financial holding company under the GLBA certifies that the depository institutions we control meet certain criteria, including capital, management and Community Reinvestment Act (“CRA”) requirements. Effective July 21, 2011, under amendments to the BHC Act enacted under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), we also must be “well capitalized” and “well managed.” If we were to fail to continue to meet the criteria for financial holding company status, we could, depending on which requirements we failed to meet, face restrictions on new financial activities or acquisitions or be required to discontinue existing activities that are not generally permissible for bank holding companies. The Banks are national associations chartered under the laws of the United States, the deposits of which are insured by the Deposit Insurance Fund of the Federal

Deposit Insurance Corporation (the "FDIC") up to applicable limits. In addition to regulatory requirements imposed as a result of COBNA's international operations (discussed below), the Banks are subject to comprehensive regulation and periodic examination by the Office of the Comptroller of the Currency ("OCC") and the FDIC.

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

Regulation of Business Activities

The activities of the Banks as consumer lenders also are subject to regulation under various federal laws, including the Truth-in-Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act (the "FCRA"), the CRA and the Servicemembers Civil Relief Act, as well as under various state laws. Depending on the underlying issue and applicable law, regulators are often authorized to impose penalties for violations of these statutes and, in certain cases, to order the Banks to compensate injured borrowers. Borrowers may also have a private right of action for certain violations. Federal bankruptcy and state debtor relief and collection laws also affect the ability of the Banks to collect outstanding balances owed by borrowers. These laws plus state sales finance laws also affect the ability of our automobile financing business to collect outstanding balances.

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New Regulations of Consumer Lending Activities

The Credit CARD Act (amending the Truth-In-Lending Act) enacted in May 2009, and related changes to Regulation Z, impose a number of restrictions on credit card practices impacting rates and fees and update the disclosures required for open-end credit. For example, increases in rates charged on pre-existing card balances are restricted, and rates increased since January 1, 2009, must now be considered for possible reductions. Overlimit fees may not be imposed without prior consent, and the number of such fees that can be charged for the same violation is constrained. The amount of any penalty fee or charge must be “reasonable and proportional” to the violation. Payments above the minimum payment must be allocated first to balances with the highest interest rate. The amount of fees charged to credit card accounts with lower credit lines is limited. A consumer’s ability to pay must be taken into account before issuing credit or increasing credit limits.

State Consumer Financial Laws

The Dodd-Frank Act created a new independent supervisory body, the Consumer Financial Protection Bureau (the “CFPB”) that will become the primary regulator for federal consumer financial statutes. State attorneys general will be authorized to enforce new regulations issued by the CFPB. State consumer financial laws will continue to be preempted under the National Bank Act under the existing standard set forth in the Supreme Court decision in Barnett Bank of Marion County, N.A. v. Nelson, which preempts any state law that significantly interferes with or impairs banking powers. OCC determinations of such preemption, however, must be on a case-by-case basis, and courts reviewing the OCC's preemption determinations will now consider the appropriateness of those determinations under a different standard of judicial review. As a result, state consumer financial laws enacted in the future may be held to apply to our business activities.

Mortgage Lending

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

Debit Interchange Fees

The Dodd-Frank Act requires that the amount of any interchange fee received by a debit card issuer with respect to debit card transactions be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. On December 16, 2010, the Federal Reserve released proposed rules implementing this portion of the Dodd-Frank Act, which among other things, would limit interchange fees to no greater than 12 cents for each debit card transaction. The proposal was open for public comment through February 22, 2011, with final rules to be effective on July 21, 2011. If finalized as proposed, the rules could negatively impact revenue from our debit card business.

Dividends, Stock Repurchases and Transfers of Funds

Pursuant to Revised Temporary Addendum to SR Letter 09-4, dated November 17, 2010, we, like all large financial institutions subject to the Supervisory Capital Assessment Program ("SCAP BHCs"), must consult with the Federal Reserve in advance of taking any action that could result in a decreased capital base, including increasing dividends, implementing a common stock repurchase program, or repurchasing capital instruments (“planned capital actions”). As part of that evaluation, the Federal Reserve, in consultation with primary federal bank regulators, will assess capital adequacy of a SCAP BHC and any planned capital actions based on a review of a comprehensive capital plan submitted by the SCAP BHC. Among other things, the capital plan must incorporate a stress testing framework that considers a range and variety of economic, financial market, and operational events to estimate potential capital needs.

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

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Capital Adequacy

The Banks are subject to capital adequacy guidelines adopted by federal banking regulators. For a further discussion of the capital adequacy guidelines, see " MD&A—Liquidity and Capital Management—Capital" and "Note 13—Regulatory ar Capital Adequacy". The Banks exceeded minimum regulatory requirements under these guidelines as of December 31, 2010.

FDICIA and Prompt Corrective Action

In general, the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") subjects banks to significantly increased regulation and supervision. Among other things, FDICIA requires federal banking agencies to take "prompt corrective action" in respect of banks that do not meet minimum capital requirements. FDICIA establishes five capital ratio levels: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Under applicable regulations, a bank is considered to be well capitalized if it maintains a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6%, a Tier 1 leverage capital ratio of at least 5% and is not subject to any supervisory agreement, order, or directive to meet and maintain a specific capital level for any capital reserve. A bank is considered to be adequately capitalized if it maintains a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4%, a Tier 1 leverage capital ratio of at least 4% (3% for certain highly rated institutions), and does not otherwise meet the well capitalized definition. The three undercapitalized categories are based upon the amount by which a bank falls below the ratios applicable to adequately capitalized institutions. The capital categories are determined solely for purposes of applying FDICIA's prompt corrective action provisions, and such capital categories may not constitute an accurate representation of the Banks' overall financial condition or prospects. As of December 31, 2010, each of the Banks met the requirements for a well-capitalized institution.

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

Heightened Prudential and Other Requirements under the Dodd-Frank Act

With the enactment of the Dodd-Frank Act, because we are a consolidated bank holding company with consolidated assets of $50 billion or greater, we are subject to certain heightened prudential requirements, including requirements that may be recommended by the Financial Stability Oversight Council (the "Council") and implemented by the Federal Reserve. As a result, we expect to be subject to more stringent standards and requirements than those applicable for smaller institutions, including risk-based capital requirements, leverage limits, and liquidity requirements. In addition, we expect to be subject to new requirements regarding risk management, resolution planning (for orderly resolution in the event of material financial distress or failure), credit exposure reporting, and concentration limits. As part of the Dodd-Frank enhanced supervision framework, we will be subject to annual stress tests by the Federal Reserve, and the Company and the Banks will be required to conduct semi-annual stress tests, reporting results to the Federal Reserve and the OCC. The Council also may issue recommendations to the Federal Reserve or other primary financial regulatory agency to apply new or heightened standards to risky financial activities or practices.

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

The federal agencies have significant discretion in drafting the implementation rules and regulations of the Dodd-Frank Act. As a result, the impact of the Dodd-Frank Act will not be known for many months or, in some cases, years. In addition, the Dodd-Frank Act requires various studies and reports to be delivered to Congress which could result in additional legislative or regulatory action.

Basel II and III

Implementation of the international accord on revised risk-based capital rules known as “Basel II” continues to progress. U.S. Federal banking regulators finalized the “Advanced” version of Basel II in December 2007 and they issued a Notice of Proposed Rulemaking for the “Standardized” version in June 2008. Neither the “Advanced” nor “Standardized” version is mandatory for us, but the Advanced version could become so, due to growth in our reported assets or growth in our reported foreign assets. Alternatively, we might elect to comply with either the Advanced or Standardized versions of Basel II in the future. Compliance might require an increase in the minimum capital that we hold and also require a material investment of resources. We will continue to monitor regulators’ implementation of the new rules with respect to the institutions that are subject to them and assess the potential impact to us.

In December 2009, the Basel Committee on Banking Supervision (the “Basel Committee”) released proposals for additional capital and liquidity requirements, which have been clarified and amended in recent pronouncements (“Basel III”). In September 2010, the Basel Committee announced a package of reforms that included detailed capital ratios and capital conservation buffers, subject to transition periods through 2018. In December 2010, the Basel Committee published a final framework on capital and liquidity, consistent in large part with the prior proposals. The liquidity framework included two standards for liquidity risk supervision, each subject to observation periods and transitional arrangements. One standard promotes short-term resilience by requiring sufficient high-quality liquid assets to survive a stress scenario lasting for 30 days; the other promotes longer-term resilience by requiring sufficient stable funding over a one-year period, based on the liquidity characteristics of assets and activities. How U.S. banking regulations will be modified to reflect these international standards remains unclear, particularly given the forthcoming capital and other prudential requirement regulations under the Dodd-Frank Act and the current Prompt Corrective Action framework. We expect, however, that minimum capital and liquidity requirements for us and other institutions will increase as a result of Basel III, the Dodd-Frank Act and related activity. We will continue to monitor regulators’ implementation of the new rules with respect to the institutions that are subject to them and assess the potential impact to us.

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Deposits and Deposit Insurance

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

Prior to passage of the Dodd-Frank Act, the FDIC had established a plan to restore the DIF in the face of recent insurance losses and future loss projections, which resulted in several rules that generally increased deposit insurance rates and purported to improve risk differentiation so that riskier institutions bear a greater share of insurance premiums. The FDIC previously had issued a rule that required banks to prepay on December 31, 2009, their estimated quarterly risk-based assessment for the fourth quarter of 2009 and for 2010, 2011, and 2012. In connection with that rule, we have prepaid approximately $462 million, which is included within Other Assets.

The Dodd-Frank Act reformed the management of the DIF in several ways: (1) raised the minimum DRR to 1.35% (from the former minimum of 1.15%) and removed the upper limit on the DRR; (2) required that the reserve ratio reach 1.35% by September 30, 2020 (rather than 1.15% by the end of 2016); (3) required that in setting assessments, the FDIC must offset the effect of meeting the increased reserve ratio on small insured depository institutions; and (4) eliminated the requirement that the FDIC pay dividends from the DIF when the reserve ratio reaches certain levels. In a recent final rule, the FDIC set the DRR at 2%. The FDIC has proposed, in lieu of dividends, establishing progressively lower assessment rate schedules as the reserve ratio meets certain trigger levels.

The Dodd-Frank Act also required the FDIC to change the deposit insurance assessment base from deposits to average consolidated total assets minus average tangible equity. The FDIC recently finalized rules to implement this change and to significantly modify how deposit insurance assessment rates are calculated for those banks with assets of $10 billion or greater. Absent any actions that management may take to minimize deposit insurance assessments, the Banks’ assessments will increase significantly starting for the period beginning on April 1, 2011. On October 14, 2008, the FDIC announced its Temporary Liquidity Guarantee Program (“TLGP”), which included the Transaction Account Guarantee Program (“TAGP”). The TAGP provided unlimited deposit insurance coverage for certain non-interest bearing transaction accounts and very limited interest-bearing accounts held at FDIC-insured depository institutions. The TAGP was originally scheduled to expire on December 31, 2009, but, through several extensions, continued through December 31, 2010 for those institutions that chose to participate.

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

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

Overdraft Protection

The Federal Reserve amended Regulation E on November 12, 2009, to limit the ability to assess overdraft fees for paying ATM and one-time debit card transactions that overdraw a consumer's account, unless the consumer opts in to such payment of overdrafts. The new rule does not apply to overdraft services with respect to checks, ACH transactions, or recurring debit card transactions, or to the payment of overdrafts pursuant to a line of credit or a service that transfers funds from another account. We are required to provide to customers written notice describing our overdraft service, fees imposed and other information, and to provide customers with a reasonable opportunity to opt in to the service. Before we may assess fees for paying discretionary overdrafts, a customer must affirmatively opt in, which could negatively impact our deposit business revenue. The new rule was effective for all new accounts opened on or after July 1, 2010, and on August 15, 2010, it became effective for accounts opened prior to July 1, 2010.

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Source of Strength and Liability for Commonly-Controlled Institutions

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

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

FDIC Orderly Liquidation Authority

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

FFIEC Account Management Guidance

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

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

Privacy and Fair Credit Reporting

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

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

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Like other lending institutions, the Banks utilize credit bureau data in their underwriting activities. Use of such data is regulated under the FCRA on a uniform, nationwide basis, including credit reporting, prescreening, sharing of information between affiliates, and the use of credit data. The Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act"), which was enacted by Congress and signed into law in December 2003, extends the federal preemption of the FCRA permanently, although the law authorizes states to enact laws regulating certain subject matters so long as they are not inconsistent with the conduct required by the FCRA. If financial institutions and credit bureaus fail to alleviate the costs and consumer frustration associated with the growing crime of identity theft, financial institutions could face increased legislative/regulatory and litigation risks.

Investment in the Company and the Banks

Certain acquisitions of our capital stock may be subject to regulatory approval or notice under federal or state law. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of our capital stock in excess of the amount which can be acquired without regulatory approval. Each of the Banks is an "insured depository institution" within the meaning of the Change in Bank Control Act. Consequently, federal law and regulations prohibit any person or company from acquiring control of us without, in most cases, prior written approval of the Federal Reserve or the OCC, as applicable. Control is conclusively presumed if, among other things, a person or company acquires more than 25% of any class of our voting stock. A rebuttable presumption of control arises if a person or company acquires more than 10% of any class of voting stock and is subject to any of a number of specified "control factors" as set forth in the applicable regulations. Additionally, COBNA and CONA are "banks" within the meaning of Chapter 13 of Title 6.1 of the Code of Virginia governing the acquisition of interests in Virginia financial institutions (the "Financial Institution Holding Company Act"). The Financial Institution Holding Company Act prohibits any person or entity from acquiring, or making any public offer to acquire, control of a Virginia financial institution or its holding company without making application to, and receiving prior approval from, the Virginia Bureau of Financial Institutions.

Non-Bank Activities

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

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

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

USA PATRIOT Act of 2001

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

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

Regulation of International Business by Non—U.S. Authorities

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

In the United Kingdom, COBNA operates through COEP, which was established in 2000. Effective December 1, 2010, COEP became an authorized payment institution by the Financial Services Authority (the "FSA") under the Payment Services Regulations 2009. This change involved a variation of COEP's permissions to conduct certain regulated activities in the U.K. (notably cancellation of its permission to accept deposits, which permission had been retained following COEP's transfer of its savings business in 2009). To facilitate the change, ownership of COEP's immediate parent companies (Capital One Holdings Limited and Capital One Investments Limited, both U.K. entities) was transferred from COBNA to Capital One Global Corporation (a new Virginia-chartered corporation), all the shares of which are owned by COBNA. Capital One Global Corporation is subject to regulation as an "agreement corporation" under the Federal Reserve's Regulation K.

During 2010, the U.K. Government announced plans to change the structure of financial regulation by the end of 2012. As part of this change, the FSA will cease to exist in its current form. The Government will create a new Prudential Regulatory Authority (the "PRA"), responsible for the day-to-day prudential supervision of financial institutions, and a new Financial Policy Committee (the "FPC"), which will look across the economy at the macroeconomic and financial issues that may threaten stability and address the risks it identifies. In addition, a new Consumer Protection and Markets Authority (the "CPMA") will also be established, responsible for the conduct of all financial services firms. A "shadow" structure is expected to be built during 2011 in preparation for the changes while the Government consults on detailed proposals. This consultation activity includes consideration of whether the U.K. consumer credit regime currently regulated by the Office of Fair Trading (the "OFT") should become the responsibility of the new CPMA.

Following a review of the credit card industry by the U.K. Government in late 2009, the industry and U.K. Government announced a joint commitment to a package of measures that has been incorporated into the U.K.'s Lending Code. The key measures include allocating customer payments to higher rate balances first; setting minimum payments on new customer accounts to cover at least interest, fees, charges and 1% of the principal balance; creating the option for customers to opt out of unsolicited credit limit increases and to request reductions in their credit line; providing additional communication over re-pricing of existing debt and allowing customers to opt out of the increase and pay down their balance at the existing rate; and providing annual electronic statements to customers regarding the cost to use a credit card over the year. It is still under discussion as to when this final standard regarding annual statements will be implemented.

The U.K. Government has also passed the Financial Services Act 2010 which restricts the issuance of unsolicited credit card checks. This provision of the Act will now come into effect through voluntary self-regulation, rather than proceeding with the commencement order for this legislation, with the changes being reflected in the next edition of the Lending Code, due to be published in March 2011. Lenders agreed to be fully compliant with these provisions by the end of 2010, in line with the other commitments that were agreed with the U.K. Government.

Following the passing of the Consumer Credit Directive (the "CCD") in May 2008 by the European Commission (the "EC"), the U.K. consumer credit regime, including the laws and regulations with respect to the marketing of consumer credit products and the design of and disclosure in consumer credit agreements, is due to change significantly. The CCD is also introducing new regulations that require certain information be provided to consumers before a credit agreement is entered into and that provide explicit requirements designed to ensure that any such consumer is creditworthy. The new law enacted in the U.K. to implement the CCD became fully effective on February 1, 2011, but lenders could voluntarily comply with the legislation, with the exception of the new advertising rules, starting April 30, 2010.

Cross-border interchange fees are under scrutiny from the EC. The timing of any final resolution of the matter by the EC or the OFT, which has suspended its own investigation into domestic interchange, is uncertain, but it is anticipated that the OFT will await the outcome of the EC court decision before concluding its own investigation.

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Following a referral by the OFT, the Competition Commission (the “CC”) launched a market investigation into the supply of Payment Protection Insurance (“PPI”) in the U.K. PPI on mortgages, credit cards, unsecured loans (personal loans, motor loans and hire purchase) and secured loans is included. The CC published its final report on remedies, which included point of sale prohibition, in October 2010, with the draft Order setting out the detail of the remedies published for consultation in November 2010. COEP responded to the consultation and is currently assessing the impact of the proposed new remedies. The final Order is expected in late March/early April 2011.

New rules on PPI complaints handling and redress were published by the FSA in August 2010 and came into force in December 2010. The British Bankers Association has issued judicial review proceedings to challenge the validity of the new rules on the basis that the new rules have retrospective effect. The implementation of the new rules and the outcome of judicial review proceedings may have a material effect on COEP’s PPI complaints handling.

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

In 2010, new consumer disclosure and business practices regulations affecting credit cards issued by federally regulated financial institutions in Canada became effective. These regulations, issued pursuant to the Bank Act, established new requirements under the Cost of Borrowing (Authorized Foreign Banks) Regulations and introduced the Credit Business Practices (Banks, Authorized Foreign Banks, Trust and Loan Companies, Retail Associations, Canadian Insurance Companies and Foreign Insurance Companies) Regulations. Among the new requirements are standardized summary "information box" disclosures for applications and credit agreements, increased disclosure for monthly statements as well as for a minimum 21-day grace period and related requirements. New business practices requirements impose restrictions on the allocation of payments made in excess of the required monthly minimum payment, credit limit increases, and collections practices. These amendments could increase our operational and compliance costs and affect the types and terms of products that we offer in Canada.

COMPETITION

As a diversified financial institution that markets credit cards and consumer and commercial financial products and services, we operate in a highly competitive environment and face competition in all aspects of our business from numerous bank and non-bank providers of financial services. We compete with national and state banks for deposits, commercial loans and trust accounts and with savings and loan associations and credit unions for loans and deposits. Our competitors also include other financial services providers that provide loans, deposits, and other similar services and product. In addition, we compete against non-depository institutions that are able to offer these products and services.

We compete with international, national, regional and local issuers of Visa® and MasterCard® credit cards, as well as with American Express®, Discover Card® and, to a certain extent, debit cards. In general, customers are attracted to credit card issuers largely on the basis of price, credit limit and other product features, and customer loyalty is often limited. In our auto finance business, we face competition from banks and non-bank lenders who provide financing for dealer-originated loans.

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

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

EMPLOYEES

A central part of our philosophy is to attract and retain a highly capable staff. We employed approximately 27,826 employees, whom we refer to as "associates," as of December 31, 2010. We view current associate relations to be satisfactory, and none of our associates is covered under a collective bargaining agreement.

ADDITIONAL INFORMATION

Geographic Diversity

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

Technology/Systems

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

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

Intellectual Property

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

FORWARD-LOOKING STATEMENTS

From time to time, we have made and will make forward-looking statements, including those that discuss, among other things, strategies, goals, outlook or other non-historical matters; projections, revenues, income, returns, accruals for claims in litigation and for other claims against us; earnings per share or other financial measures for us; future financial and operating results; our plans, objectives, expectations and intentions; and the assumptions that underlie these matters. To the extent that any such information is forward-looking, it is intended to fit within the safe harbor for forward-looking information provided by the Private Securities Litigation Reform Act of 1995. Numerous factors could cause our actual results to differ materially from those described in such forward-looking statements, including, among other things:

- general economic and business conditions in the U.S., the U.K., Canada, or our local markets, including conditions affecting employment levels, interest rates, consumer income and confidence, spending and savings that may affect consumer bankruptcies, defaults, charge-offs and deposit activity;

- an increase or decrease in credit losses (including increases due to a worsening of general economic conditions in the credit environment);

- financial, legal, regulatory, tax or accounting changes or actions, including the impact of the Dodd-Frank Act and the regulations promulgated thereunder;

- developments, changes or actions relating to any litigation matter involving us;

- increases or decreases in interest rates;

- our ability to access the capital markets at attractive rates and terms to capitalize and fund our operations and future growth;

- the success of our marketing efforts in attracting and retaining customers;
- increases or decreases in our aggregate loan balances or the number of customers and the growth rate and composition thereof, including increases or decreases resulting from factors such as shifting product mix, amount of actual marketing expenses we incur and attrition of loan balances;
- the level of future repurchase or indemnification requests we may receive, the actual future performance of mortgage loans relating to such requests, the success rates of claimants against us, any developments in litigation and the actual recoveries we may make on any collateral relating to claims against us;
- the amount and rate of deposit growth;

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- changes in the reputation of or expectations regarding the financial services industry or us with respect to practices, products or financial condition;
- any significant disruption in our operations or technology platform;
- our ability to maintain a compliance infrastructure suitable for our size and complexity;
- our ability to control costs;
- the amount of, and rate of growth in, our expenses as our business develops or changes or as it expands into new market areas;
- our ability to execute on our strategic and operational plans;
- any significant disruption of, or loss of public confidence in, the United States Mail service affecting our response rates and consumer payments;
- our ability to recruit and retain experienced personnel to assist in the management and operations of new products and services;
- changes in the labor and employment markets;
- the risk that cost savings and any other synergies from our acquisitions may not be fully realized or may take longer to realize than expected;
- disruptions from our acquisitions negatively impacting our ability to maintain relationships with customers, employees or suppliers;
- fraud or misconduct by our customers, employees or business partners;
- competition from providers of products and services that compete with our businesses; and
- other risk factors listed from time to time in reports that we file with the SEC.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events or otherwise. You should carefully consider the factors discussed above in evaluating these forward-looking statements. For additional information on factors that could materially influence forward-looking statements included in this report, see the risk factors in “Item 1A. Risk Factors” in this report.

Item 1A. Risk Factors

BUSINESS RISKS

This section highlights specific risks that could affect our business. Although we have tried to discuss all material risks at the time this Annual Report on Form 10-K has been filed, please be aware that other risks may prove to be important in the future. In addition to the factors discussed elsewhere in this report, among the other factors that could cause actual results to differ materially from our forward looking statements are the following:

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

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

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

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

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- Increases in consumer bankruptcies could cause increases in our charge-off rates, which could have a negative impact on our revenues.

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

- The processes we use to estimate inherent losses may no longer be reliable because these processes rely on complex judgments, including forecasts of economic conditions which may no longer be capable of accurate estimation, which could have a negative impact on our business.

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

- Our ability to borrow from other financial institutions or to engage in funding transactions on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, which could limit our access to funding.

- Increased charge-offs, rising LIBOR and other events may cause our securitization transactions to amortize earlier than scheduled, which could accelerate our need for additional funding from other sources.

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

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

- Increased prepayments, refinancing or other factors could lead to a reduction in the value of our mortgage servicing rights, which could have a negative impact on our financial results.

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

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

The Credit CARD Act (amending the Truth-in-Lending Act) and related changes to Regulation Z impose a number of restrictions on credit card practices impacting rates and fees and also update the disclosures required for open-end credit. For example, increases in rates charged on pre-existing card balances are restricted, and rates increased since January 1, 2009, must now be considered for possible reductions. Overlimit fees may not be imposed without prior consent of the customer, and the number of such fees that can be charged for the same violation is constrained. The amount of any penalty fee or charge must be "reasonable and proportional" to the violation. Although we did not engage in many of the practices prohibited by the amendments, the rules could have a material adverse effect on future revenues in our U.S. credit card business and could make the card business generally less resilient in future economic downturns.

In July 2010, President Obama signed into law the Dodd-Frank Act. The Dodd-Frank Act, as well as the related rules and regulations adopted by various regulatory agencies, could have a significant adverse impact on our business, results of operations or financial condition. There are a number of provisions in the Dodd-Frank act that impact our business, including the following:

- The Dodd-Frank Act created a new independent supervisory body, the Consumer Financial Protection Bureau (the "CFPB") that is to be housed within the Federal Reserve. The CFPB will become the primary regulator for federal consumer financial statutes. State attorneys general will be authorized to enforce new regulations issued by the CFPB. Although state consumer financial laws will continue to be preempted under the National Bank Act under the existing standard set forth in the Supreme Court decision in Barnett Bank of Marion County, N.A. v. Nelson, OCC determinations of such preemption must be on a case-by-case basis. Courts reviewing the OCC's preemption determinations will now consider the appropriateness of those determinations under a different standard of judicial review. As a result, state consumer financial laws enacted in the future may be held to apply to our business activities. The cost of complying with these additional laws could have a negative impact on our financial results.

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- The Dodd-Frank Act requires that the amount of any interchange fee received by a debit card issuer with respect to debit card transactions be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. On December 16, 2010, the Federal Reserve released proposed rules implementing this portion of the Dodd-Frank Act, which among other things, would limit interchange fees to no greater than 12 cents for each debit card transaction. If finalized as proposed, the rules could negatively impact revenue from our debit card business. The issue of interchange generally will continue to be raised by legislators at the state and Federal level. While the future of these proposals is uncertain, if negative legislation is enacted, any subsequent negotiations with merchants could reduce the interchange fees that we are able to collect.

The Dodd-Frank Act contains a number of other provisions that will impact our business. For example, the Dodd-Frank Act required the FDIC to change the deposit insurance assessment base from deposits to average consolidated total assets minus average tangible equity. The FDIC recently finalized rules to implement this change and to modify significantly how deposit insurance assessment rates are calculated for those banks with assets of $10 billion or greater. In addition, under the Dodd-Frank Act, many trust preferred securities will cease to qualify for Tier 1 capital, subject to a three year phase-out period expected to begin in 2013. And the Dodd-Frank Act will most likely subject us to the supervision of regulatory agencies that historically have not regulated our businesses, such as the Commodity Futures Trading Commission with respect to our derivatives activities. These provisions could have an adverse impact on our results of operations or financial condition by increasing our cost of funding, our cost of capital or our cost of complying with applicable laws and regulations.

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

We May Experience Increased Delinquencies And Credit Losses

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

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

- Estimates of Inherent losses. The credit quality of our portfolio can have a significant impact on our earnings. We allow for and reserve against credit risks based on our assessment of credit losses inherent in our loan portfolios. This process, which is critical to our financial results and condition, requires complex judgments, including forecasts of economic conditions. We may underestimate our inherent losses and fail to hold a loan loss allowance sufficient to account for these losses. Incorrect assumptions could lead to material underestimates of inherent losses and inadequate allowance for loan and lease losses. In addition, our estimate of inherent losses impacts the amount of allowances we build to account for those losses. The increase or release of allowances impacts our current financial results.

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

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

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

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

- Collateral. Collateral, when we have it, could be insufficient to compensate us for loan losses. When customers default on their loans and we have collateral, we attempt to seize it where permissible and appropriate. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan, and we may be unsuccessful in recovering the remaining balance from our customers. Particularly with respect to our commercial lending and home loan activities, decreases in real estate values could adversely affect the value of property used as collateral for our loans and investments. Thus, the recovery of such property could be insufficient to compensate us for the value of these loans.

- New York Concentration. Although our lending is geographically diversified, approximately 45% of our commercial loan portfolio is concentrated in the New York metropolitan area. The regional economic conditions in the New York area affect the demand for our commercial products and services as well as the ability of our customers to repay their commercial loans and the value of the collateral securing these loans. A prolonged decline in the general economic conditions in the New York region could have a material adverse effect on the performance of our commercial loan portfolio and our results of operations.

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

Certain of our subsidiaries, including GreenPoint Mortgage Funding, Inc. ("GreenPoint"), Capital One Home Loans and CONA, as successor to Chevy Chase Bank, may be required to repurchase mortgage loans that have been sold to investors in the event there are certain breaches of certain representations and warranties contained within the sales agreements. We may be required to repurchase mortgage loans that we sell to investors in the event that there was improper underwriting or fraud or in the event that the loans become delinquent shortly after they are originated. These subsidiaries also may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, and the amount of such losses could exceed the repurchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans. We have established a reserve in our consolidated financial statements for potential losses that are considered to be both probable and reasonably estimable related to the mortgage loans sold by our originating subsidiaries. The adequacy of the reserve and the ultimate amount of losses incurred will depend on, among other things, the actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rate of claimants, developments in litigation related to us and the industry, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices). Due to uncertainties relating to these factors, there can be no assurance that our reserves will be adequate or that the total amount of losses incurred will not have a material adverse effect upon our financial condition or results of operations. For additional information related to our mortgage loan repurchase and indemnification obligations and related reserves, see “MD&A – Consolidated Balance Sheet Analysis and Credit Performance – Potential Mortgage Representation and Warranty Liabilities.”

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

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

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

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

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- Because we are a consolidated bank holding company with consolidated assets of $50 billion or greater, we are subject to certain heightened prudential requirements, including requirements that may be recommended by the Financial Stability Oversight Council and implemented by the Federal Reserve. As a result, we expect to be subject to more stringent standards and requirements than those applicable for smaller institutions, including risk-based capital requirements, leverage limits and liquidity requirements.

See "Item 1. Business — Supervision and Regulation — Capital Adequacy" for additional information.

We Face Risk Related To The Strength Of Our Operational, Technological And Organizational Infrastructure

Our ability to grow and compete is dependent on our ability to build or acquire the necessary operational, technological and organizational infrastructure. We have substantially completed significant development projects to complete the systems integration of Chevy Chase Bank and to build a scalable banking infrastructure. Implementation of such infrastructure changes and upgrades may, at least temporarily, cause disruptions to our business, including, but not limited to, systems interruptions, transaction processing errors and system conversion delays, all of which could have a negative impact on us.

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

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

We May Fail To Realize All Of The Anticipated Benefits Of Our Mergers And Acquisitions

We have engaged in merger and acquisition activity over the past several years and may continue to engage in such activity in the future. If we are not able to achieve the anticipated benefits of such mergers and acquisitions, including cost savings and other synergies, our business could be negatively affected. In addition, it is possible that the ongoing integration processes could result in the loss of key employees, errors or delays in systems implementation, the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger or acquisition. Integration efforts also may divert management attention and resources. These integration matters may have an adverse effect on us during any transition period.

Our acquisitions also may involve our entry into new businesses and new geographic or other markets which present risks resulting from our relative inexperience in these new areas or these new businesses. These new businesses change the overall character of our consolidated portfolio of businesses and could react differently to economic and other external factors. We face the risk that we will not be successful in these new businesses or in these new markets.

We Face the Risk of Fluctuations in Our Expenses and Other Costs That May Hurt Our Financial Results

Our expenses and other costs, such as operating, labor and marketing expenses, directly affect our earnings results. In light of the extremely competitive environment in which we operate, and because the size and scale of many of our competitors provide them with increased operational efficiencies, it is important that we are able to successfully manage our expenses. Many factors can influence the amount of our expenses, as well as how quickly they may increase. Our on-going investments in infrastructure, which may be necessary to maintain a competitive business, integrate newly-acquired businesses and establish scalable operations, may increase our expenses. In addition, as our business develops, changes or expands, additional expenses can arise as a result of a reevaluation of business strategies, management of outsourced services, asset purchases or other acquisitions, structural reorganization, compliance with new laws or regulations or the integration of newly acquired businesses. If we are unable to successfully manage our expenses, our financial results will be negatively affected.

Reputational Risk and Social Factors May Impact Our Results

Our ability to originate and maintain accounts is highly dependent upon the perceptions of consumer and commercial borrowers and deposit holders and other external perceptions of our business practices or our financial health. Adverse perceptions regarding our reputation in the consumer, commercial and funding markets could lead to difficulties in generating and maintaining accounts as well as in financing them. Particularly, negative perceptions regarding our reputation could lead to decreases in the levels of deposits that consumer and commercial customers and potential customers choose to maintain with us.

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

We Face Intense Competition in All of Our Markets

We operate in a highly competitive environment, and we expect competitive conditions to continue to intensify. In such a competitive environment, we may lose entire accounts or may lose account balances to competing financial institutions, or we may find it more costly to maintain our existing customer base. Customer attrition from any or all of our lending products, together with any lowering of interest rates or fees that we might implement to retain customers, could reduce our revenues and therefore our earnings. Similarly, customer attrition from our deposit products, in addition to an increase in rates or services that we may offer to retain those deposits, may increase our expenses and therefore reduce our earnings. We expect that competition will continue to increase with respect to most of our products. Some of our competitors are substantially larger than we are, which may give those competitors advantages, including a more diversified product and customer base, the ability to reach out to more customers and potential customers, operational efficiencies, more versatile technology platforms, broad-based local distribution capabilities, lower-cost funding and larger existing branch networks. In addition, some of our competitors are not subject to the same regulatory requirements or legislative scrutiny to which we are subject, which also could place us at a competitive disadvantage.

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

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

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

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

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

Our Businesses are Subject to the Risk of Increased Litigation

Our businesses are subject to increased litigation as a result of the highly regulated nature of the financial services industry and the structure of the credit card industry, and we face risks from the outcomes of such industry litigation. Substantial legal liability against us could have a material adverse effect or cause significant reputational harm to us, which could seriously harm our business. For a description of the litigation risks that we face, see "Note 21—Commitments, Contingencies and Guarantees."

We Face Risks from Unpredictable Catastrophic Events

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

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

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

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Our corporate real estate portfolio is used to support our business segments. We own our 587,000 square foot headquarters building in McLean, Virginia which houses our executive offices and northern Virginia staff. We own approximately 316 acres of land in Goochland County, Virginia which contains nearly 1.2 million square feet of office space to house various business and staff groups. Additionally, we own 72 acres of land in Plano, Texas which includes nearly 600,000 square feet of office space to support our Auto Finance business and other functions. Our Commercial and Consumer Banking segments utilize approximately 4.0 million square feet in owned properties and 5.1 million square feet in leased locations across the District of Columbia, Louisiana, New Jersey, Maryland, New York, Texas and Virginia for office and branch operations.

Our corporate real estate portfolio also includes leased or owned space totaling, in the aggregate, 2.7 million square feet in Richmond, Toronto, Melville, New York City and various other locations.

Item 3. Legal Proceedings

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

Item 4. Removed and Reserved

PART II

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

Market Information

Our common stock is listed on the NYSE and is traded under the symbol “COF.” As of January 31, 2011, there were 16,065 holders of record of our common stock. The table below presents the high and low closing sales prices of our common stock as reported by the NYSE and cash dividends per common share declared by us during each quarter indicated.

	Sales Price		Cash
Quarter Ended	High	Low	Dividends
2010:			
December 31	$ 42.78	$ 36.55	$ 0.05
September 30	45.00	37.12	0.05
June 30	46.73	38.02	0.05
March 31	43.02	34.63	0.05
2009:			
December 31	$ 41.05	$ 33.19	$ 0.05
September 30	39.00	20.47	0.05
June 30	31.34	12.81	0.05
March 31	34.14	8.31	0.38

Dividend Restrictions

For information regarding our ability to pay dividends, see the discussion under “Item 1. Business—Supervision and Regulation—Dividends and Transfers of Funds,” “MD&A—Liquidity and Capital Management—Dividend Policy,” and “Note

13—Regulatory and Capital Adequacy," which we incorporate here by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

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

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Common Stock Performance Graph

The following graph shows the cumulative total stockholder return on our common stock compared with an overall stock market index, the S&P Composite 500 Stock Index ("S&P 500 Index"), and a published industry index, the S&P Financial Composite Index ("S&P 500 Financials Index"), over the five-year period commencing December 31, 2005 and ending December 31, 2010. The stock performance graph assumes that $100 was invested in our common stock and each index and that all dividends were reinvested. The stock price performance on the graph below is not necessarily indicative of future performance.

Comparison of 5-Year Cumulative Total Return
(Capital One, S&P 500 Index and S&P 500 Financial Index)

	Cumulative Total Stockholder Return December 31,					
	2005	2006	2007	2008	2009	2010
Capital One	$100.00	$89.03	$54.86	$38.30	$47.46	$52.95
S&P 500 Index	100.00	113.62	117.63	72.36	89.33	100.75
S&P 500 Financials Index	100.00	116.16	91.95	39.59	45.45	50.37

Recent Sales of Unregistered Securities

We did not have any sales of unregistered equity securities in 2010.

Issuer Purchases of Equity Securities

The following table presents information related to repurchases of shares of our common stock during the fourth quarter of 2010.

(Dollars in millions, except per share information)	Total Number of Shares Purchased(1)	Average Price Paid per Share
October 1-31, 2010	6,670	$ 37.82
November 1-30, 2010	1,832	37.31
December 1-31, 2010	—	—
Total	8,502	$ 37.71

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

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Item 6. Selected Financial Data

We prepare our consolidated financial statements using generally accepted accounting principles in the U.S. ("U.S. GAAP"), which we refer to as our reported results. Below we present selected consolidated financial data from our reported results of operations for the five-year period ended December 31, 2010, as well as selected consolidated balance sheet data as of the end of each year within this five-year period. Prior to January 1, 2010, we also presented and analyzed our results on a non-GAAP "managed basis." Our managed presentation assumed that securitized loans accounted for as sales and reported as off-balance sheet in accordance with applicable accounting guidance in effect prior to January 1, 2010, remained on balance sheet, and the earnings from the loans underlying these trusts are reported in our results of operations in the same manner as the earnings from loans that we own. While our managed presentation resulted in differences in the classification of revenues in our income statement, net income on a managed basis was the same as reported net income.

Effective January 1, 2010, we prospectively adopted two new accounting standards that resulted in the consolidation of a substantial portion of our securitization trusts. As a result of the adoption of the new consolidation accounting standards, our reported and managed basis presentations are generally comparable for periods beginning after January 1, 2010. We provide information on the impact from the adoption of the new consolidation accounting standards on our reported financial statements and our non-GAAP managed basis financial results in "MD&A—Impact from Adoption of New Consolidation Accounting Standards." Certain prior period amounts have been reclassified to conform to the current period presentation. The historical financial information presented may not be indicative of our future performance.

Five-Year Summary of Selected Financial Data

	Year Ended December 31,					Change	
(Dollars in millions, except per share data)	2010	2009(1)	2008	2007	2006(2)	2010 vs. 2009	2009 vs. 2008
Income statement							
Interest income	$15,353	$10,664	$11,112	$11,078	$8,165	44 %	(4)%
Interest expense	2,896	2,967	3,963	4,548	3,073	(2)	(25)
Net interest income	12,457	7,697	7,149	6,530	5,092	62	8
Non-interest income	3,714	5,286	6,744	8,054	7,001	(30)	(22)
Total revenue	16,171	12,983	13,893	14,584	12,093	25	(7)
Provision for loan and lease losses	3,907	4,230	5,101	2,636	1,476	(8)	(17)
Non-interest expense(3)	7,934	7,417	8,210	8,078	6,944	7	(10)
Income from continuing operations before income taxes	4,330	1,336	582	3,870	3,673	224	130
Income tax provision	1,280	349	497	1,278	1,246	267	(30)
Income from continuing operations, net of tax	3,050	987	85	2,592	2,427	209	1,061
Loss from discontinued operations, net of tax(4)	(307)	(103)	(131)	(1,022)	(12)	198	(21)
Net income (loss)	$2,743	$884	$(46)	$1,570	$2,415	210	2,022
Preferred stock dividends(5)	—	(564)	(33)	—	—	(100)	1,609
Net income (loss) available to common stockholders	$2,743	$320	$(79)	$1,570	$2,415	757 %	505 %
Common share statistics							

Basic earnings per common share:							
Income from continuing operations, net of tax	$6.74	$0.99	$0.14	$6.64	$7.84	581 %	607 %
Loss from discontinued operations, net of tax(4)	(0.67)	(0.24)	(0.35)	(2.62)	(0.04)	179	(31)
Net income (loss) per common share	$6.07	$0.75	$ (0.21)	$4.02	$7.80	709 %	457 %
Diluted earnings per common share:							
Income from continuing operations, net of tax	$6.68	$0.98	$0.14	$6.55	$7.65	582 %	600 %
Loss from discontinued operations, net of tax(4)	(0.67)	(0.24)	(0.35)	(2.58)	(0.03)	179	(31)
Net income (loss) per common share	$6.01	$0.74	$ (0.21)	$3.97	$7.62	712 %	452 %
Dividends per common share	$0.20	$0.53	$1.50	$0.11	$0.11	(62)%	(65)%
Common dividend payout ratio	3.32 %	66.80 %	722.06 %	2.68 %	1.34 %	**	**
Stock price per common share	$42.56	$38.34	31.89	47.26	76.82	11 %	20 %
Book value per common share	58.62	59.04	68.38	65.18	61.56	(1)	(14)
Total market capitalization	19,271	17,268	12,412	17,623	31,489	12	39

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(Dollars in millions, except per share data)	Year Ended December 31, 2010	2009(1)	2008	2007	2006(2)	Change 2010 vs. 2009	2009 v[s.] 2008
Balance sheet							
Loans held for investment	$125,947	$90,619	$101,018	$101,805	$96,512	39 %	(10
Total assets	197,503	169,646	165,913	150,590	149,739	16	2
Interest-bearing deposits	107,162	102,370	97,327	71,715	74,123	5	5
Total deposits	122,210	115,809	108,621	82,761	85,771	6	7
Borrowings	41,796	21,014	23,178	37,526	33,982	99	(9
Stockholders' equity	26,541	26,590	26,612	24,294	25,235	—	—
Average balances							
Loans held for investment	$128,526	$99,787	$98,971	$93,542	$63,577	29 %	1
Interest-earning assets	175,730	145,293	133,084	121,420	84,087	21	9
Total assets	200,114	171,598	156,292	148,983	95,810	17	10
Interest-bearing deposits	104,743	103,078	82,736	73,765	45,592	2	25
Total deposits	119,010	115,601	93,508	85,212	50,527	3	24
Borrowings	49,610	23,505	31,096	30,102	24,452	111	(24
Stockholders' equity	24,941	26,606	25,278	25,203	16,203	(6)	5
Performance metrics							
Revenue margin(6)	9.20 %	8.94 %	10.44 %	12.01 %	14.38 %	26 bps	(150)
Net interest margin(7)	7.09	5.30	5.38	5.38	6.06	179	(8
Risk-adjusted margin(8)	5.42	5.79	7.83	10.40	12.71	(37)	(204
Return on average assets(9)	1.52	0.58	0.05	1.74	2.53	94	53
Return on average equity(10)	12.23	3.71	0.34	10.28	14.98	852	337
Average equity to average assets	12.46	15.50	16.17	16.92	16.91	(304)	(67
Non-interest expense as a % of average loans held for investment(11)	6.17	7.43	8.30	8.64	10.92	(126)	(87
Efficiency ratio(12)	49.06	56.21	52.29	54.44	57.42	(715)	392
Effective income tax rate	29.56	26.16	85.47	33.02	33.93	340	(5,93
Full-time equivalent employees (in thousands)	25.7	25.9	23.7	27.0	30.3	(1)%	9
Credit quality metrics							
Period-end loans held for investment	$125,947	$90,619	$101,018	$101,805	$96,512	39 %	(10
Allowance for loan and lease losses	5,628	4,127	4,524	2,963	2,180	36	(9
Allowance as a % of loans held for investment	4.47 %	4.55 %	4.48 %	2.91 %	2.26 %	(8)bps	7
30+ day performing delinquency rate	3.52	3.98	4.21	3.50	2.66	(46)	(23
Net charge-offs	$6,651	$4,568	$3,478	$1,961	$1,407	46 %	31
Net charge-off rate	5.18 %	4.58 %	3.51 %	2.10 %	2.21 %	60 bps	107
Capital ratios							
Tier 1 risk-based capital ratio	11.63 %	13.75 %	13.81 %	10.13 %	10.22 %	(212)bps	(6
Tier 1 common equity ratio(13)	8.78	10.62	12.46	8.80	8.91	(184)	(184
Tangible common equity ("TCE") ratio(14)	6.86	8.03	5.57	5.83	6.38	(117)	246
Managed metrics(15)							
Average loans held for investment	$128,622	$143,514	$147,812	$144,727	$111,329	(10)%	(3
Average interest-earning assets	175,804	185,976	179,348	170,496	129,813	(5)	4
Period-end loans:							
	$125,947	$90,619	$101,018	$101,805	$96,512	39	(10

Period-end on-balance sheet loans held for investment							
Period-end off-balance sheet securitized loans	—	46,184	45,919	49,557	49,639	(100)	1
Total period-end managed loans	$125,947	$136,803	$146,937	$151,362	$146,151	(8)	(7
Period-end total loan accounts (in millions)	37.4	37.8	45.4	49.1	50.0	(1)	(17
30+ day performing delinquency rate	3.52 %	4.62 %	4.38 %	3.77 %	2.96 %	(110)bps	24
Net charge-off rate	5.18	5.87	4.35	2.88	2.84	(69)	152
Non-interest expense as a % of average loans held for investment(11)	6.17	5.17	5.01	5.58	6.24	100	16
Efficiency ratio(12)	49.06	43.35	43.14	47.30	50.17	571	21

** Not meaningful.

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

(2) On December 1, 2006, we acquired 100% of the outstanding common stock of North Fork Bancorporation (“North Fork”) for total consideration of $13.2 billion. Our financial results subsequent to December 1, 2006 include the operations of North Fork.

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(3) Non-interest expense for 2008 includes goodwill impairment of $811 million related to the auto division of our Consumer Banking business.
(4) Discontinued operations reflect ongoing costs related to the mortgage origination operations of Greenpoint; wholesale mortgage banking unit, which we closed in 2007.
(5) Preferred stock dividends in 2009 and 2008 were attributable to our participation in the U.S. Department of Treasury's Troubled Asset Relief Program ("TARP program"). See "Note 12—Stockholders' Equity" for additional information.
(6) Calculated based on total revenue for the period divided by average interest-earning assets for the period.
(7) Calculated based on net interest income for the period divided by average interest-earning assets for the period.
(8) Calculated based on total revenue less net charge-offs for the period divided by average interest-earning assets for the period.
(9) Calculated based on income from continuing operations, net of tax, for the period divided by average total assets for the period.
(10) Calculated based on income from continuing operations, net of tax, for the period divided by average stockholders' equity.
(11) Calculated based on non-interest expense, excluding restructuring and goodwill impairment charges, for the period divided by average loans held for investment for the period.
(12) Calculated based on non-interest expense, excluding restructuring and goodwill impairment charges, for the period divided by total revenue for the period.
(13) Tier 1 common equity ratio is a non-GAAP measure calculated based on Tier 1 common equity divided by risk-weighted assets. See "Exhibit 99.1" for the calculation components. Also see "MD&A—Liquidity and Capital Management—Capital" for additional information.
(14) TCE ratio is a non-GAAP measure calculated based on tangible common equity divided by tangible assets. See "Exhibit 99.1" for the calculation components.
(15) See "MD&A—Supplemental Statistical Tables" in this report and "Exhibit 99.1" for a reconciliation of non-GAAP managed measures to comparable U.S.GAAP measures.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our audited consolidated financial statements as of December 31, 2010 and related notes. This discussion contains forward-looking statements that are based upon management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Item 1. Business—Forward-Looking Statements" for more information on the forward-looking statements in this report. Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in this report in "Item 1A. Risk Factors."

INTRODUCTION

We are a diversified financial services company with banking and non-banking subsidiaries that market a variety of financial products and services. We continue to deliver on our strategy of combining the power of national scale lending and local scale banking.

Our revenues are primarily driven by lending to consumers and commercial customers and by deposit-taking activities, which generate net interest income, and by activities that generate non-interest income, including the sale and servicing of loans and providing fee-based services to customers. Customer usage and payment patterns, credit quality, levels of marketing expense and operating efficiency all affect our profitability. Our expenses primarily consist of the cost of funding our assets, our provision for loan and lease losses, operating expenses (including associate salaries and benefits, infrastructure maintenance and enhancements, and branch operations and expansion costs), marketing expenses and income taxes. We had $125.9 billion in total loans outstanding and $122.2 billion in deposits as of December 31, 2010, compared with $136.8 billion in total managed loans outstanding and $115.8 billion in deposits as of December 31, 2009.

We evaluate our financial performance and report our results through three operating segments: Credit Card, Consumer Banking and Commercial Banking.

- Credit Card: Consists of our domestic consumer and small business card lending, national small business lending, national closed end installment lending and the international card lending businesses in Canada and the United Kingdom.

- Consumer Banking: Consists of our branch-based lending and deposit gathering activities for consumer and small businesses, national deposit gathering, national automobile lending and consumer home loan lending and servicing activities.

- Commercial Banking: Consists of our lending, deposit gathering and treasury management services to commercial real estate and middle market customers.

Table 1 summarizes our business segment results for 2010, 2009 and 2008. We report our business segment results based on income from continuing operations, net of tax.

Table 1: Business Segment Results(1)

	Year Ended December 31,					
	2010		2009		2008	
	Total Revenue (2)	Net Income (Loss)(3)	Total Revenue (2)	Net Income (Loss)(3)	Total Revenue (2)	Net Income (Loss)(3)

(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	$10,614	66 %	$2,274	75 %	$11,289	67 %	$978	99 %	$12,142	72 %	$1,067	1,255 %
Consumer Banking	4,597	28	905	30	3,986	24	244	25	3,717	22	(980)	(1,153)
Commercial Banking	1,473	9	160	5	1,316	8	(213)	(22)	1,106	7	254	299
Other(4)	(507)	(3)	(289)	(10)	245	1	(22)	(2)	(126)	(1)	(256)	(301)
Total from continuing operations	$16,177	100%	$ 3,050	100%	$16,836	100%	$987	100%	$16,839	100%	$85	100 %

(1) See “Note 20—Business Segments” for a reconciliation of our total business segment results to our consolidated U.S. GAAP results.

(2) Total revenue consists of net interest income and non-interest income. Total revenue displayed for 2009 and 2008 is based on our non-GAAP managed basis results. For more information on this measure and a reconciliation to the comparable U.S. GAAP measure, see “Exhibit 99.1.”

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(3) Includes the residual impact of the allocation of our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management, to our business segments as well as other items as described in "Note 20—Business Segments."
(4) During the first quarter of 2009, the results relating to Chevy Chase Bank were included in the Other category.

IMPACT FROM ADOPTION OF NEW CONSOLIDATION ACCOUNTING STANDARDS

Impact on Reported Financial Information

Effective January 1, 2010, we prospectively adopted two new accounting standards that had a significant impact on our accounting for entities previously considered to be off-balance sheet arrangements. The adoption of these new accounting standards resulted in the consolidation of our credit card securitization trusts, one of our installment loan trusts and certain option-adjustable rate mortgages ("option-ARM") loan trusts originated by Chevy Chase Bank. Prior to January 1, 2010, transfers of our credit card receivables, installment loans and certain option-adjustable rate mortgage loans to our securitization trusts were accounted for as sales and treated as off-balance sheet. At the adoption of these new accounting standards on January 1, 2010, we added to our reported consolidated balance sheet $41.9 billion of assets, consisting primarily of credit card loan receivables underlying the consolidated securitization trusts, along with $44.3 billion of related debt issued by these trusts to third-party investors. We also recorded an after-tax charge to retained earnings on January 1, 2010 of $2.9 billion, reflecting the net cumulative effect of adopting these new accounting standards. This charge primarily related to the addition of $4.3 billion to our allowance for loan and lease losses for the newly consolidated loans and the recording of $1.6 billion in related deferred tax assets. The initial recording of these amounts on our reported balance sheet as of January 1, 2010 had no impact on our reported income. We provide additional information on the impact on our financial statements from the adoption of these new accounting standards in "Note 1—Summary of Significant Accounting Policies" and "Note 7—Variable Interest Entities and Securitizations." We discuss the impact on our capital ratios below in "Liquidity and Capital Management — Capital."

Although the adoption of these new accounting standards does not change the economic risk to our business, specifically our exposure to liquidity, credit and interest rate risks, the prospective adoption of these rules has a significant impact on our capital ratios and the presentation of our reported consolidated financial statements, including changes in the classification of specific consolidated statements of income line items. The most significant changes to our reported consolidated financial statements are outlined below:

Financial Statement	Accounting and Presentation Changes	
Balance Sheet	·	Significant increase in restricted cash, securitized loans and securitized debt resulting from the consolidation of securitization trusts.
	·	Significant increase in the allowance for loan and lease losses resulting from the establishment of a loan loss reserve for the loans underlying the consolidated securitization trusts.
	·	Significant reduction in accounts receivable from securitizations resulting from the reversal of retained interests held in securitization trusts that have been consolidated.
	·	

Statement of Income		Significant increase in interest income and interest expense attributable to the securitized loans and debt underlying the consolidated securitization trusts.
	·	Changes in the amount recorded for the provision for loan and lease losses, resulting from the establishment of an allowance for loan and lease losses for the loans underlying the consolidated securitization trusts.
	·	Amounts previously recorded as servicing and securitization income are now classified in our results of operations in the same manner as the earnings on loans not held in securitization trusts.
Statement of Cash Flows	·	Significant change in the amounts of cash flows from investing and financing activities.

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Beginning with the first quarter of 2010, our reported consolidated statements of income no longer reflect securitization and servicing income related to newly consolidated loans. Instead, we report interest income, net charge-offs and certain other income associated with securitized loan receivables and interest expense associated with the debt securities issued from the trust to third party investors in the same consolidated statements of income categories as loan receivables and corporate debt. Additionally, we no longer record initial gains on new securitization activity since the majority of our securitized loans will no longer receive sale accounting treatment. Because our securitization transactions are being accounted for under the new consolidation accounting rules as secured borrowings rather than asset sales, the cash flows from these transactions are presented as cash flows from financing activities rather than as cash flows from operating or investing activities. Notwithstanding this change in accounting, our securitization transactions are structured to legally isolate the receivables from our company, and we do not expect to be able to access the assets of our securitization trusts. We do, however, continue to have the rights associated with our retained interests in the assets of these trusts.

Because we prospectively adopted the new consolidation accounting standards, our historical reported results and consolidated financial statements for periods prior to January 1, 2010 reflect our securitization trusts as off-balance sheet in accordance with the applicable accounting guidance in effect during this period. Accordingly, our reported results and consolidated financial statements subsequent to January 1, 2010 are not presented on a basis consistent with our reported results and consolidated financial statements for periods prior to January 1, 2010. This inconsistency limits the comparability of our post-January 1, 2010 reported results to our prior period reported results.

Impact on Non-GAAP Managed Financial Information

In addition to analyzing our results on a reported basis, management historically evaluated our total company and business segment results on a non-GAAP “managed” basis. Our managed presentations reflected the results from both our on-balance sheet loans and off-balance sheet loans and excluded the impact of card securitization activity. Our managed presentations assumed that our securitized loans had not been sold and that the earnings from securitized loans were classified in our results of operations in the same manner as the earnings on loans that we owned. Our managed results also reflected differences in accounting for the valuation of retained interests and the recognition of gains and losses on the sale of interest-only strips. Our managed results did not include the addition of an allowance for loan and lease losses for the loans underlying our off-balance sheet securitization trusts. While our managed presentation resulted in differences in the classification of revenues in our income statement, net income on a managed basis was the same as reported net income.

Prior to January 1, 2010, we used our non-GAAP managed basis presentation to evaluate the credit performance and overall financial performance of our entire managed loan portfolio because the same underwriting standards and ongoing risk monitoring are used for both securitized loans and loans that we own. In addition, we used the managed presentation as the basis for making decisions about funding our operations and allocating resources, such as employees and capital. Because management used our managed basis presentation to evaluate our performance, we also provided this information to investors. We believed that our managed basis information was useful to investors because it portrayed the results of both on- and off-balance sheet loans that we managed, which enabled investors to understand the credit risks associated with the portfolio of loans reported on our consolidated balance sheet and our retained interests in securitized loans.

In periods prior to January 1, 2010, certain of our non-GAAP managed measures differed from the comparable reported measures. The adoption on January 1, 2010 of the new consolidation accounting standards resulted in accounting for the loans in our securitization trusts in our reported financial statements in a manner similar to how we account for these loans on a managed basis. As a result, our reported and managed basis presentations are generally comparable for periods beginning after January 1, 2010.

We believe that investors will be able to better understand our financial results and evaluate trends in our business if our period-over-period data are reflected on a more comparable basis. Accordingly, unless otherwise noted, this MD&A compares our reported U.S. GAAP financial information as of and for the year ended December 31, 2010 with our non-GAAP managed based financial information as of and for the years ended December 31, 2009 and 2008. We provide a reconciliation of our non-GAAP managed based information for periods prior to January 1, 2010 to the most comparable reported U.S. GAAP information in “Exhibit 99.1.”

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

We continued to operate in an environment of elevated economic and regulatory uncertainty during 2010. The overall economic recovery remained modest and fragile. The unemployment rate remained persistently high at close to 10% and the housing market continued to struggle, due in part to the large backlog of homes in the foreclosure process and high rate of delinquent loans. The ongoing and expected development of new regulations and regulatory organizations resulting from the recently enacted Dodd-Frank Act contributed to continued regulatory uncertainty.

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Despite the challenges presented by these conditions, we began to see some stabilization in loan volumes, as well as improvements in our credit results that outpaced the economic recovery during 2010. Each of our businesses performed well during the year, generating net income of $2.7 billion ($6.01 per diluted share) in 2010, which represented a substantial increase of $1.9 billion over our reported net income of $884 million ($0.74 per diluted share) in 2009. We provide highlights of our 2010 financial performance below.

Financial Highlights

As noted above, the presentation of our results on a non-GAAP managed basis prior to January 1, 2010 assumed that our securitized loans had not been sold and that the earnings from securitized loans were classified in our results of operations in the same manner as the earnings on loans that we owned. These classification differences resulted in differences in certain revenue and expense components of our results of operations on a reported basis and our results of operations on a managed basis, although net income for both basis was the same. We provide a summary of our managed results for 2009 and 2008 in "Note 20 — Business Segments."

The $1.9 billion increase in our reported net income in 2010 was largely attributable to a substantial reduction in the provision for loan and lease losses, which was partially offset by an increase in losses from discontinued operations and a decrease in total revenue.

- Decrease in Provision for Loan and Lease Losses: The provision for loan and lease losses decreased by $4.2 billion, or 52%, to $3.9 billion in 2010. The decrease in the provision was driven by the continued improvement of our credit quality indicators as a result of the slowly improving economy and actions taken by us over the past several years to improve underwriting standards and exit portfolios with unattractive credit metrics. As a result, we recorded a net release of $2.8 billion in 2010 in our allowance, after taking into consideration the addition to our allowance on January 1, 2010 from the adoption of the new consolidation accounting standards compared with a net allowance release of $397 million in 2009.

- Increase in Loss from Discontinued Operations: The loss from discontinued operations increased by $204 million to $307 million in 2010, primarily due to a significant increase in the provision for mortgage loan repurchase losses related to the discontinued operations of the wholesale mortgage banking unit of GreenPoint, which we closed in 2007. We recorded an after-tax provision for mortgage loan repurchase losses related to discontinued operations of $304 million ($432 million pre-tax) in 2010, compared with an after-tax provision related to discontinued operations of $120 million ($162 million pre-tax) in 2009.

- Decrease in Total Revenue: Total revenue decreased by $659 million, or 4%, in 2010, largely due to a decline in non-interest fee income attributable to a reduction in customer accounts, and loan balances and the implementation of provisions of the CARD Act, which resulted in a reduction in penalty fees.

Below are additional highlights of our performance for 2010. These highlights generally are based on a comparison of our reported results for 2010 to our managed results for 2009. The highlights of changes in our financial condition and credit performance are generally based on our reported financial condition and credit statistics as of December 31, 2010, compared with our financial condition and credit performance on a managed basis as of December 31, 2009. We provide a more detailed discussion of our results of operation, financial condition and credit performance in "Consolidated Results of Operations Financial Performance," "Consolidated Balance Sheet Analysis and Credit Performance" and "Business Segment Financial Performance."

- Credit Card: Our Credit Card business generated income of $2.3 billion in 2010, compared with income of $978 million in 2009. The primary drivers of the improvement in our Credit Card business results were an increase in the net interest margin and a significant decrease in the provision for loan and lease losses. The increase in the net interest margin was attributable to the combined impact of higher asset yields and lower funding costs. The increase in the average yield on our credit card loan portfolio reflected the benefit of pricing changes that we implemented during 2009 and the continued benefit from rising collectability estimates due to favorable credit trends, while the decrease in our funding costs was attributable to the lower interest rate environment and shift in our funding mix to lower cost deposits from higher cost wholesale sources. The decrease in the provision for loan and lease losses was due to more favorable credit quality trends as well as a decline in outstanding loan balances.

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- Consumer Banking: Our Consumer Banking business generated income of $905 million in 2010, compared with income of $244 million in 2009. The significant improvement in profitability in our Consumer Banking business was attributable to improved credit conditions and consumer credit performance, particularly within our auto loan portfolio, including reduced charge-offs. Our Consumer Banking business also benefited from deposit growth resulting from our continued strategy to leverage our bank outlets to attract lower cost funding sources and from improved deposit spreads, as we continue to shift the mix of our deposits to lower cost consumer savings and money market deposits from higher cost time deposits.

- Commercial Banking: Our Commercial Banking business generated income of $160 million in 2010, compared with a loss of $213 million in 2009. The improvement in results for our Commercial Banking business in 2010 from 2009 was attributable to the stabilization in credit performance trends since the end of 2009, resulting in a significant reduction in the provision for loan and lease losses. Strong deposit growth resulting from our continued strategy to grow deposits as a lower cost funding source, as well as improved deposit spreads resulting from repricing of higher rate deposits to lower rates in response to the overall lower interest rate environment also provided a benefit to our Commercial Banking business. While our Commercial Banking credit metrics remain elevated, the commercial real estate market has exhibited signs of continuing improvement, including increasing leasing activity, declining vacancies and re-entry of traditional commercial real estate investors and sponsors into the market, particularly in New York where we have our most significant concentration.

- Total Loans: Total loans held for investment decreased by $10.9 billion, or 8%, in 2010 to $125.9 billion as of December 31, 2010, from $136.8 billion as of December 31, 2009. This decrease was primarily due to the expected run-off of installment loans in our Credit Card business and home loans in our Consumer Banking business, elevated charge-offs and weak consumer demand.

- Charge-off and Delinquency Statistics: Although net charge-off and delinquency rates remain elevated, these rates improved significantly in 2010. The net charge-off rate decreased to 5.18% in 2010, from 5.87% in 2009, and the 30+ day performing delinquency rate decreased to 3.52% in 2010, from 4.62% in 2009. Based on strong credit performance trends, such as the significant decline in the 30+ day performing delinquency rate from 4.62% at the end of 2009, we believe our net-charge offs resulting from the severe economic downturn peaked in the first quarter of 2010.

- Allowance for Loan and Lease Losses: As a result of the adoption of the new consolidation accounting guidance, we increased our allowance for loan and lease losses by $4.3 billion to $8.4 billion on January 1, 2010. The initial recording of this amount on our reported balance sheet as of January 1, 2010 reduced our stockholders' equity but had no impact on our reported results of operations. After taking into consideration the $4.3 billion addition to our allowance for loan and lease losses on January 1, 2010, our allowance for loan and lease losses decreased by $2.8 billion to $5.6 billion as of December 31, 2010. The decrease was attributable to an overall improvement in credit quality trends, as well as the decrease in loan balances. The allowance as a percentage of our total reported loans held for investment was 4.47% as of December 31, 2010, compared with 4.55% as of December 31, 2009.

- Representation and Warranty Reserve: We have established reserves for our mortgage loan repurchase exposure related to the sale of mortgage loans by our subsidiaries to various parties under contractual provisions that include various representations and warranties. These reserves reflect inherent losses as of each balance sheet date that we consider to be both probable and reasonably estimable. We recorded a provision for this exposure of $636 million in 2010, of which $204 million was included in non-interest income and $432 million was included in discontinued operations. In comparison, we recorded a provision of $181 million in 2009, of which $19 million was included in non-interest income and $162 million was included in discontinued operations. Because of the significant increase in claim requests from government sponsored entities ("GSEs") and Active Insured Securitizations and litigation activity during 2010, we refined our loss estimation process and made certain changes in assumptions. During second quarter of 2010, we extended the timeframe over which we estimated our repurchase liability for mortgage loans sold by our subsidiaries to GSEs and those mortgage loans placed into Active Insured Securitizations for the full life of the mortgage loans, which resulted in a significant increase in the provision for mortgage loan repurchase losses. Of the $636 million of provision recorded in 2010, approximately $407 million resulted from our ability to extend the timeframe over which we estimated our repurchase liability. The remaining $229 million related primarily to changing counterparty activity in the form of updated estimates around active and probable litigation, most of which occurred in the first quarter of 2010. Our representation and warranty reserves totaled $816 million as of December 31, 2010, compared with $238 million as of December 31, 2009.

- Capital Adequacy: While the consolidation of the loans underlying our securitization trusts on January 1, 2010 reduced our capital ratios, our financial strength and capacity to absorb risk remained high. Our Tier 1 risk-based capital ratio of 11.63% as of December 31, 2010 was comfortably above the current minimum regulatory requirement of 4.0%. Our non-GAAP Tier 1 common equity ratio was 8.78% as of December 31, 2010, while our non-GAAP tangible common equity to tangible managed assets (“TCE ratio”) was 6.86%. See “Exhibit 99.1” for a calculation of our regulatory capital ratios and a reconciliation of our non-GAAP capital measures.

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Business Environment and Significant Recent Developments

The lingering economic and regulatory impacts of 2010 will likely impact the full year income statement in 2011. We expect that 2011 revenue will reflect the full year effects of revenue impacts that began in 2010, including changes to revenue in our Credit Card business as a result of the CARD Act implementation and the reductions in fee revenues brought on by new regulations. We expect the slow-paced economic recovery will continue, with the overall unemployment rate expected to remain elevated for an extended period of time. We also continue to see risks in the housing market, due in part to the large backlog of homes in the foreclosure process and high rate of delinquent loans, which could be exacerbated if recent disruptions in industry foreclosure practices continue. We anticipate over the course of coming quarters to see evidence of the path to solid and sustained performance. We believe that substantially all of the impacts on revenue related to CARD Act regulations were reflected in our fourth quarter revenue margins. We expect relatively less impact from other aspects of the recently enacted financial legislation. We provide more information on recent regulatory developments in “Supervision and Regulation” in “Item 1. Business” of this report.

Business Outlook

We discuss below our current expectations regarding our total company performance and the performance of each of our business segments over the near-term based on market conditions, the regulatory environment and our business strategies as of the time we filed this Annual Report on Form 10-K. The statements contained in this section are based on our current expectations regarding our outlook for our financial results and business strategies. Our expectations take into account, and should be read in conjunction with, our expectations regarding economic trends and analysis of our business as discussed in “Item 1. Business” and “MD&A” of this report. Certain statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those in our forward-looking statements. Forward-looking statements do not reflect (i) any change in current dividend or repurchase strategies, (ii) the effect of any acquisitions, divestitures or similar transactions or (iii) any changes in laws, regulations or regulatory interpretations, in each case after the date as of which such statements are made. See “Forward-Looking Statements” in “Item 1. Business” of this report for factors that could materially influence our results.

Total Company Expectations

We believe we are emerging from the recession in a strong position to deliver attractive and sustainable results over the long-term, including moderate growth and attractive risk-adjusted returns on assets in our Credit Card and Auto Finance businesses, moderate growth in low-risk loans in our Commercial Banking business and strong growth in low-cost deposits and high-quality commercial and retail customer relationships. Based on recent trends and our targeted initiatives to attract new business and develop customer relationships, we believe there is reasonable potential for loan growth during 2011, which will depend on consumer demand.

- Total Loans: Loan balances stabilized in the second half of 2010, reflecting the decline in charge-offs, gradual abatement of expected portfolio run-offs and seasonal consumer spending trends. The lower starting point for loan balances from 2010 will cause the average loan balances in 2011 to be comparable to 2010, even as we expect period-end balances to grow. The timing and pace of expected growth will depend on broader economic trends that impact overall consumer and commercial demand.

- Expenses: We anticipate that non-interest expenses will increase in 2011, assuming that the increase in marketing opportunities we observed in late 2010 continues through 2011.

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Provision for Loan and Lease Losses: Based on the underlying credit trends we are experiencing, we expect that charge-offs will continue their downward trend, although the pace of the allowance releases of 2010 is likely to abate during 2011. We expect that the improvement in credit trends in our Consumer Lending businesses will continue to outpace the economic recovery. We believe that the worst of the Commercial Banking business credit downturn is behind us; however, we expect a few more quarters of fluctuations in the charge-off and nonperforming loan metrics in our Commercial Banking business.

- Margins: Margins will be affected as the onboarding of lower yield and lower loss assets are offset by a lower year-over-year average cost of funds and higher transaction volume. We expect margins to remain at strong levels, although they may drift downward modestly, depending upon the competitive environment and the timing and pace of loan growth. We expect continued funding mix shift towards deposits in 2011, which should provide modest funding cost benefits to net interest margin.

- Capital: We expect regulatory capital ratios to rise steadily after a temporary decline in the first quarter of 2011. Although capital measures such as our non-GAAP TCE are expected to rise steadily, we expect our Tier 1 risk-based capital ratio and our non-GAAP Tier 1 common equity ratio to decline into the first quarter of 2011, primarily due to two factors that affect the numerator and denominator used in calculating these ratios: (i) a decrease in the numerator resulting from the disallowance of a portion of the deferred tax assets and (ii) an increase in the denominator due to the remaining phase-in during the first quarter of 2011 of risk-weighted assets resulting from the new consolidation accounting standards. Even with the expected increase in our loan balances, the completion of this consolidation will most likely lead to slower growth in the denominator of our regulatory capital ratios over the next couple of years as compared to the recent past. We expect the numerator of these ratios will rise not only as we generate earnings but also with the steady decline in our disallowed deferred tax asset amount, which we expect will be around $2.0 billion at the end of the first quarter of 2011 and will largely disappear over the next couple of years.

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Based on the current definitions proposed by the Basel Committee, we expect to exceed in 2011 the Basel III minimum common equity ratio, including the capital conservation buffer.

We expect that our strong capital position and generation will enable us to deploy capital in the service of shareholders to generate attractive returns in 2011 and beyond.

Business Segment Expectations

Credit Card Business

We expect that normal seasonal patterns will drive a decline in Domestic Card loan balances in the first quarter of 2011, and that the first quarter of 2011 will be the low-point for Domestic Card loan balances. After the first quarter of 2011, we expect loan balances in our Credit Card business to grow. By the end of the second quarter of 2011, we expect Domestic Card loan balances to be higher than balances at the end of 2010. We expect further growth in the second half of 2011. We anticipate modest improvements from current charge-off levels in 2011. We expect to add partnership loan portfolios and growth platforms, including launching the recently announced partnership with Kohl's Department Stores, Inc., which we expect to settle in the second quarter of 2011.

Consumer Banking Business

In our Consumer Banking business, we expect that Auto Finance origination volumes and returns will remain strong in 2011. We expect our Retail Banking business will continue to deliver strong growth in low-cost deposits and valuable customer relationships.

Commercial Banking Business

In our Commercial Banking business, nonperforming asset rates and criticized loans continue to improve modestly, and, as such, we believe that the worst of the Commercial Banking business credit deterioration cycle is behind us. We believe, however, that the charge-off rate for our Commercial Banking business will continue to fluctuate over the next several quarters. We expect to grow our Commercial Banking loan portfolio in 2011. Based on strong deposit growth and new commercial customer relationships in 2010, we expect to generate future loan and revenue growth by expanding the relationships with our customers in 2011 and beyond.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies in “Note 1—Summary of Significant Accounting Policies.”

We have identified the following accounting policies as critical because they require significant judgments and assumptions about highly complex and inherently uncertain matters and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies govern:

- Fair value
- Allowance for loan and lease losses
- Asset impairment

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- Representation and warranty reserve
- Revenue recognition
- Derivative and hedge accounting
- Income taxes

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them as necessary based on changing conditions. Management has reviewed and approved these critical accounting policies and has discussed these policies with the Audit and Risk Committee of the Board of Directors.

Fair Value

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities.

Level 3: Unobservable inputs.

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

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

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

Our financial instruments recorded at fair value on a recurring basis represented approximately 22% of our total reported assets of $197.5 billion as of December 31, 2010, compared with 26% of our total reported assets of $169.6 billion as of December 31, 2009. Financial assets for which the fair value was determined using significant Level 3 inputs represented approximately 2% of these financial instruments (1% of total assets) as of December 31, 2010, and approximately 14% of these financial instruments (4% of total assets) as of December 31, 2009. The decreases in the percentage of financial instruments measured at a fair value on a recurring basis and in the percentage of financial instruments measured using Level 3 inputs were primarily attributable to the increase in our assets from the adoption of the new consolidation accounting standards, as the consolidated loans are generally classified as held for investment and are therefore not measured at fair value on a recurring basis.

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

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Allowance for Loan and Lease Losses

Our allowance for loan and lease losses provides for probable credit losses inherent in our loan portfolio as of each balance sheet date. We have an established process, using analytical tools, benchmarks and management judgment, to determine our allowance for loan and lease losses. We calculate the allowance for loan and lease losses by estimating probable losses separately for segments of our loan portfolio with similar risk characteristics.

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

Although we examine a variety of externally available data, as well as our internal loan performance data, to determine our allowance for loan and lease losses, our estimation process is subject to risks and uncertainties, including a reliance on historical loss and trend information that may not be representative of current conditions and indicative of future performance. Accordingly, our actual credit loss experience may not be in line with our expectations. For example, as a result of improving credit performance trends during 2010, charge-offs began to decrease and we recorded a significant allowance release of $2.8 billion. We provide additional information on the methodologies and key assumptions used in determining our allowance for loan and lease losses for each of our loan portfolio segments in “Note 1—Summary of Significant Accounting Policies.” We provide information on the components of our allowance, disaggregated by impairment methodology, and changes in our allowance in “Note 6—Allowance for Loan and Lease Losses.”

Asset Impairment

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

Investment Securities

We regularly review investment securities for other-than-temporary impairment using both quantitative and qualitative criteria. Effective April 1, 2009, the Financial Accounting Standards Board (“FASB”) amended and modified the requirements for recognizing and measuring other-than-temporary impairment for debt securities. If we intend to sell a security in an unrealized loss position or it is more likely than not we will be required to sell a security before its anticipated recovery, the entire difference between the amortized cost basis of the security and its fair value is recognized in earnings. If we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of our amortized cost, we evaluate other qualitative criteria to determine whether a credit loss exists. Our evaluation requires significant management judgment and a consideration of many factors, including, but not limited to, the extent and duration of the impairment; the health of and specific prospects for the issuer, including whether the issuer has failed to make scheduled interest or principal payments; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings; the value of underlying collateral and current market conditions. Quantitative criteria include assessing whether there has been an adverse change in expected future cash flows. For equity securities, our evaluation criteria include the length of time and magnitude of the amount that each security is in an unrealized loss position. See “Note 4—Investment Securities” for additional information.

Goodwill and Other Intangible Assets

As a result of our acquisitions, principally Hibernia Corporation in 2005, North Fork Bancorporation in 2006, and Chevy Chase Bank in 2009, we have goodwill and other intangible assets. Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. We had goodwill of $13.6 billion recorded on our consolidated balance sheets as of both December 31, 2010 and 2009. Other intangible assets consist primarily of core deposit intangibles. Other intangible assets, which we report on our consolidated balance sheets as a component of other assets, totaled $733 million and $906 million as of December 31, 2010 and 2009, respectively. Goodwill and other intangible assets together represented 7% of our total assets as of December 31, 2010, compared with 9% of total assets as of December 31, 2009.

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

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

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

In conducting our goodwill impairment test for 2010, we determined the fair value of our reporting units using a discounted cash flow analysis, a form of the income approach. Our discounted cash flow analysis required management to make judgments about future loan and deposit growth, revenue growth, credit losses, and capital rates. We relied on each reporting unit's internal cash flow forecast and calculated a terminal value using a growth rate that reflected the nominal growth rate of the economy as a whole and appropriate discount rates for the respective reporting units. We adjusted cash flows as necessary to maintain each reporting unit's equity capital requirements. The cash flows were discounted to present value using reporting unit specific discount rates that were largely based on our external cost of equity, adjusted for risks inherent in each reporting unit. We corroborated the key inputs used in our discounted cash flow analysis with market data, where available, to validate that our assumptions were within a reasonable range of observable market data.

Based on the results of step one of our 2010 goodwill impairment test, we determined that the carrying amount of each of our reporting units, including goodwill, exceeded the fair value. Accordingly, the goodwill of our reporting units was considered not impaired, and the second step of impairment testing was not required. However, assuming all other factors were held constant, a 34% decline in the fair value of the Domestic Card reporting unit, a 14% decline in the fair value of the International Card reporting unit, a 37% decline in the fair value of the Auto Finance reporting unit, a 30% decline in the fair value of the Commercial Banking reporting unit and a 21% decline in the fair value of the other Consumer Banking reporting unit would have caused the carrying amount for those reporting units to be in excess of fair value which would require the second step to be performed.

As part of the annual goodwill impairment test, we assessed our market capitalization based on the average market price relative to the aggregate fair value of our reporting units and determined that any excess fair value in our reporting units at that time could be attributed to a reasonable control premium compared to historical control premiums seen in the industry. During 2009, the lack of liquidity in the financial markets and the continued economic deterioration led to a decline in market capitalization resulting in significantly higher control premiums than what had been seen historically. Throughout 2010, our capitalization rate increased resulting in a decline in our implied control premium. We will continue to regularly monitor our market capitalization in 2011, overall economic conditions and other events or circumstances that may result in an impairment of goodwill in the future.

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Intangible assets with definite useful lives are amortized over their estimated lives and evaluated for potential impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value. We did not recognize impairment on our other intangible assets in 2010, 2009 or 2008.

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

Representation and Warranty Reserve

In connection with their sales of mortgage loans, certain subsidiaries entered into agreements containing varying representations and warranties about, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with any applicable loan criteria established by the purchaser, including underwriting guidelines and the ongoing existence of mortgage insurance, and the loan's compliance with applicable federal, state and local laws. We may be required to repurchase the mortgage loan, indemnify the investor or insurer, or reimburse the investor for credit losses incurred on the loan in the event of a material breach of contractual representations or warranties.

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

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

Our aggregate representation and warranty mortgage repurchase reserves, which we report as a component of other liabilities in our consolidated balance sheets, totaled $816 million as of December 31, 2010, compared with $238 million as of December 31, 2009. The adequacy of the reserves and the ultimate amount of losses incurred by us or one of our subsidiaries will depend on, among other things, actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rates of claimants, developments in litigation, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices). See "Consolidated Balance Sheet Analysis and Credit Performance—Potential Mortgage Representation & Warranty Liabilities" below and "Note 21—Commitments, Contingencies and Guarantees" for additional information.

Revenue Recognition

We recognize earned finance charges, interest income and fees on loans in interest income in accordance with the contractual provisions of the credit arrangements. Interest and fees continue to accrue on past due loans until the date the loan is placed on nonaccrual status, if applicable. Interest and fees accrued but not collected at the date a loan is placed on nonaccrual status are reversed against earnings. Finance charges and fees on credit card loans are included in loan receivables when billed to the customer. We continue to accrue finance charges and fees on credit card loans until the account is charged-off. However, when we do not expect full payment of billed finance charges and fees, we reduce the balance of our credit card loan receivables by the amount of finance charges billed but not expected to be collected and exclude this amount from interest income. Revenue was reduced by $950 million, $2.1 billion and $1.9 billion in 2010, 2009 and 2008, respectively, for the estimated uncollectible portion of billed finance charges and fees.

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

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Derivative Instruments and Hedging Activities

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

To obtain and maintain hedge accounting, we must be able to establish at inception that the hedging instrument is effective at offsetting the risk of the hedged item both retrospectively and prospectively, and ensure documentation meets stringent requirements. The process to test effectiveness requires applying judgment and estimation, including the number of data points to test to ensure adequate and appropriate measurement to confirm or dispel hedge effectiveness and valuation of data within effectiveness tests where external existing data available do not perfectly match the company's circumstances. Without hedge accounting, we may experience significant volatility in our earnings as we would be required to recognize all changes in the fair value of our derivative instruments in earnings. We provide detail on derivatives gains and losses recognized in our earnings in 2010, 2009 and 2008 and amounts related to cash flow hedges recorded in AOCI as of December 31, 2010 in "Note 11—Derivative Instruments and Hedging Activities."

Income Taxes

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

Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely heavily on estimates. We use our historical experience and our short and long-range business forecasts to provide insight.

Amounts recorded for deferred tax assets, net of valuation allowances, were $4.0 billion and $3.7 billion as of December 31, 2010 and 2009, respectively. We had recorded a valuation allowance of $130 million and $109 million as of December 31, 2010 and 2009, respectively. We currently expect to fully recover the net deferred tax asset amounts at the end of 2010 within the applicable statutory expiration periods. To the extent we do not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established. If changes in circumstances lead us to change our judgment about our ability to realize deferred tax assets in future years, we would adjust our valuation allowances in the period that the change in circumstances occurs and record a corresponding increase or charge to income.

We provide additional information on income taxes in “Consolidated Results of Operations Financial Performance” and in “Note 18—Income Taxes.”

RECENT ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements or changes in existing accounting pronouncements may have a significant effect on our results of operations, financial condition, stockholders’ equity, capital ratios or business operations. As discussed above, effective January 1, 2010, we adopted two new accounting standards that had a significant impact on the manner in which we account for our securitization transactions, our consolidated financial statements and our capital ratios. These new accounting standards eliminated the concept of qualified special purpose entities (“QSPEs”), revised the accounting for transfers of financial assets and changed the consolidation criteria for variable interest entities (“VIEs”). Under the new accounting guidance, the determination to consolidate a VIE is based on a qualitative assessment of which party to the VIE has “power” combined with potentially significant benefits or losses, instead of the previous quantitative risks and rewards model. Consolidation is required when an entity has the power to direct matters which significantly impact the economic performance of the VIE, together with either the obligation to absorb losses or the rights to receive benefits that could be significant to the VIE. The prospective adoption of this new accounting guidance resulted in our consolidating substantially all our existing securitization trusts that had previously been off-balance sheet and eliminated sales treatment for new transfers of loans to securitization trusts.

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We provide additional information on the impact of these new accounting standards above in "Impact from Adoption of New Consolidation Accounting Standards" and in "Note 1—Summary of Significant Accounting Policies." We also identify and discuss the impact of other significant recently issued accounting pronouncements, including those not yet adopted, in "Note 1—Summary of Significant Accounting Policies."

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

In the ordinary course of business, we are involved in various types of transactions with limited liability companies, partnerships or trusts that often involve special purpose entities ("SPEs") and VIEs. Some of these arrangements are not recorded on our consolidated balance sheets or may be recorded in amounts different from the full contract or notional amount of the transaction, depending on the nature or structure of, and accounting required to be applied to, the arrangement. These arrangements may expose us to potential losses in excess of the amounts recorded in the consolidated balance sheets. Our involvement in these arrangements can take many forms, including securitization and servicing activities, the purchase or sale of mortgage-backed or other asset-backed securities in connection with our home loan portfolio, and loans to VIEs that hold debt, equity, real estate or other assets. Under previous accounting guidance, we were not required to consolidate the majority of our securitization trusts because they were QSPEs. Accordingly, we considered these trusts to be off-balance sheet arrangements.

In June 2009, the FASB issued two new accounting standards that eliminated the concept of QSPEs, revised the accounting for transfers of financial assets and changed the consolidation criteria for VIEs. As discussed above in "Impact from Adoption of New Consolidation Accounting Standards," we prospectively adopted these new standards on January 1, 2010, which resulted in the consolidation of our credit card securitization trusts, one installment loan trust, certain option-ARM loan trusts originated by Chevy Chase Bank for which we provide servicing and certain affordable housing entities. All of our remaining securitization trusts were consolidated or liquidated as of December 31, 2010.

Our continuing involvement in unconsolidated VIEs primarily consists of certain mortgage loan trusts and community reinvestment and development entities. The carrying amount of assets and liabilities of these unconsolidated VIEs was $2.0 billion and $344 million, respectively, as of December 31, 2010, and our maximum exposure to loss was $2.2 billion. We provide a discussion of our activities related to these VIEs in "Note 7—Variable Interest Entities and Securitizations."

CONSOLIDATED RESULTS OF OPERATIONS FINANCIAL PERFORMANCE

As indicated above under "Impact from Adoption of New Consolidation Accounting Standards," our reported results subsequent to January 1, 2010 are not presented on a basis consistent with our reported results prior to January 1, 2010 as a result of our adoption of the new consolidation accounting standards. Our reported results subsequent to January 1, 2010 are more comparable to our managed results because we assumed for our managed based reporting that our securitized loans had not been sold and that the earnings from securitized loans were classified in our results of operations in the same manner as the earnings on loans that we owned. Accordingly, the section below provides a comparative discussion of our reported consolidated results of operations for 2010 and our managed results for 2009 and 2008. Our net income on a managed basis in 2009 and 2008 is the same as our reported net income; however, there are differences in the classification of certain amounts in our managed income statement, which we identify in our discussion. See "Exhibit 99.1" for a reconciliation of our non-GAAP managed based information for periods prior to January 1, 2010 to the most comparable reported U.S. GAAP information.

Net Interest Income

Net interest income represents the difference between the interest income and applicable fees earned on our interest-earning assets, which includes loans held for investment and investment securities, and the interest expense on our interest-bearing liabilities, which includes interest-bearing deposits, senior and subordinated notes, securitized debt and other borrowings. We include in interest income any past due fees on loans that we deem are collectible. Our net interest margin represents the difference between the yield on our interest-earning assets and the cost of our interest bearing liabilities, including the impact of non-interest bearing funding. Prior to the adoption of the new consolidation accounting standards on January 1, 2010, our reported net interest income did not include interest income from loans in our off-balance sheet securitization trusts or the interest expense on third-party debt issued by these securitization trusts. Beginning January 1, 2010, servicing fees, finance charges, other fees, net charge-offs and interest paid to third party investors related to consolidated securitization trusts are included in net interest income.

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Table 2 below displays the major sources of our interest income and interest expense for 2010, 2009 and 2008. We present for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balances, the interest earned or paid and the average yield or cost during the period in Table A under "Supplemental Statistical Tables." We expect net interest income and our net interest margin to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities.

Table 2: Net Interest Income

	Year Ended December 31,					
	2010		2009 (1)		2008	
(Dollars in millions)	Reported	Managed	Reported	Managed	Reported	Managed
Interest income:						
Loans held-for-investment:						
Consumer loans(2)	$ 12,656	$ 12,664	$ 7,237	$ 12,915	$ 7,748	$ 14,316
Commercial loans	1,278	1,278	1,520	1,520	1,712	1,712
Total loans held for investment, including past-due fees	13,934	13,942	8,757	14,435	9,460	16,028
Investment securities	1,342	1,342	1,610	1,610	1,224	1,224
Other	77	77	297	68	428	199
Total interest income	15,353	15,361	10,664	16,113	11,112	17,451
Interest expense:						
Deposits	1,465	1,465	2,093	2,093	2,512	2,512
Securitized debt obligations	809	813	282	1,339	550	2,616
Senior and subordinated notes	276	276	260	260	445	445
Other borrowings	346	346	332	332	456	456
Total interest expense	2,896	2,900	2,967	4,024	3,963	6,029
Net interest income	$ 12,457	$ 12,461	$ 7,697	$ 12,089	$ 7,149	$ 11,422

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

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

Table 3 presents changes in our reported net interest income between periods and the extent to which those changes were attributable to: (i) changes in the volume of our interest-earning assets and interest-bearing liabilities or (ii) changes in the interest rates of these assets and liabilities.

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Table 3: Rate/Volume Analysis of Net Interest Income—Reported

	Years Ended December 31,					
	2010 vs. 2009(1)			2009(1) vs. 2008(1)		
	Total	Variance Due to (2)		Total	Variance Due to (2)	
(Dollars in millions)	Variance	Volume	Rate	Variance	Volume	Rate
Interest income:						
Loans held-for-investment:						
Consumer loans	$ 5,419	$ 3,479	$ 1,940	$ (511)	$ (53)	$ (458)
Commercial loans	(242)	(22)	(220)	(192)	75	(267)
Total loans held for investment, including past-due fees	5,177	3,457	1,720	(703)	22	(725)
Investment securities	(268)	107	(375)	386	529	(143)
Other	(220)	(28)	(192)	(131)	(21)	(110)
Total interest income	4,689	3,536	1,153	(448)	530	(978)
Interest expense:						
Deposits	(628)	33	(661)	(419)	530	(949)
Securitized debt obligations	527	752	(225)	(268)	(232)	(36)
Senior and subordinated notes	16	(1)	17	(185)	(13)	(172)
Other borrowings	14	(104)	118	(124)	(101)	(23)
Total interest expense	(71)	680	(751)	(996)	184	(1,180)
Net interest income	$ 4,760	$ 2,856	$ 1,904	$ 548	$ 346	$ 202

(1) Certain prior period amounts have been reclassified to conform to the current period presentation.
(2) We calculate the change in interest income and interest expense separately for each item. The change in net interest income attributable to both volume and rates is allocated based on the relative dollar amount of each item.

Table 4 presents changes in our reported net interest income for 2010 from our managed net interest income for 2009 and changes between our 2009 and 2008 managed net interest income, and the extent to which those changes were attributable to: (i) changes in the volume of our interest-earning assets and interest-bearing liabilities or (ii) changes in the interest rates of these assets and liabilities.

Table 4: Rate/Volume Analysis of Net Interest Income—Managed

	Years Ended December 31,					
	2010 vs. 2009(1)			2009(1) vs. 2008(1)		
	Total	Variance Due to (2)		Total	Variance Due to (2)	
(Dollars in millions)	Variance	Volume	Rate	Variance	Volume	Rate
Interest income:						
Loans held-for-investment:						
Consumer loans	$ (251)	$ (1,748)	$ 1,497	$ (1,401)	$ (656)	$ (745)
Commercial loans	(242)	(22)	(220)	(192)	75	(267)
Total loans held for investment, including past-due fees	(493)	(1,770)	1,277	(1,593)	(581)	(1,012)
Investment securities	(268)	107	(375)	386	529	(143)
Other	9	23	(14)	(131)	(25)	(106)
Total interest income	(752)	(1,640)	888	(1,338)	(77)	(1,261)
Interest expense:						
Deposits	(628)	33	(661)	(419)	530	(949)

Securitized debt obligations	(526)	(318)	(208)	(1,277)	(435)	(842)
Senior and subordinated notes	16	(1)	17	(185)	(13)	(172)
Other borrowings	14	(104)	118	(124)	(101)	(23)
Total interest expense	(1,124)	(390)	(734)	(2,005)	(19)	(1,986)
Net interest income	$ 372	$ (1,250)	$ 1,622	$ 667	$ (58)	$ 725

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

(2) We calculate the change in interest income and interest expense separately for each item. The change in net interest income attributable to both volume and rates is allocated based on the relative dollar amount of each item.

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

The increase in net interest margin in 2010 was primarily attributable to a significant reduction in our average cost of funds, coupled with an increase in the average yield on interest-earning assets. Our cost of funds continued to benefit from the shift in the mix of our funding to lower cost consumer and commercial banking deposits from higher cost wholesale sources. Also, the overall interest rate environment, combined with our disciplined pricing, drove a decrease in our average deposit interest rates. The increase in the average yield on our interest-earning assets during 2010 reflected the benefit of pricing changes that we implemented during 2009, which contributed to an increase in the average yield on our loan portfolio, as well as improved credit conditions, which has allowed us to recognize a greater proportion of previously reserved uncollected finance charges into income. The decrease in average interest-earning assets resulted from the run-off of loans in business that we exited or repositioned, elevated charge-offs and weak consumer demand.

Our managed net interest income of $12.1 billion in 2009 increased by 6% from managed net interest income of $11.4 billion in 2008, driven by a 2% (13 basis points) expansion of our net interest margin to 6.50% and a 4% increase in our average interest-earning assets. The increase was largely due to a reduction in our average cost of funds, attributable to the low interest rate environment and shift in our funding mix to lower cost deposits.

Non-Interest Income

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

Table 5 displays the components of non-interest income for the years ended December 31, 2010, 2009 and 2008.

Table 5: Non-Interest Income

	Year Ended December 31,				
	2010	2009(1)		2008	
(Dollars in millions)	Reported	Reported	Managed	Reported	Managed
Non-interest income:					
Servicing and securitizations	$ 7	$ 2,280	$ (193)	$ 3,385	$ (299)
Service charges and other customer-related fees	2,073	1,997	3,025	2,232	3,687
Interchange	1,340	502	1,408	562	1,464
Net other-than-temporary impairment (“OTTI”)	(65)	(32)	(32)	(11)	(11)
Other	359	539	539	576	576
Total non-interest income	$ 3,714	$ 5,286	$ 4,747	$ 6,744	$ 5,417

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

Non-interest income of $3.7 billion in 2010 decreased by $1.0 billion, or 22%, from managed non-interest income of $4.7 billion in 2009. Managed non-interest income of $4.7 billion in 2009 decreased by $670 million, or 12%, from managed non-interest income of $5.4 billion in 2008.

The $1.0 billion decrease in non-interest income in 2010 from 2009 was primarily attributable to a reduction in over-limit fees as result of provisions under the CARD Act, a decline in the fair value of our mortgage servicing rights due to the run-off of our home loan portfolio, and an increase in the provision for mortgage loan repurchases. We recorded a provision for mortgage loan repurchase losses of $636 million in 2010, $204 million of which was included in non-interest income, and a provision of $181 million in 2009, of which $19 million was included in non-interest income. We provide additional information on representation and warranty claims in “Critical Accounting Polices and Estimates” and in “Consolidated Balance Sheet Analysis and Credit Performance—Potential Mortgage Representation and Warranty Liabilities.”

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The net other-than-temporary impairment losses of $65 million and $32 million recorded in 2010 and 2009, respectively, primarily resulted from the deterioration in the credit quality of certain non-agency mortgage-related securities due to the continued weakness in the housing market and high unemployment. We also recorded other-than-temporary impairment on certain other non-agency mortgage-related securities in 2010 because of our intent to sell the securities. We provide additional information on other-than-temporary impairment recognized on our available-for-sale securities in "Note 4—Investment Securities."

The $670 million decrease in managed non-interest income in 2009 from 2008 was largely due to reduced service charges and customer-related fees as a result of lower overlimit and cash advance fees.

Provision for Loan and Lease Losses

We build our allowance for loan and lease losses through the provision for loan and lease losses. Our provision for loan and lease losses in each period is driven by charge-offs and the level of allowance for loan and lease losses that we determine is necessary to provide for probable credit losses inherent in our loan portfolio as of each balance sheet date.

We recorded a reported provision for loan and lease losses of $3.9 billion in 2010, compared with a reported provision for loan and lease losses of $4.2 billion in 2009 and $5.1 billion in 2008. Our managed provision for loan and lease losses totaled $8.1 billon and $8.0 billon in 2009 and 2008, respectively. The significant decrease in the managed provision expense for loan and lease losses in 2010 was attributable to reduced charge-offs and continued improvement in credit performance, as well as a reduction in our loan portfolio balance. As a result, we recorded a significant reduction in our allowance for loan and lease losses during 2010. The decrease in the provision for loan and lease losses in 2009 from 2008 was largely due to a significant decline in our loan portfolio balance.

Table 22 below, under "Consolidated Balance Sheet Analysis—Summary of Reported Allowance for Loan and Lease Losses" summarizes changes in our allowance for loan and lease losses and details the provision for loan and lease losses recognized in our consolidated statements of income and the charge-offs recorded against our allowance for loan and lease losses in 2010, 2009 and 2008.

Non-Interest Expense

Non-interest expense consists of ongoing operating costs, such as salaries and associated employee benefits, communications and other technology expenses, supplies and equipment and occupancy costs, and miscellaneous expenses. Marketing expenses are also included in non-interest expense. Table 6 displays the components of non-interest expense for 2010, 2009 and 2008.

Table 6: Non-Interest Expense

	Year Ended December 31,		
	2010	2009	2008
(Dollars in millions)	Reported	Reported/ Managed(1)	Reported/ Managed(1)
Non-interest expense:			
Salaries and associated benefits	$ 2,594	$ 2,478	$ 2,336
Marketing	958	588	1,118
Communications and data processing	693	740	756
Supplies and equipment	520	500	520
Occupancy	486	451	377

Restructuring expense	—	119	134
Other(2)	2,683	2,541	2,969
Total non-interest expense	$ 7,934	$ 7,417	$ 8,210

(1) There were no differences between reported and managed non-interest expense amounts for 2009 and 2008.

(2) Consists of professional services expenses, credit collection costs, fee assessments and intangible amortization expense. Other non-interest expense for 2008 includes goodwill impairment of $811 million related to the Auto Finance division of our Consumer Banking business.

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Non-interest expense of $7.9 billion in 2010 was up $517 million, or 7%, from 2009. The increase was primarily due increases in marketing expenditures and salaries and associate benefits, partially offset by the absence of restructuring charges. As the economy gradually improved, we substantially increased our marketing expenditures during 2010, from suppressed levels in 2009, to attract and support new business volume through a variety of channels. In 2009, we completed the restructuring of our operations that was initiated in 2007 to improve our competitive cost position as well as reduce certain expenses.

Non-interest expense of $7.4 billion in 2009 was down $793 million, or 10%, from 2008. The decrease was primarily due to the absence of a goodwill impairment charge of $811 million recorded in 2008, as well as a reduction in marketing expenditures during 2009 in response to the severe economic downturn. The goodwill impairment charge in 2008 was attributable to the Auto Finance division of our Consumer Banking business and reflected a reduction in the estimated fair value of this business due to our strategic decision to scale back origination volume.

Income Taxes

Our effective income tax rate based on income from continuing operations was 29.56%, 26.16% and 85.47% in 2010, 2009 and 2008, respectively. The variance in our effective tax rate between periods is due, in part, to fluctuations in our pre-tax earnings, which affects the relative tax benefit of tax-exempt income, tax credits and permanent tax items.

The increase in our effective tax rate in 2010 from 2009 reflected the reduced relative benefit of tax-exempt income and tax credits as a result of the increase in our pre-tax earnings.We recorded a $90 million tax benefit primarily related to the settlement of certain pre-acquisition tax liabilities related to North Fork and the resolution of certain tax issues before the U.S. Tax Court in 2010, which partially offset the increase in our effective tax rate for this period.

The significant decrease in our effective income tax rate in 2009 from 2008 was primarily attributable to the goodwill impairment charge of $811 million recorded in 2008, a portion of which was non-deductible.Our effective tax rate in 2008 excluding the impact of non-deductible goodwill impairment was 37.8%. In addition, increased tax credits, reductions in unrecognized tax benefits due to tax settlements and resolutions and changes in our international tax position had a favorable impact on our 2009 effective tax rate.

Loss from Discontinued Operations, Net of Tax

Loss from discontinued operations reflects ongoing costs, which primarily consist of mortgage loan repurchase representation and warranty charges, related to the mortgage origination operations of GreenPoint’s wholesale mortgage banking unit, which we closed in 2007. We recorded a loss from discontinued operations, net of tax, of $307 million, $103 million and $131 million in 2010, 2009 and 2008, respectively.

The significant increase in loss from discontinued operations in 2010 was attributable to the increase in our mortgage loan repurchase representation and warranty reserves. We recorded a pre-tax provision for mortgage loan repurchase exposure of $636 million in 2010, of which $432 million ($304 million net of tax) was included in discontinued operations. In comparison, we recorded a pre-tax provision for mortgage loan repurchase exposure of $181 million in 2009, of which $162 million ($120 million net of tax) was included in discontinued operations.

We provide additional information on representation and warranty claims in “Critical Accounting Polices and Estimates” and in “Consolidated Balance Sheet Analysis and Credit Performance—Potential Mortgage Representation and Warranty Liabilities.”

BUSINESS SEGMENT FINANCIAL PERFORMANCE

Our principal operations are currently organized into three major business segments, which are defined based on the products and services provided, or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments.

The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. Our business segment results are intended to reflect each segment as if it were a stand-alone business. We use an internal management and reporting process to derive our business segment results. Our internal management and reporting process employs various allocation methodologies, including funds transfer pricing, to assign certain managed balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment.

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

We summarize our business segment results for 2010, 2009 and 2008 in the tables below and provide a comparative discussion of these results. We may periodically change our business segments or reclassify business segment results based on modifications to our management reporting methodologies and changes in organizational alignment. In 2009, we realigned our organizational structure and business segment reporting to reflect our operating results by product type and customer segment and to integrate the operations of Chevy Chase Bank. Prior period amounts have been recast to conform to the current period presentation. We provide information on the outlook for each of our business segments above under "Executive Summary and Business Outlook."

Credit Card Business

Our Credit Card business generated income of $2.3 billion in 2010, compared with income of $978 million in 2009 and $1.1 billion in 2008. The primary sources of revenue for our Credit Card business are net interest income and non-interest income from customer and interchange fees. Expenses primarily consist of ongoing operating costs, such as salaries and associated benefits, communications and other technology expenses, supplies and equipment and occupancy costs, as well as marketing expenses.

Table 7 summarizes the financial results of our Credit Card business, which is comprised of Domestic Card, installment loans and International Card operations, and displays selected key metrics for the periods indicated. In conjunction with our Sony Card partnership, we acquired the $807 million legacy Sony Card portfolio on September 1, 2010. The Sony Card acquisition did not have a material impact on the results of our Credit Card business in 2010.

Table 7: Credit Card Business Results

	Year Ended December 31,			Change	
(Dollars in millions)	2010	2009	2008	2010 vs. 2009	2009 vs. 2008
Selected income statement data:					
Net interest income	$ 7,894	$ 7,542	$ 7,464	5%	1%
Non-interest income	2,720	3,747	4,678	(27)	(20)
Total revenue	10,614	11,289	12,142	(6)	(7)
Provision for loan and lease losses	3,188	6,051	6,108	(47)	(1)
Non-interest expense	3,951	3,738	4,393	6	(15)
Income from continuing operations before income taxes	3,475	1,500	1,641	132	(9)
Income tax provision	1,201	522	574	130	(9)
Income from continuing operations, net of tax	$ 2,274	$ 978	$ 1,067	133%	(8)%
Selected metrics:					
Average loans held for investment	$ 62,632	$ 73,076	$ 79,209	(14)%	(8)%
	14.36%	12.90%	13.20%	146bps	(30)bps

Average yield on loans held for investment					
Revenue margin(1)	16.95	15.45	15.33	150	12
Net charge-off rate(2)	8.79	9.15	6.26	(36)	289
Purchase volume(3)	$ 106,912	$ 102,068	$ 113,835	5%	(10)%

	December 31,		
(Dollars in millions)	2010	2009	Change
Selected period-end data:			
Loans held for investment	$ 61,371	$ 68,524	(10)%
30+ day delinquency rate	4.29%	5.88%	(159)bps
Allowance for loan and lease losses(4)	$ 4,041	$ 2,126	90%

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(1) Revenue margin is calculated by dividing annualized revenues for the period by average loans held for investment during the period.
(2) Net charge-off rate is calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period.
(3) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.
(4) As a result of the January 1, 2010 adoption of the new consolidation accounting standards, we added $4.2 billion to the allowance related to our Credit Card business on January 1, 2010, resulting in an allowance of $6.4 billion as of January 1, 2010. The allowance decreased during the remainder of 2010 by $2.3 billion, or 37%.

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

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

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

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

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

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

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

2009. Based on continued improvement and stabilization of credit performance, we believe net charge-offs for our Credit Card business resulting from the severe economic downturn peaked in the first quarter of 2010.

Key factors affecting the results of our Credit Card business for 2009, compared with 2008 included the following:

- Net Interest Income: Our Credit Card business experienced a modest increase in net interest income of $78 million, or 1%, in 2009, as higher interest margins slightly offset the reduction in net interest income attributable to declining loan balances.

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- Non-Interest Income: Non-interest income decreased by $931 million, or 20%, to $3.7 billion, primarily due to lower fees as a result of a reduction in customer accounts and significantly lower purchase volume. The severe economic downturn led to a contraction in consumer spending, which reduced overlimit fee income.

- Provision for Loan and Lease Losses: The provision for loan and lease losses related to our Credit Card business of $6.1 billion in 2009 remained elevated at relatively the same level as 2008, reflecting the impact of continued weak credit performance in 2009 due to the severe economic downturn that began in 2008. Despite the elevated provision, we recorded an allowance release of $611 million in 2009 driven by the reduction in period-end loans.

- Non-Interest Expense: Non-interest expense decreased by $665 million, or 15%, in 2009. This decrease was driven by a substantial reduction in marketing expenses, by more than half, attributable to the severe economic downturn and lower operating expenses. The reduction in operating expenses reflected the impact of favorable exchange in our U.K. and the run-off of our closed-end loan portfolio.

- Total Loans: Period-end loans in the Credit Card business declined by $11.2 billion, or 14%, in 2009, to $68.5 billion as of December 31, 2009. Approximately 43% of the decline was attributable to the run-off of the closed end loan portfolio. The remaining decline was driven by reduced purchase volume in our revolving credit card businesses and elevated net charge-offs. We added fewer new customer accounts during 2009 and existing customers maintained lower balances, partially attributable to the curtailment of our marketing expenditures during 2009 as well as the uncertain economic environment.

- Charge-off and Delinquency Statistics: The substantial increase in the net charge-off rate to 9.15% in 2009, from 6.26% in 2008 was attributable to the significant deterioration in credit performance as a result of the severe economic downturn that began in 2008, which resulted in rising unemployment and higher loan default rates throughout 2009. Virtually all of our credit metrics were adversely affected by economic conditions, including the 30+ day delinquency rate, which increased to 5.88% as of December 31, 2009, from 4.86% as of December 31, 2008.

Table 7.1 summarizes the financial results for Domestic Card and displays selected key metrics for the periods indicated. Domestic Card accounted for 87% of total revenues for our Credit Card business in 2010, compared with 89% in 2009 and 87% in 2008. Income attributable to Domestic Card represented 83% of income for our Credit Card business for 2010, compared with 94% in both 2009 and 2008. Because our Domestic Card business currently accounts for the substantial majority of our Credit Card business, the key factors driving the results for this division are similar to the key factors affecting our total Credit Card business.

Table 7.1: Domestic Card Business Results

	Year Ended December 31,			Change	
(Dollars in millions)	2010	2009	2008	2010 vs. 2009	2009 vs. 2008
Selected income statement data:					
Net interest income	$ 6,912	$ 6,670	$ 6,492	4%	3 %
Non-interest income	2,347	3,328	4,128	(29)	(19)
Total revenue	9,259	9,998	10,620	(7)	(6)
Provision for loan and lease losses	2,853	5,329	5,461	(46)	(2)
Non-interest expense	3,457	3,256	3,623	6	(10)
Income from continuing operations before income taxes	2,949	1,413	1,536	109	(8)
Income tax provision	1,051	495	538	112	(8)

Income from continuing operations, net of tax	$	1,898	$	918	$	998	107%	(8)%
Selected metrics:								
Average loans held for investment	$	55,133	$	64,670	$	68,638	(15)%	(6)%
Average yield on loans held for investment		14.09%		12.80%		13.09%	129bps	(29)bps
Revenue margin(1)		16.79		15.46		15.47	133	(1)
Net charge-off rate(2)		8.91		9.19		6.33	(28)	286
Purchase volume(3)	$	98,344	$	93,566	$	103,035	5%	(9)%

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(Dollars in millions)	December 31, 2010	2009	Change
Selected period-end data:			
Loans held for investment	$ 53,849	$ 60,300	(11)%
30+ day delinquency rate	4.09%	5.78%	(169)bps

(1) Revenue margin is calculated by dividing annualized revenues for the period by average loans held for investment during the period.
(2) Net charge-off rate is calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period.
(3) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.

Income generated by our Domestic Card division of $1.9 billion in 2010, represented an increase of $980 million over 2009. The primary factors affecting Domestic Card results for 2010 compared with 2009 included a decline in total revenue due in part to lower loan balances and a reduction in overlimit and other penalty fees; a significant reduction in the provision for loan and lease losses as we recorded a substantial allowance release in response to more positive credit performance trends, including decreases in charge-off and delinquency rates, and an increase in non-interest expense attributable to higher marketing expenditures.

Income generated by our Domestic Card division of $918 million in 2009, reflected a decrease of $80 million from 2008. The primary factors affecting Domestic Card results for 2009 compared with 2008 included a decline in total revenue primarily due to reduced fees resulting from the reduction in customer accounts and significantly lower purchase volume, a continued elevated provision for loan and lease losses due to credit performance deterioration and a decrease in non-interest expense due to significantly curtailed marketing expenditures.

Table 7.2 summarizes the financial results for International Card and displays selected key metrics for the periods indicated. International Card accounted for 13% of total revenues for our Credit Card business in 2010, compared with 11% in 2009 and 13% in 2008. Income attributable to International Card represented 17% of income for our Credit Card business for 2010, compared with 6% in both 2009 and 2008.

Table 7.2: International Card Business Results

	Year Ended December 31,			Change	
(Dollars in millions)	2010	2009	2008	2010 vs. 2009	2009 vs. 2008
Selected income statement data:					
Net interest income	$ 982	$ 872	$ 972	13%	(10) %
Non-interest income	373	419	550	(11)	(24)
Total revenue	1,355	1,291	1,522	5	(15)
Provision for loan and lease losses	335	722	647	(53)	12
Non-interest expense	494	482	770	2	(37)
Income from continuing operations before income taxes	526	87	105	505	(17)
Income tax provision	150	27	36	456	(25)
Income from continuing operations, net of tax	$ 376	$ 60	$ 69	527%	(13)%

Selected metrics:								
Average loans held for investment	$	7,499	$	8,405	$	10,571	(11)%	(20)%
Average yield on loans held for investment		16.33%		13.71%		13.88%	262 bps	(17)bps
Revenue margin(1)		18.07		15.36		14.40	271	96
Net charge-off rate(2)		7.89		8.83		5.77	(94)	306
Purchase volume(3)	$	8,568	$	8,502	$	10,800	1 %	(21)%

	December 31,				
(Dollars in millions)	2010		2009		Change
Selected period-end data:					
Loans held for investment	$	7,522	$	8,224	(9)%
30+ day delinquency rate		5.75%		6.55%	(80)bps

(1) Revenue margin is calculated by dividing annualized revenues for the period by average loans held for investment during the period.

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(2) Net charge-off rate is calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period.
(3) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.

Income generated by our International Card division of $376 million in 2010 increased $316 million from 2009. The most significant driver of the improvement in results was a $386 million decrease in the provision for loan and lease losses in 2010. As a result of decreases in charge-off and delinquency rates, we recorded a substantial allowance release of $256 million in 2010, compared with an allowance release of $20 million in 2009. In addition, total revenue increased by $64 million, primarily due to the impact of pricing changes implemented during 2009 that resulted in increases in average asset yields that were partially offset by a decline in loan balances.

Income generated by our International Card division of $60 million in 2009 decreased by $9 million from 2008, attributable to a decrease in total revenue and an increase in the provision for loan and lease losses that more than offset a reduction in non-interest expense. The decline in revenue was due to the combined impact of foreign exchange fluctuations and a decline in customer accounts, which resulted in lower fees. Although loan balances declined, the provision for loan and lease losses increased due to deterioration in credit performance during 2009 as a result of weak economic conditions in Canada and the U.K.

Consumer Banking Business

Our Consumer Banking business generated income of $905 million in 2010, compared with income of $244 million in 2009 and a loss of $980 million in 2008. The loss in 2008 was largely attributable to goodwill impairment of $811 million. The primary sources of revenue for our Consumer Banking business are net interest income and non-interest income from customer fees. Expenses primarily consist of ongoing operating costs, such as salaries and associated benefits, communications and other technology expenses, supplies and equipment and occupancy costs.

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

Table 8: Consumer Banking Business Results

	Year Ended December 31,			Change	
(Dollars in millions)	2010	2009	2008	2010 vs. 2009	2009 vs. 2008
Selected income statement data:					
Net interest income	$ 3,727	$ 3,231	$ 2,988	15%	8%
Non-interest income	870	755	729	15	4
Total revenue	4,597	3,986	3,717	15	7
Provision for loan and lease losses	241	876	1,534	(72)	(43)
Non-interest expense(1)	2,950	2,734	3,264	8	(16)
Income from continuing operations before income taxes	1,406	376	(1,081)	274	135
Income tax provision	501	132	(101)	280	231
Income from continuing operations, net of tax	$ 905	$ 244	$ (980)	271%	125%
Selected metrics:					
Average loans held for investment:					
Automobile	$ 17,551	$ 19,950	$ 23,490	(12)%	(15)%
Home loan	13,629	14,434	10,406	(6)	39

Retail banking		4,745		5,490		5,449	(14)	1
Total consumer banking	$	35,925	$	39,874	$	39,345	(10)%	1%
Average yield on loans held for investment		9.11%		8.94%		9.69%	17bps	(75)bps
Average deposits	$	78,083	$	70,862	$	56,998	10%	24%
Average deposit interest rate		1.19%		1.68%		2.52%	(49)bps	(84)bps
Core deposit intangible amortization	$	144	$	169	$	153	(15)%	10%
Net charge-off rate(2)		1.82%		2.74%		3.09%	(92)bps	(35)bps
Automobile loan originations	$	7,764	$	5,336	$	6,874	46%	(22)%

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(Dollars in millions)	December 31, 2010	December 31, 2009	Change
Selected period-end data:			
Loans held for investment:			
Automobile	$ 17,867	$ 18,186	(2)%
Home loan	12,103	14,893	(19)
Retail banking	4,413	5,135	(14)
Total consumer banking	$ 34,383	$ 38,214	(10)%
Nonperforming loans as a percentage of loans held for investment(3)	1.97%	1.45%	52bps
Nonperforming asset rate(3)	2.17	1.60	57
30+ day performing delinquency rate(4)	4.28	5.06	(78)
Allowance for loan and lease losses(5)	$ 675	$ 1,076	(37)%
Period-end deposits	82,959	74,145	12
Period-end loans serviced for others	20,689	30,283	(32)

(1) Non-interest expense for 2008 includes goodwill impairment of $811 million attributable to the Consumer Banking business.

(2) Average loans held for investment used in calculating net charge-off rates includes the impact of loans acquired as part of the Chevy Chase Bank acquisition. The net charge-off rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 2.16% and 3.17% in 2010 and 2009, respectively.

(3) Our calculation of nonperforming loan and asset ratios includes the impact of loans acquired from Chevy Chase Bank. However, we do not report loans acquired from Chevy Chase Bank as nonperforming, as we recorded these loans at estimated fair value when we acquired them. The nonperforming loan ratio, excluding the impact of loans acquired from Chevy Chase Bank from the denominator, was 2.30% and 1.75% as of December 31, 2010 and 2009, respectively. Nonperforming assets consist of nonperforming loans and real-estate owned ("REO"). The nonperforming asset rate is calculated by dividing nonperforming assets as of the end of the period by period-end loans held for investment and REO. The nonperforming asset rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 2.54% and 1.93% as of December 31, 2010 and 2009, respectively.

(4) The 30+ day performing delinquency rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 5.01% as of December 31, 2010 and 6.10% as of December 31, 2009.

(5) As a result of the January 1, 2010 adoption of the new consolidation accounting standards, we added $73 million to the allowance related to our Consumer Banking business on January 1, 2010, resulting in an allowance of $1.1 billion as of January 1, 2010. The allowance decreased during the remainder of 2010 by $474 million, or 43%.

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

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

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

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

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

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

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

- Charge-off and Delinquency Statistics: The net charge-off and delinquency rates for the Consumer Banking business, improved during 2010 as a result of the improved economic environment and a tightening of our underwriting standards on new loan originations. The net charge-off rate decreased to 1.82% as of December 31, 2010, down significantly from the net charge-off rate of 2.74% as of December 31, 2009. The 30+ day performing delinquency rate, which was 4.28% as of December 31, 2010, has declined from a rate of 5.06% as of December 31, 2009.

Key factors affecting the results of our Consumer Banking business for 2009, compared with 2008 included the following:

- Net Interest Income: Our Consumer Banking business experienced an increase in net interest income of $243 million, or 8%, in 2009, primarily attributable to the acquisition of the Chevy Chase Bank portfolio in the first quarter of 2009.

- Non-Interest Income: Non-interest income increased by $26 million, or 4%, in 2009, primarily driven by the acquisition of the Chevy Chase Bank portfolio in the first quarter of 2009.

- Provision for Loan and Lease Losses: The provision for loan and lease losses declined by $658 million, or 43%, in 2009. The decrease was primarily driven by reduced losses and shrinkage in our auto loan business, partially offset by allowance builds in the retail banking and home loan businesses.

- Non-Interest Expense: Non-interest expense decreased by $530 million, or 16%, in 2009. Excluding the impact of goodwill impairment of $811 million recognized in 2009, non-interest expense increased by $281 million over 2008. This increase was driven by incremental operating costs from the Chevy Chase acquisition and increased loan workout and mitigation costs in the home loan business, which was partially offset by a significant decrease in marketing expenditures.

- Total Loans: Period-end loans in the Consumer Banking business increased by $1.0 billion, or 3%, to $38.2 billion as of December 31, 2009, primarily due to the acquisition of the Chevy Chase mortgage portfolio.

- Deposits: Period-end deposits increased by $12.4 billion, or 20%, to $74.1 as of December 31, 2009, primarily due to the acquisition of Chevy Chase Bank.

- Charge-off and Delinquency Statistics: The improvement in the net charge-off rate of 2.74% in 2009, compared with 3.09% in 2008 was primarily driven by more positive credit performance in the auto business resulting from a larger proportion of higher quality loans originated in 2008 and 2009 and improvements in auto auction recovery price. The 30+ day performing delinquency rate also declined to 5.06% as of December 31, 2009, from 6.31% as of December 31, 2008.

Commercial Banking Business

Our Commercial Banking business generated income of $160 million in 2010, compared with a loss of $213 million in 2009 and income of $254 million in 2008. The primary sources of revenue for our Commercial Banking business are net interest income and non-interest income from customer fees. Expenses primarily consist of ongoing operating costs, such as salaries and associated benefits, communications and other technology expenses, supplies and equipment and occupancy costs.

Table 9 summarizes the financial results of our Commercial Banking business and displays selected key metrics for the periods indicated.

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Table 9: Commercial Banking Business Results

(Dollars in millions)	Year Ended December 31, 2010	2009	2008	Change 2010 vs. 2009	2009 vs. 2008
Selected income statement data:					
Net interest income	$ 1,292	$ 1,144	$ 962	13%	19%
Non-interest income	181	172	144	5	19
Total revenue	1,473	1,316	1,106	12	19
Provision for loan and lease losses	429	983	234	(56)	320
Non-interest expense	796	661	481	20	37
Income from continuing operations before income taxes	248	(328)	391	176	(184)
Income tax provision	88	(115)	137	177	(184)
Income from continuing operations, net of tax	$ 160	$ (213)	$ 254	175%	(184)%
Selected metrics:					
Average loans held for investment:					
Commercial and multifamily real estate	$ 13,497	$ 13,858	$ 12,830	(3)%	8%
Middle market	10,353	10,098	9,172	3	10
Specialty lending	3,732	3,567	3,596	5	(1)
Total commercial lending	27,582	27,523	25,598	**	8
Small-ticket commercial real estate	1,994	2,491	3,115	(20)	(20)
Total commercial banking	$ 29,576	$ 30,014	$ 28,713	(1)%	5%
Average yield on loans held for investment	5.06%	5.02%	5.89%	4bps	(87)bps
Average deposits	$ 22,186	$ 17,572	$ 16,554	26%	6%
Average deposit interest rate	0.69%	0.81%	1.77%	(12)bps	(96)bps
Core deposit intangible amortization	$ 55	$ 43	$ 39	28%	10%
Net charge-off rate(1)	1.32%	1.45%	0.29%	(13)bps	116bps

(Dollars in millions)	December 31, 2010	2009	Change
Selected period-end data:			
Loans held for investment:			
Commercial and multifamily real estate	$ 13,396	$ 13,843	(3)%
Middle market	10,484	10,062	4
Specialty lending	4,020	3,555	13
Total commercial lending	27,900	27,460	2
Small-ticket commercial real estate	1,842	2,153	(14)
Total commercial banking	$ 29,742	$ 29,613	**
Nonperforming loans as a percentage of loans held for investment(2)	1.66%	2.37%	(71)bps
Nonperforming asset rate(2)	1.80	2.52	(72)
Allowance for loan and lease losses	$ 826	$ 785	5%
Period-end deposits	22,630	20,480	10

** Change is less than one percent.

(1) Average loans held for investment used in calculating net charge-off rates includes the impact of loans acquired as part of the Chevy Chase Bank acquisition. The net charge-off rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 1.35% and 1.48% in 2010 and 2009, respectively.

(2) Our calculation of nonperforming loan and asset ratios includes the impact of loans acquired from Chevy Chase Bank. However, we do not report loans acquired from Chevy Chase Bank as nonperforming, as we recorded these loans at estimated fair value when we acquired them. The nonperforming loan ratio, excluding the impact of loans acquired from Chevy Chase Bank from the denominator, was 1.69% and 2.43% as of December 31, 2010 and 2009, respectively. The nonperforming asset rate, excluding loans acquired from Chevy Chase Bank from the denominator, was 1.83% and 2.62% as of December 31, 2010 and 2009, respectively.

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

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

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

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

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

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

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

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

Key factors affecting the results of our Commercial Banking business for 2009, compared with 2008 included the following:

- Net Interest Income: Net interest income increased by $182 million, or 19%, in 2009, largely driven by reduced interest expense on deposits that more than offset the impact of reduced loan margins.

- Non-Interest Income: Non-interest income increased by $28 million, or 19%, to $172 million, primarily driven by the acquisition of Chevy Chase Bank, and growth in treasury management, public finance and investment banking fees.

- Provision for Loan and Lease Losses: The provision for loan and lease losses increased by $749 million to $983 million in 2009. The increase was driven by higher charge offs as well as higher loan loss allowance build as the credit environment deteriorated in 2009.

- Non-Interest Expense: Non-interest expense increased by $180 million, or 37%, in 2009 to $661 million. The increase in expense was largely driven by increases in associates and related salaries and benefits as part of our efforts to enhance our infrastructure and restructure our operating model. In addition, we incurred increased costs related to loan workout and loss mitigation activities due to an increase in problem loans resulting from the severe economic downturn.

- Total Loans: Period-end loans in the Commercial Banking business increased by $235 million, or 1%, to $29.6 billion as of December 31, 2009. The increase was primarily due to the acquisition of the Chevy Chase Bank commercial loan portfolio.

- Deposits: Period-end deposits increased by $4.0 billion, or 24%, to $20.5 billion as of December 31, 2009. The increase was mainly due to the acquisition of Chevy Chase Bank and our strategy to leverage our bank outlets to attract lower cost funding sources.

- Charge-off and Nonperforming Loan Statistics: Credit metrics deteriorated throughout much of 2009 due to the severe economic downturn, which resulted in rising unemployment and significant declines in property values. The net charge-off rate rose to 1.45% in 2009, from 0.29% in 2008, and the nonperforming loan rate increased to 2.37% as of December 31, 2009, from 1.66% as of December 31, 2008.

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CONSOLIDATED BALANCE SHEET ANALYSIS AND CREDIT PERFORMANCE

Total assets of $197.5 billion as of December 31, 2010, after taking into consideration the $41.9 billion of assets added to our balance sheet on January 1, 2010 as a result of the adoption of the new consolidation accounting standards, decreased by $27.9 billion, or 8%, during 2010. Total liabilities of $171.0 billion as of December 31, 2010, after taking into consideration the $44.3 billion of securitization debt added to our balance sheet on January 1, 2010 as a result of the adoption of the new consolidation standards, decreased by $16.4 billion, or 12%, during 2010. Our stockholders' equity, after taking into account the cumulative effect after-tax charge of $2.9 billion to retained earnings on January 1, 2010 from the adoption of the new consolidation accounting standards, increased by $2.8 billion during 2010, to $26.5 billion as of December 31, 2010. The increase in stockholders' equity was primarily attributable to our net income of $2.7 billion in 2010.

Following is a discussion of material changes in the major components of our assets and liabilities during 2010.

Investment Securities

Our investment securities portfolio, which had a fair value of $41.5 billion and $38.9 billion, as of December 31, 2010 and 2009, respectively, consists of the following: U.S. Treasury and U.S. agency debt obligations; agency and non-agency mortgage-backed securities; other asset-backed securities collateralized primarily by credit card loans, auto loans, student loans, auto dealer floor plan inventory loans, equipment loans and home equity lines of credit; municipal securities; and limited Community Reinvestment Act ("CRA") equity securities. Our investment securities portfolio continues to be heavily concentrated in securities that generally have lower credit risk and high credit ratings, such as securities issued and guaranteed by the U.S. Treasury and government sponsored enterprises or agencies. Our investments in U.S. Treasury and agency securities, based on fair value, represented approximately 70% of our total investment securities portfolio as of December 31, 2010, compared with 75% as of December 31, 2009.

All of our investment securities were classified as available for sale as of December 31, 2010 and reported in our consolidated balance sheet at fair value. Table 10 presents the amortized cost and fair value for the major categories of our investment securities as of December 31, 2010, 2009 and 2008.

Table 10: Investment Securities

	December 31,					
	2010		2009		2008	
(Dollars in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury debt obligations	$373	$386	$379	$392	$201	$223
U.S. Agency debt obligations(1)	301	314	455	477	1,348	1,387
Collateralized mortgage obligations ("CMO"):						
Agency(2)	12,303	12,566	8,174	8,300	9,086	9,176
Non-agency	1,091	1,019	1,608	1,338	2,530	1,926
Total CMOs	13,394	13,585	9,782	9,638	11,616	11,102
Mortgage-backed securities ("MBS"):						
Agency(2)	15,721	15,983	19,429	19,858	12,763	12,890
Non-agency	735	681	1,011	826	1,254	823
Total MBS	16,456	16,664	20,440	20,684	14,017	13,713

Asset-backed securities(3)	9,901	9,966	7,043		7,192		4,433	4,096
Other securities(4)	563	622	440		447		496	482
Total securities available for sale	$40,988	$41,537	$38,539		$38,830		$32,111	$31,003
Securities held to maturity:								
Total securities held to maturity	$—	$—	$80	(5)	$80	(5)	$—	$—

(1) Consists of debt securities issued by Fannie Mae and Freddie Mac with amortized costs of $200 million and $454 million, as of December 31, 2010 and 2009, respectively, and fair values of $213 million and $476 million, as of December 31, 2010 and 2009, respectively.

(2) Consists of mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae with amortized costs of $17.1 billion, $8.1 billion and $2.9 billion, respectively, and fair values of $17.3 billion, $8.3 billion and $3.0 billion, respectively, as of December 31, 2010. The book value of Fannie Mae, Freddie Mac and Ginnie Mae investments exceeded 10% of our stockholders' equity as of December 31, 2010.

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(3) Consists of securities collateralized by credit card loans, auto loans, student loans, auto dealer floor plan inventory loans, equipment loans and home equity lines of credit. The distribution among these asset types was approximately 77.8% credit card loans, 6.7% auto loans, 7.2% student loans, 5.6% auto dealer floor plan inventory loans, 2.5% equipment loans and 0.2% home equity lines of credit as of December 31, 2010. In comparison, the distribution was approximately 76.3% credit card loans, 14.0% auto loans, 6.9% student loans, 1.7% auto dealer floor plan inventory loans, 0.8% equipment loans and 0.3% home equity lines of credit as of December 31, 2009. Approximately 90% of the securities in our asset-backed security portfolio were rated AAA or its equivalent as of December 31, 2010, compared with 84% as of December 31, 2009.

(4) Consists of municipal securities and equity investments, primarily related to CRA activities.

(5) Consists of negative amortization mortgage-backed securities.

Unrealized gains and losses on our available-for-sale securities are recorded net of tax as a component of accumulated other comprehensive income ("AOCI"). We had gross unrealized gains of $830 million and gross unrealized losses of $281 million on available-for sale securities as of December 31, 2010, compared with gross unrealized gains of $840 million and gross unrealized losses of $549 million as of December 31, 2009. The decrease in gross unrealized losses in 2010 was primarily driven by a tightening of credit spreads, attributable to the improvement in credit performance and increased liquidity, and lower interest rates. Of the $281 million gross unrealized losses as of December 31, 2010, $137 million related to securities that had been in a loss position for more than 12 months.

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment based on a number of criteria, including the extent and duration of the decline in value, the severity and duration of the impairment, recent events specific to the issuer and/or industry to which the issuer belongs, the payment structure of the security, external credit ratings and the failure of the issuer to make scheduled interest or principal payments, the value of underlying collateral, our intent and ability to hold the security and current market conditions.

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

We recognized net OTTI on debt securities of $65 million, $32 million and $11 million for the years ended December 31, 2010, 2009 and 2008, respectively, due in part to deterioration in the credit performance of certain securities resulting from the continued weaknesses in the housing market, high unemployment, and our decision to sell certain other securities before recovery of the impairment amount.

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

Total Loans

Total loans that we manage consist of held-for-investment loans recorded on our balance sheet and loans held in our securitization trusts. Prior to our January 1, 2010 adoption of the new consolidation standards, a portion of our managed loans were accounted for as off-balance sheet. Loans underlying our securitization trusts are now reported on our consolidated balance sheets in restricted loans for securitization investors. Table 11 presents the composition of our total loan portfolio, by business segments, as of December 31, 2010 and 2009.

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Table 11: Loan Portfolio Composition

	December 31,					
	2010		2009			
(Dollars in millions)	Reported On-Balance Sheet	% of Total Loans	Reported On-Balance Sheet	Off-Balance Sheet	Total Managed	% of Total Loans
Credit Card business:						
Credit card loans:						
Domestic credit card loans	$ 50,170	39.8%	$ 13,374	$ 39,827	$ 53,201	38.9%
International credit card loans	7,513	6.0	2,229	5,951	8,180	6.0
Total credit card loans	57,683	45.8	15,603	45,778	61,381	44.9
Installment loans:						
Domestic installment loans	3,679	2.9	6,693	406	7,099	5.2
International installment loans	9	—	44	—	44	—
Total installment loans	3,688	2.9	6,737	406	7,143	5.2
Total credit card	61,371	48.7	22,340	46,184	68,524	50.1
Consumer Banking business:						
Automobile	17,867	14.2	18,186	—	18,186	13.3
Home loans	12,103	9.6	14,893	—	14,893	10.9
Other retail	4,413	3.5	5,135	—	5,135	3.7
Total consumer banking	34,383	27.3	38,214	—	38,214	27.9
Commercial Banking business:						
Commercial and multifamily real estate(1)	13,396	10.6	13,843	—	13,843	10.1
Middle market	10,484	8.3	10,062	—	10,062	7.4
Specialty lending	4,020	3.2	3,555	—	3,555	2.6
Total commercial lending	27,900	22.1	27,460	—	27,460	20.1
Small-ticket commercial real estate	1,842	1.5	2,153	—	2,153	1.6
Total commercial banking	29,742	23.6	29,613	—	29,613	21.7
Other:						
Other loans	451	0.4	452	—	452	0.3
Total	$ 125,947	100.0%	$ 90,619	$ 46,184	$ 136,803	100.0%

(1) Includes construction and land development loans totaling $2.4 billion and $2.5 billion as of December 31, 2010 and 2009, respectively.

Our total reported loans declined by $10.9 billion, or 8.0%, during the year ended December 31, 2010 to $125.9 billion as of December 31, 2010, from managed loans of $136.8 billion as of December 31, 2009. The decline was primarily due to the run-off of loans in businesses that we either exited or repositioned early in the economic recession, elevated charge-offs and weak consumer demand. The run-offs are related to installment loans included in our Credit Card business, home loans in our Consumer Banking business and small-ticket commercial real estate loans in our Commercial Banking business. Additionally, the decline was attributable to the sale of a portion of the small-ticket commercial real estate loan portfolio in 2010. The decline was partially offset by the acquisition of the $807 million legacy Sony Card portfolio in the third quarter of 2010.

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Table 12 presents a schedule of our loan maturities as of December 31, 2010.

Table 12: Reported Loan Maturity Schedule

	December 31, 2010			
(Dollars in millions)	Amounts Due One Year or Less	Amounts Due After One Year Through Five Years	Amounts Due After Five Years	Total
Fixed rate:				
Credit card(1)	$4,146	$12,644	$164	$16,954
Consumer	935	16,191	10,317	27,443
Commercial	2,945	8,526	4,315	15,786
Other	27	10	105	142
Total fixed-rate loans	8,053	37,371	14,901	60,325
Variable rate:				
Credit card(1)	44,417	-	-	44,417
Consumer	6,408	493	39	6,940
Commercial	12,483	1,407	66	13,956
Other	253	46	10	309
Total variable-rate loans	$63,561	$1,946	$115	$65,622
Total	$71,614	$39,317	$15,016	$125,947

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

We market our credit card products on a national basis throughout the United States, Canada and the United Kingdom. The Credit Card segment accounted for $61.4 billion, or 49% of our total loan portfolio as of December 31, 2010, compared with 50% as of December 31, 2009. Because of the diversity of our credit card products and national marketing approach, no single geographic concentration exists within the credit card portfolio. Table 13 displays the geographic concentration of our credit card loan portfolio as of December 31, 2010 and 2009.

Table 13: Credit Card Concentrations (Managed)

	December 31,			
	2010		2009	
(Dollars in millions)	Loans	% of Total	Loans	% of Total
Domestic card:				
California	$6,242	10.2 %	$7,192	10.5 %
Texas	3,633	5.9	4,097	6.0
New York	3,599	5.8	3,917	5.7
Florida	3,298	5.4	3,759	5.5
Illinois	2,403	3.9	2,653	3.9

Pennsylvania	2,389	3.9		2,641	3.8	
Ohio	2,109	3.4		2,384	3.5	
New Jersey	1,971	3.2		2,146	3.1	
Michigan	1,716	2.8		1,989	2.9	
Other	26,489	43.2		29,522	43.1	
Total domestic card	$53,849	87.7	%	$60,300	88.0	%
International card:						
United Kingdom	$4,102	6.7	%	$4,717	6.9	%
Canada	3,420	5.6		3,507	5.1	
Total international card	$7,522	12.3	%	$8,224	12.0	%
Total credit card	$61,371	100.0	%	$68,524	100.0	%

Consumer Banking represented $34.4 billion, or 27% of our loan portfolio as of December 31, 2010, down from 28% as of Decemberr 31, 2009. The automobile portfolio was originated primarily on a national basis, with additional originations through the retail branch network. It is well diversified with some concentration in Texas, California and Louisiana. The home loan portfolio is concentrated in New York, California and Louisiana which reflects the characteristics of the legacy Hibernia, North Fork and Chevy Chase Bank portfolios that comprise the majority of our home loans. Other retail lending includes our branch and banker based small business loans as well as other consumer lending products originated through the branch network. These portfolios are concentrated in our retail branch geographies. See “Table 14—Consumer Banking Concentrations (Managed)” for further details.

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Table 14: Consumer Banking Concentrations (Managed)

	December 31,					
	2010			2009		
(Dollars in millions)	Loans	% of Total		Loans	% of Total	
Auto:						
Texas	$3,161	9.2	%	$2,901	7.6	%
California	1,412	4.1		1,675	4.4	
Louisiana	1,334	3.9		1,393	3.6	
Florida	954	2.8		1,073	2.8	
Georgia	908	2.6		841	2.2	
New York	894	2.6		919	2.4	
Illinois	843	2.5		789	2.1	
Other	8,361	24.3		8,595	22.5	
Total auto	$17,867	52.0	%	$18,186	47.6	%
Home loan:						
New York	$2,381	6.9	%	$2,907	7.6	%
California	2,315	6.7		2,814	7.4	
Louisiana	1,836	5.4		2,226	5.8	
Maryland	938	2.7		1,033	2.7	
Virginia	809	2.4		989	2.6	
New Jersey	698	2.0		859	2.3	
Other	3,126	9.1		4,065	10.6	
Total home loan	$12,103	35.2	%	$14,893	39.0	%
Retail banking:						
Louisiana	$1,754	5.1	%	$2,065	5.4	%
Texas	1,125	3.3		1,366	3.6	
New York	909	2.6		981	2.6	
New Jersey	357	1.0		382	1.0	
Maryland	89	0.3		135	0.3	
Virginia	52	0.2		151	0.4	
Other	127	0.3		55	0.1	
Total retail banking	$4,413	12.8	%	$5,135	13.4	%
Total consumer banking	$34,383	100.0	%	$38,214	100.0	%

Commercial Banking represented $29.7 billion, or 24%, of our loan portfolio as of December 31, 2010, up from 22% as of December 31, 2009. We operate our Commercial Banking business primarily in the geographies in which we maintain retail bank branches. As a result, most of the portfolio is located in New York, Louisiana and Texas, our largest retail banking markets. Our small-ticket commercial real estate portfolio was originated on a national basis through a broker network and is in run-off mode. See “Table 15—Commercial Banking Concentrations” for further details.

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Table 15: Commercial Banking Concentrations (Managed)

	December 31,			
	2010		2009	
(Dollars in millions)	Loans	% of Total	Loans	% of Total
Commercial lending:				
New York	$11,997	40.3 %	$12,566	42.5 %
Texas	2,990	10.1	2,785	9.4
Louisiana	2,968	10.0	3,592	12.1
New Jersey	2,149	7.2	2,253	7.6
Massachusetts	800	2.7	619	2.1
Maryland	646	2.2	509	1.7
California	598	2.0	571	1.9
Other	5,752	19.3	4,565	15.4
Total commercial lending	$27,900	93.8 %	$27,460	92.7 %
Small-ticket commercial real estate:				
New York	$751	2.5 %	$864	2.9 %
California	402	1.4	468	1.6
Massachusetts	146	0.5	165	0.6
New Jersey	102	0.3	123	0.4
Florida	76	0.3	94	0.3
Other	365	1.2	439	1.5
Total small-ticket commercial real estate	$1,842	6.2 %	$2,153	7.3 %
Total commercial banking	$29,742	100.0 %	$29,613	100.0 %

Credit Performance

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of larger balance, commercial loans. High unemployment, the decline in home prices and other weak economic conditions resulting from the recent recession adversely affected the ability of consumers and businesses to meet their debt obligations and resulting in deterioration across all of our loan portfolios in 2009. As economic conditions began to improve in 2010, credit performance across our loan categories began to improve and stabilize. We present information in the section below on the credit performance of our loan portfolio, including the key metrics we use in tracking changes in the credit quality of our loan portfolio. See "Note 5—Loans" for additional details.

Delinquency Rates

We consider the entire balance of an account to be delinquent if the minimum required payment is not received by the first statement cycle date equal to or following the due date specified on the customer's billing statement. Table 16 below compares 30+ day performing loan delinquency rates, by loan category, as of December 31, 2010 and 2009. This table excludes delinquent loans classified as nonperforming. The delinquency rates presented are calculated, by loan category, based on our total loan portfolio. Our total loan portfolio consists of loans recorded on our balance sheet, which includes loans acquired from Chevy Chase Bank, and loans held in our securitization trusts, which we previously referred to as our "managed" loan portfolio. Loans acquired from Chevy Chase Bank were recorded at fair value at acquisition. Because the fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans, we do not report these loans as delinquent unless they do not perform in accordance with our expectations as of the purchase date.

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Table 16: 30+ Day Performing Delinquencies

	December 31,			
	2010		2009	
(Dollars in millions)	Amount	Rate	Amount	Rate
Credit Card business:				
Domestic credit card and installment	$ 2,200	4.09%	$ 3,487	5.78%
International credit card and installment	432	5.75	539	6.55
Total credit card	2,632	4.29	4,026	5.88
Consumer Banking business:				
Automobile	1,355	7.58	1,681	9.24
Home loans(1)	77	0.64	188	1.26
Retail banking(1)	41	0.93	63	1.23
Total consumer banking(1)	1,473	4.28	1,932	5.06
Commercial Banking business:				
Commercial and multifamily real estate(1)	147	1.10	84	0.61
Middle market(1)	28	0.27	46	0.46
Specialty lending	33	0.81	60	1.69
Small-ticket commercial real estate	95	5.17	121	5.59
Total commercial banking(1)	303	1.02	311	1.05
Other:				
Other loans	22	4.75	53	11.60
Total	$ 4,430	3.52%	$ 6,322	4.62%

(1) The 30+ day performing delinquency rate, excluding the impact of loans acquired from Chevy Chase Bank from the denominator, for home loans, retail banking, total consumer banking, commercial and multifamily real estate, middle market, and total commercial banking was 1.06%, 0.97%, 5.35%, 1.12%, 0.28% and 1.04%, respectively, as of December 31, 2010, compared with 2.18%, 1.30%, 6.56%, 0.63%, 0.47% and 1.08%, respectively, as of December 31, 2009.

Delinquency rates for all loan categories, except commercial and multifamily real estate, showed signs of improvement during 2010, reflecting positive trends in credit conditions. In addition, the diminishing initial adverse impact from the pricing changes we made during 2009 contributed to a reduction in the delinquency rate for domestic credit cards.

Table 17 presents an aging of 30+ day performing delinquent loans included in the above table. All loans included are on accrual status.

Table 17: Aging of 30+ Day Performing Delinquent Loans

	December 31,					
	2010		2009		2008	
(Dollars in millions)	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
Total loan portfolio	$ 125,947	100.00%	$ 136,803	100.00%	$ 146,937	100.00%
Delinquency status:						
30 – 59 days	$ 1,968	1.56%	$ 2,623	1.92%	$ 2,987	2.03%
60 – 89 days	1,064	0.84	1,576	1.15	1,582	1.08

90 – 119 days		559	0.44		895	0.65		817	0.60
120 – 149 days		446	0.35		660	0.48		569	0.39
150 + days		393	0.31		568	0.42		476	0.32
Total	$	4,430	3.52%	$	6,322	4.62%	$	6,431	4.38%
Geographic region:									
Domestic	$	3,998	3.38%	$	5,783	4.23%	$	5,915	4.03%
International		432	5.75		539	6.55		516	5.92
Total	$	4,430	3.52%	$	6,322	4.62%	$	6,431	4.38%
90+ day performing delinquent loans(1)	$	1,398	1.11%	$	2,123	1.55%	$	1,862	1.27%

(1) Includes credit card loans that continue to accrue finance charges and fees until charged-off at 180 days. The amounts reported for credit card loans are net of billed finance charges and fees that we do not expect to collect. In accordance with our finance charge and fee revenue recognition policy, amounts billed but not included in revenue totaled $950 million, $2.1 billion and $1.9 billion in 2010, 2009 and 2008, respectively. Credit card loans 90 days or greater past due which continue to accrue interest totaled $1.4 billion, $2.1 billion and $1.9 billion as of December 31, 2010, 2009 and 2008, respectively.

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Table 18 summarizes loans that were 90 days or more past due as to interest or principal and still accruing interest as of December 31, 2010 and 2009. These loans consist primarily of credit card accounts between 90 days and 179 days past due. As permitted by regulatory guidance issued by The Federal Financial Institutions Examination Council ("FFIEC"), we continue to accrue interest on credit card loans through the date of charge-off, typically in the period the account becomes 180 days past due. While credit card loans remain on accrual status until the loan is charged-off, we establish a reserve for finance charges and fees billed but not expected to be collected and exclude this amount from revenue.

Table 18: 90+ Days Delinquent Loans Accruing Interest

	December 31,			
	2010		2009	
(Dollars in millions)	Amount	% of Total Loans	Amount	% of Total Loans
Loan category:				
Credit card	$ 1,379	1.10%	$ 2,054	1.50%
Consumer	5	—	58	0.04
Commercial	14	0.01	11	0.01
Total	$ 1,398	1.11%	$ 2,123	1.55%
Geographic region:				
Domestic	$ 1,195	0.95%	$ 1,838	1.34%
International	203	0.16	285	0.21
Total	$ 1,398	1.11%	$ 2,123	1.55%

Nonperforming Assets

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

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

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

- Consumer loans: We classify other non-credit card consumer loans as nonperforming at the earlier of the date when we determine that the collectability of interest or principal on the loan is not reasonably assured or when the loan is 90 days past due for automobile and mortgage loans, 180 days past due for unsecured small business revolving lines of credit and 120 days past due for all other non-credit card consumer loans, including installment loans.

- Commercial loans: We classify commercial loans as nonperforming at the earlier of the date we determine that the collectability of interest or principal on the loan is not reasonably assured or the loan is 90 days past due.

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

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

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Table 19 presents comparative information on nonperforming loans, by loan category, as of December 31, 2010 and 2009, and the ratio of nonperforming loans to our total loans. Nonperforming loans held for sale are excluded from nonperforming loans, as they are recorded at lower of cost or fair value.

Table 19: Nonperforming Loans and Other Nonperforming Assets(1)(2)

	December 31,			
	2010		2009	
(Dollars in millions)	Amount	% of Total HFI Loans	Amount	% of Total HFI Loans
Nonperforming loans held for investment:				
Consumer Banking business:				
Automobile	$ 99	0.55%	$ 143	0.79%
Home loan	486	4.01	323	2.17
Other retail	91	2.07	87	1.69
Total consumer banking	676	1.97	553	1.45
Commercial Banking business:				
Commercial and multifamily real estate	276	2.06	429	3.10
Middle market	133	1.27	104	1.03
Specialty lending	48	1.20	74	2.08
Total commercial lending	457	1.64	607	2.21
Small-ticket commercial real estate	38	2.04	95	4.41
Total commercial banking	495	1.66	702	2.37
Other:				
Other loans	54	12.12	34	7.52
Total nonperforming loans held for investment(3)	$ 1,225	0.97%	$ 1,289	0.94%
Other nonperforming assets:				
Foreclosed property(4)	$ 306	0.24%	$ 234	0.17%
Repossessed assets	20	0.02	24	0.02
Total other nonperforming assets	326	0.26	258	0.19
Total nonperforming assets	$ 1,551	1.23%	$ 1,547	1.13%

	Year Ended December 31,		
(Dollars in millions)	2010	2009	2008
Interest income related to nonperforming loans:			
Interest income forgone (5)	$47	$44	$25
Interest income recognized for the period (6)	35	46	39

(1) The ratio of nonperforming loans as a percentage of total loans held for investment is calculated based on the nonperforming loans in each loan category divided by the total outstanding unpaid principal balance of loans held for investment in each loan category. The denominator used in calculating the nonperforming asset ratios consists of total loans held for investment and other nonperforming assets.

(2) Our calculation of nonperforming loan and asset ratios includes the impact of loans acquired from Chevy Chase Bank. However, we do not report loans acquired from Chevy Chase Bank as nonperforming unless they do not perform in accordance with our expectations as of the purchase date, as we recorded these loans at estimated fair value when we acquired them. The nonperforming loan ratios, excluding the impact of loans acquired from Chevy Chase Bank, for commercial and multifamily real estate, middle market, total commercial banking, home loans, retail banking, total consumer banking, and total nonperforming loans held for investment were 2.11%, 1.30%, 1.69%, 6.67%, 2.16%, 2.30% and 1.02%, respectively, as of December 31, 2010, compared with 3.18%, 1.07%,

2.43%, 3.75%, 1.78%, 1.75%, and 0.99%, respectively, as of December 31, 2009. The nonperforming asset ratio, excluding loans acquired from Chevy Chase Bank, was 1.29% and 1.19% as of December 31, 2010 and 2009, respectively.

(3) Nonperforming loans as a percentage of loans held for investment, excluding credit card loans from the denominator, was 1.90% and 1.89% as of December 31, 2010 and 2009, respectively.

(4) Includes $201 million and $154 million of foreclosed properties related to loans acquired from Chevy Chase Bank, as of December 31, 2010 and 2009, respectively.

(5) Forgone interest income represents the amount of interest income that would have been recorded during the year for nonperforming loans as of the end of the year had the loans performed according to their contractual terms.

(6) Represents interest income recognized during the year for on-balance sheet loans classified as nonperforming as of the end of each year.

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The increase in our nonperforming loan ratio to 0.97% as of December 31, 2010, from 0.94% as of December 31, 2009 was primarily attributable to the weak economy, decline in property values and high unemployment, which continued to have an adverse impact on our commercial and home loan portfolios.

Total nonperforming loans included TDRs totaling $96 million and $20 million as of December 31, 2010 and 2009, respectively.

Net Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine are uncollectible, net of recovered amounts. We exclude accrued and unpaid finance charges and fees and fraud losses from charge-offs. Charge-offs are recorded as a reduction to the allowance for loan and lease losses and subsequent recoveries of previously charged off amounts are credited to the allowance for loan and lease losses. Costs incurred to recover charged-off loans are recorded as collection expense and included in our consolidated statements of income as a component of other non-interest expense. Our charge-off time frame for loans, which varies based on the loan type, is presented below.

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

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

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

- Purchased credit-impaired loans: We do not record charge-offs on purchased-credit impaired loans that are performing in accordance with or better than our expectations as of the date of acquisition, as the fair values of these loans already reflect a credit component. We record charge-offs on purchased credit-impaired loans only if actual losses exceed estimated losses incorporated into the fair value recorded at acquisition.

Table 20 presents our net charge-off amounts and rates, by business segment, for the years ended December 31, 2010 and 2009. We provide additional information on the amount of charge-offs by loan category below in Table 22.

Table 20: Net Charge-Offs(1)

	Year Ended December 31,					
(Dollars in millions)	2010		2009		2008	
Managed;	Amount	Rate(2)	Amount	Rate(2)	Amount	Rate(2)
Credit card	$ 5,505	8.79%	$ 6,688	9.15%	$ 4,956	6.26%
Consumer banking(3)(4)	655	1.82	1,094	2.74	1,218	3.09
Commercial banking(3)(4)	390	1.32	434	1.45	83	0.29
Other	107	21.18	205(5)	37.11	168	30.87
Total company(4)	$ 6,657	5.18%	$ 8,421	5.87%	$ 6,425	4.35%
Average loans held for investment(6)	$ 128,622		$ 143,514		$ 147,812	
Reported:						
Total company charge-offs	6,651	5.18 %	4,568	4.58%	3,478	3.51%
Average loans heid for investments(6)	128,526		99,787		98,971	

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

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

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(3) Excludes losses on the purchased credit-impaired loans acquired from Chevy Chase Bank unless they do not perform in accordance with our expectations as of the purchase date.
(4) The average loans held for investment used in calculating net charge-off rates includes the impact of loans acquired as part of the Chevy Chase Bank acquisition. Our total net charge-off rate, excluding the impact of acquired Chevy Chase Bank loans, was 5.44% and 6.09% for the years ended December 31, 2010 and 2009, respectively.
(5) During the first quarter of 2009, loans acquired from Chevy Chase Bank were included in the "Other" category.
(6) The average balances of the acquired Chevy Chase Bank loan portfolio, which are included in the total average loans held for investment used in calculating the net charge-off rates, were $6.3 billion and $6.8 billion for the years ended December 31, 2010 and 2009, respectively.

The overall decrease in net charge-offs in 2010 from 2009 reflects the ongoing improvement in credit performance since the end of 2009, as well as declining loan balances. The overall increase in net charge-offs in 2009 from 2008 was predominately due to the continued economic downturn, which persisted in 2009.

Loan Modifications and Restructurings

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

Table 21 presents the unpaid principal balance as of December 31, 2010 and 2009 of loan modifications made as part of our loss mitigation efforts, all of which are considered to be TDRs. Table 21 excludes acquired loans from Chevy Chase Bank that were restructured prior to acquisition, which we track and report separately below under "Purchased Credit - Impaired Loans."

Table 21: Loan Modifications and Restructurings(1)

	December 31,	
(Dollars in millions)	2010	2009
Modified and restructured loans:		
Credit card(2)	$912	$678
Home loans	57	10
Commercial retail and multifamily real estate	153	41
Other retail	23	4
Total	$1,145	$733
Status of modified and restructured loans:		
Performing	$1,049	$713
Nonperforming	96	20
Total	$1,145	$733

(1)

Reflects modifications and restructuring of loans in our total loan portfolio, which we previously referred to as our "managed" loan portfolio. The total loan portfolio includes loans recorded on our balance sheet and loans held in our securitization trusts. Certain prior period amounts have been reclassified to conform to the current period presentation.

(2) Amount reported reflects the total outstanding customer balance.

The outstanding balance of loan modifications made to assist borrowers experiencing financial difficulties increased to $1.1 billion as of December 31, 2010, from $733 million as December 31, 2009. Of these modifications, approximately $96 million, or 8%, were classified as nonperforming as of December 31, 2010, compared with $20 million, or 3%, as of December 31, 2009.

Credit card loan modifications have accounted for the substantial majority of our loan modifications, representing $912 million, or 80%, of the outstanding balance of total modified loans as of December 31, 2010, and $678 million, or 92%, of the outstanding balance of total modified loans as of December 31, 2009. The vast majority of our credit card loan modifications involve a reduction in the interest rate on the account and placing the customer on a fixed payment plan not exceeding 60 months. In all cases, we cancel the customer's available line of credit on the credit card. If the cardholder does not comply with the modified payment terms, then the credit card loan agreement will revert back to its original payment terms, with the amount of any loan outstanding reflected in the appropriate delinquency "bucket." The loan amount may then be charged-off in accordance with our standard charge-off policy.

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We typically measure the re-performance rate of modified credit card loans over a 5-year period. Five years after starting a credit card modification, approximately 84% of the balances of modified loans are paid off in full and approximately 16% are charged-off. Based on our experience to date, we believe that credit losses are lower for credit card loans that have been modified than those of similar accounts that were not modified. We therefore plan to ramp up our short-term credit card loan modification programs and continue our long-term programs.

Mortgage loan modifications represented $57 million, or 5%, of the outstanding balance of total modified loans as of December 31, 2010, compared with $10 million, or 1%, of the outstanding balance of total modified loans as of December 31, 2009. Approximately 76% of our modified mortgage loans include reduction in the contractual interest rate, approximately 17% include a term extension and approximately 5% include a principal reduction. The majority of our modified mortgage loans involve a combination of an interest rate reduction, term extension or principal reduction. Because many of the mortgage loan modification programs have been recently launched and we have had a limited number of modifications under these programs, we do not have sufficient history to fully assess the long-term performance of modified mortgage loans. Of the modified mortgage loans outstanding as of December 31, 2010, approximately 27% were 90 days or more delinquent.

Commercial loan modifications represented $153 million, or 13%, of the outstanding balance of total modified loans as of December 31, 2010, compared with $41 million, or 6%, of the outstanding balance of total modified loans as of December 31, 2009. The vast majority of modified commercial loans include a reduction in interest rate or a term extension. Because we have had only a limited number of commercial loan modifications and the structure of each loan varies, the ultimate success of our commercial loan modifications is uncertain. Of the modified commercial loans outstanding as of December 31, 2010, approximately 22% were 90 days or more delinquent.

Impaired Loans

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

Impaired loans, including TDRs, totaled $1.5 billion as of December 31, 2010, compared with $1.0 billion as of December 31, 2009. TDRs accounted for $1.1 billion and $733 million of impaired loans as of December 31, 2010 and 2009, respectively. We provide additional information on our impaired loans, including the allowance established for these loans, in “Note 5—Loans” and “Note 6—Allowance for Loan and Lease Losses.”

Purchased Credit-Impaired Loans

Purchased credit-impaired loans decreased to $4.2 billion as of December 31, 2010, from $5.3 billion as of December 31, 2009. Our portfolio of purchased credit-impaired loans consists of loans acquired in the Chevy Chase Bank transaction, which were recorded at fair value at the date of acquisition. The fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans. Therefore, no allowance for loan and lease losses was recorded for these loans as of the acquisition date. However, we regularly update the amount of expected principal and interest to be collected from these loans and evaluate the results on an aggregated pool basis for loans with common risk characteristics. If we determine that it is probable that the amount of expected cash flows for any pool is less than our recorded investment, we would recognize impairment through our provision for loan and lease losses. During 2010, we recorded impairment of $33 million related to certain loan pools. The credit performance of the remaining pools has generally been in line with or, in some instances, better than we originally expected at the acquisition date. As a result, we reclassified $311 million from the nonaccretable difference to accretable yield during 2010. This increase in accretable yield will be recognized in interest income over the remaining life of these loans. We provide additional information on the loans acquired from Chevy Chase Bank in "Note 5—Loans."

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Allowance for Loan and Lease Losses

Our allowance for loan and lease losses represents management's best estimate of incurred loan and lease credit losses inherent in our held-for-investment portfolio as of each balance sheet date. We do not maintain an allowance for held-for-sale loans or purchased-credit impaired loans that are performing in accordance with or better than our expectations as of the date of acquisition, as the fair values of these loans already reflect a credit component. The allowance for loan and lease losses is increased through the provision for loan and lease losses and reduced by net charge-offs. The provision for loan and lease losses, which is charged to earnings, reflects credit losses we believe have been incurred and will eventually be reflected over time in our charge-offs. Charge-offs of uncollectible amounts are deducted from the allowance and subsequent recoveries are added. We describe our process for determining our allowance for loan and lease losses in "Note 1—Summary of Significant Accounting Policies."

Table 22, which displays changes in our allowance for loan and lease losses for the years ended December 31, 2010, 2009 and 2008, details, by loan type, the provision for credit losses recognized in our consolidated statements of income each period and the charge-offs recorded against our allowance for loan and lease losses.

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Table 22: Summary of Reported Allowance for Loan and Lease Losses

(Dollars in millions)	December 31, 2010	2009	2008
Balance at beginning of period, as reported	$ 4,127	$ 4,524	$ 2,963
Impact from January 1, 2010 adoption of new consolidation accounting standards	4,317(1)	—	—
Balance at beginning of period, as adjusted	$ 8,444	$ 4,524	$ 2,963
Provision for loan and lease losses	3,907	4,230	5,101
Charge-offs:			
Credit Card business:			
Domestic credit card and installment	(6,020)	(3,050)	(2,244)
International credit card and installment	(761)	(284)	(255)
Total credit card	(6,781)	(3,334)	(2,499)
Consumer Banking business:			
Automobile	(672)	(1,110)	(1,236)
Home loans	(97)	(87)	(38)
Retail banking	(129)	(160)	(122)
Total consumer banking	(898)	(1,357)	(1,396)
Commercial Banking business:			
Commercial and multifamily real estate	(207)	(208)	(47)
Middle market	(101)	(53)	(22)
Specialty lending	(36)	(49)	(10)
Total commercial lending	(344)	(310)	(79)
Small-ticket commercial real estate	(100)	(134)	(8)
Total commercial banking	(444)	(444)	(87)
Other loans	(115)	(207)	(169)
Total charge-offs	(8,238)	(5,342)	(4,151)
Recoveries:			
Credit Card business:			
Domestic credit card and installment	1,113	447	425
International credit card and installment	169	52	65
Total credit card	1,282	499	490
Consumer Banking business:			
Automobile	215	238	158
Home loans	4	3	1
Retail banking	24	22	19
Total consumer banking	243	263	178
Commercial Banking business:			
Commercial and multifamily real estate	20	2	1
Middle market	24	3	2
Specialty lending	8	3	1
Total commercial lending	52	8	4
Small-ticket commercial real estate	2	2	—
Total commercial banking	54	10	4
Other loans	8	2	1
Total recoveries	1,587	774	673
Net charge-offs	(6,651)	(4,568)	(3,478)
Impact from acquisitions, sales and other changes(2)	(72)	(59)	(62)

Balance at end of period	$ 5,628	$ 4,127	$ 4,524
Allowance for loan and lease losses as a percentage of loans held for investment	4.47 %	4.55%	4.48%
Allowance for loan and lease losses by geographic distribution:			
Domestic	$ 5,168	$ 3,928	$ 4,331
International	460	199	193
Total allowance for loan and lease losses	$ 5,628	$ 4,127	$ 4,524
Allowance for loan and lease losses by loan category:			
Domestic card	$ 3,581	$ 1,927	$ 2,544
International card	460	199	193
Consumer banking	675	1,076	1,314
Commercial banking	826	785	301
Other	86	140	172
Allowance for loan and lease losses	$ 5,628	$ 4,127	$ 4,524

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

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

Table 23 presents an allocation of our allowance for loan and lease losses by loan category as of December 31, 2010 and 2009.

Table 23: Allocation of the Reported Allowance for Loan and Lease Losses

	December 31,			
	2010		2009	
(Dollars in millions)	Amount	% of Total Loans(1)	Amount	% of Total Loans(1)
Credit Card:				
Domestic credit card and installment	$ 3,581	6.65%	$ 1,927	9.60%
International credit card and installment	460	6.12	199	8.75
Total credit card	4,041	6.58	2,126	9.52
Consumer Banking:				
Automobile	353	1.98	665	3.66
Home loans	112	0.93	175	1.18
Retail banking	210	4.76	236	4.60
Total consumer banking	675	1.96	1,076	2.82
Commercial Banking:				
Commercial and multifamily real estate	495	3.70	471	3.40
Middle market	162	1.55	131	1.30
Specialty lending	91	2.26	90	2.54
Total commercial lending	748	2.68	692	2.52
Small-ticket commercial real estate	78	4.23	93	4.34
Total commercial banking	826	2.78	785	2.65
Other loans	86	19.07	140	30.91
Total	$ 5,628	4.47%	$ 4,127	4.55%
Total allowance for loan and lease losses as a percentage of:				
Period-end loans	$ 125,947	4.47%	$ 90,619	4.55%
Nonperforming loans(2)	1,225	459.43	1,289	320.17
Allowance for loan and lease losses, by loan category, as a percentage of:				
Credit card (30 + day performing delinquent loans)	$ 2,632	153.53%	$ 1,308	162.54%
Consumer banking (30 + day performing delinquent loans)	1,473	42.94	1,932	51.86
Commercial banking (nonperforming loans)	495	166.87	702	111.82

(1) Calculated based on the allowance for loan and lease losses attributable to each loan category divided by the outstanding balance of loans within the specified loan category.

(2) As permitted by regulatory guidance issued by the FFEIC, our policy is generally not to classify credit card loans as nonperforming. We accrue interest on credit card loans through the date of charge-off, typically in the period that the loan becomes 180 days past due. The allowance for loan and lease losses as a percentage of nonperforming loans, excluding the allowance related to our credit card loans, was 129.55% as of December 31, 2010 and

155.33% as of December 31, 2009.

As a result of our prospective adoption on January 1, 2010 of the new consolidation accounting standards, we added to our consolidated balance sheet $41.9 billion of assets and $4.3 billion of related allowance for loan and lease losses, consisting primarily of credit card loan receivables underlying our consolidated securitization trusts. Our allowance for loan and lease losses, after taking into consideration the $4.3 billion addition from the January 1, 2010 adoption of the new consolidation accounting standards and subsequent related adjustments, decreased by $2.8 billion during 2010 to $5.6 billion. The reduction in our allowance reflected the continued improvement in credit performance trends across our portfolios as a result of the slowly improving economy coupled with actions we have taken over the past several years to tighten our underwriting standards and exit certain portfolios. While we reduced the amount of our allowance for loan and lease losses in 2010, our allowance as a percentage of our total loan portfolio also decreased to 4.47% as of December 31, 2010, from 4.55% as of December 31, 2009.

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Deposits

Our deposits have become our largest source of funding for our operations and asset growth. Total deposits increased by $6.4 billion, or 5.5%, in 2010, to $122.2 billion as of December 31, 2010 from $115.8 billion as of December 31, 2009. The increase in deposits was primarily driven by increases of $9.1 billion, $6.4 billion, and $1.6 billion in savings accounts, money market deposits, and non-interest bearing deposits, respectively, which was partially offset by a decrease of $9.7 billion in other consumer time deposits and $1.9 billion in certificates of deposit of $100,000 or more, reflecting our shift to more relationship driven, lower cost liquid savings and transaction accounts. We provide additional information on deposits, including the composition of our deposits, average outstanding balances, interest expense and yield, below in "Liquidity and Funding."

Senior and Subordinated Notes and Other Borrowings

Senior and subordinated notes and other borrowings decreased to $14.9 billion as of December 31, 2010, from $17.1 billion as of December 31, 2009. The decrease was primarily attributable to a reduction in Federal Home Loan Bank ("FHLB") advances. Because of the decrease in our loan portfolio and the increase in deposits during 2010, our funding needs were lower and we reduced our level of borrowings. We provide additional information on our borrowings in "Note 10—Deposits and Borrowings."

Securitized Debt Obligations

Borrowings owed to securitization investors, after taking into consideration the addition of $44.3 billion of debt issued to third-party investors by securitization trusts that we were required to consolidate on January 1, 2010, as a result of the adoption of the new consolidation accounting standards, decreased by $21.4 billion to $26.9 billion as of December 31, 2010, from $48.3 billion as of January 1, 2010. This decrease was attributable to pay downs and charge-offs of the loans underlying the securitization trusts and maturities.

Potential Mortgage Representation & Warranty Liabilities

In recent years, we acquired three subsidiaries that originated residential mortgage loans and sold them to various purchasers, including purchasers who created securitization trusts. These subsidiaries are Capital One Home Loans, which was acquired in February 2005; GreenPoint Mortgage Funding, Inc. ("GreenPoint"), which was acquired in December 2006 as part of the North Fork acquisition; and Chevy Chase Bank, which was acquired in February 2009 and subsequently merged into CONA.

In connection with their sales of mortgage loans, the subsidiaries entered into agreements containing varying representations and warranties about, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with any applicable loan criteria established by the purchaser, including underwriting guidelines and the ongoing existence of mortgage insurance, and the loan's compliance with applicable federal, state and local laws. The representations and warranties do not address the credit performance of the mortgage loans, but mortgage loan performance often influences whether a claim for breach of representation and warranty will be asserted and has an effect on the amount of any loss in the event of a breach of a representation or warranty.

Each of these subsidiaries may be required to repurchase mortgage loans in the event of certain breaches of these representations and warranties. In the event of a repurchase, the subsidiary is typically required to pay the then unpaid principal balance of the loan together with interest and certain expenses (including, in certain cases, legal costs incurred by the purchaser and/or others). The subsidiary then recovers the loan or, if the loan has been foreclosed, the underlying collateral. The subsidiary is exposed to any losses on the repurchased loans after giving effect to any recoveries on the collateral. In some instances, rather than repurchase the loans, a subsidiary may agree to make a cash payment to make an investor whole on losses or to settle repurchase claims. In addition, our subsidiaries may be required to indemnify certain purchasers and others against losses they incur as a result of certain breaches of representations and warranties. In some cases, the amount of such losses could exceed the repurchase amount of the related loans.

These subsidiaries, in total, originated and sold to non-affiliates approximately $111 billion original principal balance of mortgage loans between 2005 and 2008, which are the years (or "vintages") with respect to which our subsidiaries have received the vast majority of the repurchase requests and other related claims.

The following table sets forth the original principal balance of mortgage loan originations by vintage for the three general categories of purchasers of mortgage loans:

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Table 24: Original Principal Balance of Mortgage Loans Originated and Sold to Third Parties Based on Category of Purchaser

(Dollars in billions)	2005	2006	2007	2008	Total
Government sponsored enterprises (“GSEs”)(1)	$ 3	$ 3	$ 4	$ 1	$ 11
Insured Securitizations	9	8	1	0	18
Uninsured Securitizations and Other	33	30	16	3	82
Total	$ 45	$ 41	$ 21	$ 4	$ 111

(1) GSEs include Fannie Mae and Freddie Mac.

Between 2005 and 2008, our subsidiaries sold an aggregate amount of $11 billion in original principal balance mortgage loans to the GSEs.

Of the $18 billion in original principal balance of mortgage loans sold directly by our subsidiaries to private-label purchasers who placed the loans into securitizations supported by bond insurance (“Insured Securitizations”), approximately $13 billion original principal balance was placed in securitizations as to which the monoline bond insurers have made repurchase requests or loan file requests to one of our subsidiaries (“Active Insured Securitizations”), and the remaining approximately $5 billion original principal balance was placed in securitizations as to which the monoline bond insurers have not made repurchase requests or loan file requests to one of our subsidiaries (“Inactive Insured Securitizations”). Insured Securitizations often allow the monoline bond insurer to act independently of the investors. Bond insurers typically have indemnity agreements directly with both the mortgage originators and the securitizers, and they often have super-majority rights within the trust documentation that allow them to direct trustees to pursue mortgage repurchase requests without coordination with other investors.

Because we do not service most of the loans our subsidiaries sold to others, we do not have complete information about the current ownership of the $82 billion in original principal balance of mortgage loans not sold directly to GSEs or placed in Insured Securitizations. We have determined from third-party databases that about $39 billion original principal balance of these mortgage loans are currently held by private-label publicly issued securitizations not supported by bond insurance (“Uninsured Securitizations”). In contrast with the bond insurers in Insured Securitizations, investors in Uninsured Securitizations often face a number of legal and logistical hurdles before they can direct a securitization trustee to pursue mortgage repurchases, including the need to coordinate with a certain percentage of investors holding the securities and to indemnify the trustee for any litigation it undertakes. An additional approximately $30 billion original principal balance of mortgage loans were initially sold to private investors as whole loans. Of this amount, we believe approximately $10 billion original principal balance of mortgage loans were ultimately purchased by GSEs. For purposes of our reserves-setting process, we consider these loans to be private-label loans rather than GSE loans. We do not have information about the current holders or disposition of the remaining $13 billion original principal balance mortgage loans in this category.

With respect to the $111 billion in original principal balance of mortgage loans originated and sold to others between 2005 and 2008, we estimate that approximately $45 billion in unpaid principal balance remains outstanding, approximately $12 billion in losses have been realized, and approximately $13 billion in unpaid principal balance is at least 90 days delinquent. Because we do not service most of the loans we sold to others, we do not have complete information about the underlying credit performance levels of these mortgage loans, but these amounts reflect our best estimates based on available data, including extrapolated estimates for the $13 billion original principal balance of mortgage loans about which we do not have information about the current holders. These estimates could change as we get additional data or refine our analysis.

As of December 31, 2010, the subsidiaries had open repurchase requests relating to approximately $1.6 billion original principal balance of mortgage loans as compared with $1.0 billion as of December 31, 2009.

Over the last year, the vast majority of new repurchase demands received and, as discussed below, almost all of our $816 million reserves, relate to the $24 billion of original principal balance of mortgage loans originally sold to the GSEs or to Active Insured Securitizations. Currently, repurchase demands predominantly relate to the 2006 and 2007 vintages. We have received relatively few repurchase demands from the 2008 and 2009 vintages, mostly because GreenPoint ceased originating mortgages in August 2007.

Table 25 sets forth information on pending repurchase requests by counterparty category and timing of initial repurchase request:

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Table 25: Open Pipeline All Vintages (all entities) (1)

(Dollars in millions) (All amounts are Original Principal Balance)	Open Claims December 31, 2009	Gross New Demands Received in 2010	Loans Repurchased/Made Whole in 2010(2)	Demands Rescinded in 2010(2)	Open Claims December 31, 2010
GSEs	$ 61	$204	$ (52)	$(87)	$ 126
Insured Securitizations	366	645	(179)	0	832
Uninsured Securitizations and Others	588	104	(5)	(22)	665
Total	$ 1,015	$953	$ (236)	$(109)	$ 1,623

(1) The open pipeline includes all repurchase requests ever received by our subsidiaries where either the requesting party has not formally rescinded the repurchase request and where our subsidiary has not agreed to either repurchase the loan at issue or make the requesting party whole with respect to its losses. Accordingly, repurchase requests denied by our subsidiaries and not pursued by the counterparty remain in the open pipeline. Moreover, repurchase requests submitted by parties without contractual standing to pursue repurchase requests are included within the open pipeline unless the requesting party has formally rescinded its repurchase request. Finally, the amounts reflected in this chart are original principal balance amounts and do not correspond to the losses our subsidiary would incur upon the repurchase of these loans.

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

We have established representation and warranty reserves for losses that we consider to be both probable and reasonably estimable associated with the mortgage loans sold by each subsidiary, including both litigation and non-litigation liabilities. These reserves are reported in our consolidated balance sheets as a component of other liabilities. The reserve-setting process relies heavily on estimates, which are inherently uncertain, and requires the application of judgment. We evaluate these estimates on a quarterly basis. We build our representation and warranty reserves through the provision for repurchase losses, which we report in our consolidated statements of income as a component of non-interest income for loans originated and sold by Chevy Chase Bank and Capital One Home Loans and as a component of discontinued operations for loans originated and sold by GreenPoint. In establishing the representation and warranty reserves, we consider a variety of factors depending on the category of purchaser.

In establishing reserves for the $11 billion original principal balance of GSE loans, we rely on the historical relationship between GSE loan losses and repurchase outcomes to estimate: (1) the percentage of current and future GSE loan defaults that we anticipate will result in repurchase requests from the GSEs over the lifetime of the GSE loans; and (2) the percentage of those repurchase requests that we anticipate will result in actual repurchases. We also rely on estimated collateral valuations and loss forecast models to estimate our lifetime liability on GSE loans. This reserving approach to the GSE loans reflects the historical interaction with the GSEs around repurchase requests. The GSEs have stronger contractual rights than non-GSE counterparties because GSE contracts typically do not contain prompt notice requirements for repurchase requests or materiality qualifications to the representations and warranties. Moreover, although we often disagree with the GSEs about the validity of their repurchase requests, we have established a negotiation pattern whereby the GSEs and our subsidiaries continually negotiate around individual repurchase requests, leading to the GSEs rescinding some repurchase requests and our subsidiaries agreeing in some cases to repurchase some loans or make the GSEs whole with respect to losses. Our lifetime representation and warranty reserves with respect to GSE loans are grounded in this history.

For the $13 billion original principal balance in Active Insured Securitizations, our reserving approach also reflects our historical interaction with monoline bond insurers around repurchase requests. Typically, monoline bond insurers allege a very high repurchase rate with respect to the mortgage loans in the Active Insured Securitization category. In response to these repurchase requests, our subsidiaries typically request information from the monoline bond insurers demonstrating that the contractual requirements around a valid repurchase request have been satisfied, such as, for example, the typical requirements that the counterparty promptly notify us upon discovery of any breach and that any breach materially and adversely affect the value of the mortgage loan at issue. In response to these requests for supporting documentation, monoline bond insurers typically initiate litigation. Accordingly, our reserves within the Active Insured Securitization are not based upon the historical repurchase rate with monoline bond insurers, but rather upon the expected resolution of litigation with the monoline bond insurers. Every bond insurer within this category is pursuing a substantially similar litigation strategy either through active or probable litigation. Accordingly, our representation and warranty reserves for this category are litigation reserves. In establishing litigation reserves for this category, we consider current and future losses inherent within the securitization and apply legal judgment to the anticipated factual and legal record to estimate the lifetime legal liability for each securitization. Our estimated legal liability for each securitization within this category assumes that we will be responsible for only a portion of the losses inherent in each securitization. Our litigation reserves with respect to both the U.S. Bank Lawsuit and the DBSP Lawsuit, in each case as referenced below, are contained within the Active Insured Securitization reserve category. Further, our litigation reserves with respect to indemnification risks from certain representation and warranty lawsuits brought by monoline bond insurers against third-party securitizations sponsors, where GreenPoint provided some or all of the mortgage collateral within the securitization but is not a defendant in the litigation, are also contained within this category.

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For the $5 billion original principal balance of mortgage loans in the Inactive Insured Securitizations category and the $82 billion original principal balance of mortage loans in the Uninsured Securitizations and other whole loans sales categories, we establish reserves by relying on our historical repurchase rates to estimate repurchase liabilities over the next twelve (12) months. We do not believe we can estimate repurchase liability for these categories for a period longer than twelve (12) months because of the relatively sporadic nature of repurchase requests from these categories. Although we have not seen any significant activity from new counterparties from these categories, there has been a recent uptick in negotiation intensity from some counterparties who had submitted repurchase claims in earlier quarters with respect to whole loans. In addition, some Uninsured Securitization investors from this category have not made repurchase requests or filed representation and warranty lawsuits, but instead have filed class actions under federal and state securities laws against investment banks and securitization sponsors. Although we face some indemnity risks from these litigations, we have not established reserves with respect to these indemnity risks because we do not consider them to be both probable and reasonably estimable liabilities.

The aggregate reserves for all three subsidiaries were $816 million as of December 31, 2010 as compared with $238 million as of December 31, 2009. We recorded a total provision for repurchase losses for our representation and warranty repurchase exposure of $636 million for the year ended December 31, 2010. During 2010, we had settlements of repurchase requests totaling $58 million that were charged against the reserve. Table 26 summarizes changes in our representation and warranty reserves for the twelve months ended December 31, 2010 and 2009.

Table 26: Changes in Representation and Warranty Reserves

	Year Ended December 31,	
(Dollars in millions)	2010	2009
Representation and warranty repurchase reserve, beginning of period(1)	$ 238	$ 140
Provision for repurchase losses(2)	636(3)	181
Net realized losses	(58)	(83)
Representation and warranty repurchase reserve, end of period(1)	$ 816	$ 238

(1) Reported in our consolidated balance sheets as a component of other liabilities.

(2) The portion of the provision for mortgage repurchase claims recognized in our consolidated statements of income as a component of non-interest income totaled $204 million and $19 million, twelve months ended December 31, 2010 and 2009. The portion of the provision for mortgage repurchase claims recognized in our consolidated statements of income as a component of discontinued operations totaled $432 million and $162 million, pre-tax, for the twelve months ended December 31, 2010 and 2009.

(3) Includes increases to the representation and warranty reserves in the first and second quarter of 2010 due primarily to counterparty activity and our ability to extend the timeframe over which we estimate our repurchase liability in most cases to the full life of the mortgage loans sold by our subsidiaries for groups of loans for which we believe repurchases are probable. More specifically, of the $636 million increase in representation and warranty reserves for the twelve months ended December 31, 2010, approximately $407 million resulted from our extension of repurchase liability estimates to the life of the loan effective in the second quarter of 2010. The remaining $229 million reserve accrual related primarily to changing counterparty activity in the form of updated estimates around active and probable litigation, most of which occurred in the first quarter of 2010.

As indicated in Table 27, almost all of the reserves relate to the $11 billion in original principal balance of mortgage loans sold directly to the GSEs and to the $13 billion in mortgage loans sold to purchasers who placed them into Active Insured Securitizations.

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Table 27: Allocation of Representation and Warranty Reserves

	December 31, 2010			
(Dollars in millions, except for loans sold)	Loans Sold 2005 to 2008(1)		Reserve Liability	
GSEs and Active Insured Securitizations	$	24	$	796
Inactive Insured Securitizations and others		87		20
Total	$	111	$	816

(1) Reflects, in billions, the total original principal balance of mortgage loans originated by our subsidiaries and sold to third party investors between 2005 and 2008.

The adequacy of the reserves and the ultimate amount of losses incurred by our subsidiaries will depend on, among other things, actual future mortgage loan performance, the actual level of future repurchase and indemnification requests (including the extent, if any, to which Inactive Insured Securitizations and other currently inactive investors ultimately assert claims), the actual success rates of claimants, developments in litigation, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices).

As part of our business planning processes, we have considered various outcomes relating to the potential future representation and warranty liabilities of our subsidiaries that are possible but do not arise to the level of being both probable and reasonably estimable outcomes that would justify an incremental reserve accrual under applicable accounting standards. We believe that the upper end of the reasonably possible future losses from representation and warranty claims beyond the current accrual levels, including reasonably possible future losses relating to the US Bank Litigation and DBSP Litigation , could be as high as $1.1 billion. Notwithstanding our attempt to estimate a reasonably possible amount of loss beyond our current accrual levels based on current information, it is possible that actual future losses will exceed both the current accrual level and the amount of reasonably possible losses estimated here. There is still significant uncertainty as to numerous factors that contribute to ultimate liability levels, including, but not limited to, litigation outcomes, future repurchase claims levels, ultimate repurchase success rates, and mortgage loan performance levels.

Also see representation and warranty liabilities and litigation claims in “Note 21— Commitments, Contingencies and Guarantees.”

RISK MANAGEMENT

Our business activities expose us to eight major categories of risks: liquidity risk, credit risk, reputational risk, market risk, strategic risk, operational risk, compliance risk and legal risk. Our risk management framework is intended to identify, assess and mitigate risks that affect or have the potential to affect our business in order to target financial returns commensurate with our risk appetite and to avoid excessive risk-taking. We follow four key risk management principles:

- Individual businesses take and manage risk in pursuit of strategic, financial and other business objectives.

- Independent risk management organizations support individual businesses by providing risk management tools and policies and by aggregating risks; in some cases, risks are managed centrally.

- The Board of Directors and senior management review our aggregate risk position, establish the risk appetite and work with management to ensure conformance to policy and adherence to our adopted mitigation strategy.

- We employ a top risk identification system to maintain the appropriate focus on the risks and issues that may have the most impact and to identify emerging risks of consequence.

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

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

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

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

Finally, we recognize that maintaining a strong capital position is essential to our business strategy and competitive position. While capital is not a risk unto itself, understanding and managing risks to our capital position is an underlying objective of all our risk programs. Stress testing and economic capital measurement, both of which incorporate inputs from across the risk spectrum, are key tools for evaluating our capital position and risk adjusted returns. We also consider risks to our reputation and to our ability to access capital markets as part of our process for evaluating our capital plans. See “MD&A—Liquidity and Capital Management” for additional information on our capital adequacy and strength.

Risk Management Roles and Responsibilities

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

The Chief Risk Officer, who reports to the CEO, is responsible for overseeing our risk management program and driving appropriate action to resolve any weaknesses. The risk management program begins with a set of policies and risk appetites approved by the Board that are implemented through a system of risk committees and senior executive risk stewards. We have established risk committees at both the corporate and divisional level to identify and manage risk. In addition, we have assigned a senior executive expert to each of eight risk categories (the risk stewards). These executive risk stewards work with the Chief Risk Officer and the risk committees to ensure that risks are identified and given appropriate priority and attention. The Chief Risk Officer aggregates the results of these processes to assemble a view of our risk profile. Both management and the Board regularly review the risk profile.

Risk Management and Control Framework

We use a consistent framework to manage risk. The framework applies at all levels, from the development of the Enterprise Risk Management Program itself to the tactical operations of the front-line business team. The framework has six key elements:

- Objective Setting;
- Risk Assessment;
- Control Activities;

- Communication and Information;
- Program Monitoring; and
- Organization and Culture.

Objective Setting is at the beginning of our risk management approach. We set strategic, financial, operational, and other objectives during our strategic and annual planning processes and throughout the year. These objectives cascade through the organization to individual teams of associates. The risk management approach helps identify and manage risks that have the potential to interfere with the achievement of our stated objectives.

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

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

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

Program Monitoring is critical to our risk management program overall. Program monitoring assesses the accuracy, sufficiency, and effectiveness of current objectives, risk assessments, controls, ownership, communication, and management support. The assessment of a risk program or activity can be qualitative or quantitative. We encourage the use of measurement and metrics, where it is possible and recognizing that some risks or programs cannot be measured quantitatively. Where deficiencies are discovered, we seek to update the risk management program to resolve the deficiencies in a timely manner. Significant deficiencies are escalated to the appropriate risk executive or risk committee. Clear accountability is defined when resolving deficiencies to ensure the desired outcome is achieved. Risk management programs are monitored at every level; from the overall Enterprise Risk Management Program to the individual risk management activities in each business area.

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

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

Risk Appetite

We have a defined risk appetite for each of our eight risk categories that is approved by the Board of Directors. Each risk category has its own risk appetite statement. Stated risk appetites, and the assessment framework that support them, define the guardrails for taking and accepting risks and are used by senior management and the Board to make business decisions.

The risk appetite framework assesses each risk category across three dimensions, using consistent, comprehensive, and understandable measures. The three dimensions are:

- Net Risk: Assessment of the level of risk given internal and external factors
-

Quality of Governance and Controls: Evidence demonstrating the strength (or weakness) of our risk governance structure and/or controls associated with the risk category and our ability to address issues

- Mitigation Plan Status: When needed, the status of our key mitigation activity needed to reduce risk

All three framework dimensions are assessed and measured using a five-point scale. The assessment language in each scale is customized by each risk steward to reflect the tolerance levels of each of the eight risk categories.

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Risk Categories

Our risk management program is organized around eight risk categories. They are:

Liquidity Risk: is the risk that future financial obligations are not met or future asset growth cannot occur because of an inability to obtain funds at a reasonable price within a reasonable time. The Chief Financial Officer is the accountable executive for liquidity risk. Liquidity strength is assessed by evaluating several different balance sheet metrics under severe stress scenarios to ensure we can withstand significant funding degradation in both deposits and capital marketing funding sources. Management reports liquidity metrics to the Finance and Trust Oversight Committee of the Board no less than quarterly and to Asset/Liability Management Committee on a monthly basis. Breaches in liquidity metric limits are reported to the Treasurer as soon as they are identified and to the Asset/Liability Management Committee at the next regularly scheduled committee meeting, unless the breach activates the Liquidity Contingency Plan. Breaches are also reported to the Finance and Trust Oversight Committee no later than the next regularly scheduled meeting. Detailed processes, requirements and controls are contained in our policies and supporting procedures.

Credit Risk: is the risk of loss from a borrower's failure to meet the terms of any contract or failure to otherwise perform as agreed. There are four primary sources of credit risk: (1) changing economic conditions, which affect borrowers' ability to pay and the value of any collateral; (2) a changing competitive environment, which affects customer debt loads, borrowing patterns and loan terms; (3) our underwriting strategies and standards, which determine to whom we offer credit and on what terms; and (4) the quality of our internal controls, which establish a process to test that underwriting conforms to our standards and identifies credit quality issues so we can act upon them in a timely manner. The Chief Risk Officer is the accountable executive for credit risk.

We have quantitative credit risk guidelines for each of our lines of business. We conduct portfolio and decision level monitoring and stress tests using economic and legislative stress scenarios. Credit risk objectives are achieved by establishing a credit governance framework and by establishing policies, procedures, and controls for each step in the credit process. The Board, Chief Executive Officer, Chief Risk Officer, Chief Consumer and Commercial Credit Officers, and Division Presidents have specific accountable roles in the management of credit risk. These include policy approval, creation of credit strategy, review of credit position, delegation of authority, and appointments and responsibilities of key executives and Credit Policy Committee members. Our evolving credit risk position and recommendations to address issues are reviewed by management's Credit Policy Committee and the Board of Directors.

Reputation Risk: is the risk to market value, recruitment, and retention of talented associates and a loyal customer base due to the negative perceptions of our internal and external stakeholders regarding our business strategies and activities. Our General Counsel is the accountable executive for reputation risk.

Reputation risk associated with daily interactions are managed by our business areas. Business area activities are controlled by the frameworks set forth in the Reputation Risk Policy and other risk management policies. Each business area determines how much risk it is willing to accept and when it is prudent to execute mitigation activities. The Reputation Risk Management Policy sets forth the obligation of each business area, with direction and guidance from the Reputation Risk Steward and his or her designee to identify, assess and determine whether and how best to mitigate its reputation risk. The Reputation Risk Steward is responsible for reporting on the assessments of our aggregate reputation risk, as well as the state of our reputation with specific stakeholder groups, to the Chief Risk Officer, the Chief Executive Officer, and the Risk Management Committee as appropriate.

Market Risk: is the risk that earnings or the economic value of equity will under-perform due to changes in interest rates, foreign exchange rates (market rates), or other financial market asset prices. Our ability to manage market risks contributes to our overall capital management. The Chief Financial Officer is the accountable executive for market risk.

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

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Strategic Risk: is the risk that we fail to achieve short and long-term business objectives because we fail to develop the products, capabilities, and competitive position necessary to attract consumers, succeed against competitors and withstand market volatility. The result is a failure to deliver returns expected by stakeholders (customers, associates, stockholders, investors, communities, and regulators). The Chief Executive Officer is the accountable executive for our strategy.

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

Operational Risk: is the risk of loss, adverse customer experience, or negative regulatory or reputation impact resulting from failed or inadequate processes, associate capabilities or systems, or exposure to external events. The Chief Compliance Officer is the accountable executive for establishment of risk management standards and for governance and monitoring of operational risk at a corporate level. Division Presidents have primary accountability for management of operational risk within their business areas.

While most operational risks are managed and controlled by business areas, the Operational Risk Management Program establishes requirements and control processes that assure certain consistent practices in the management of operational risk, and provides transparency to the corporate operational risk profile. Our Operational Risk Management Program also includes two primary additional functions. Operational Risk Reporting involves independent assessments of the control and sustainability of key business processes at a corporate and business area level, and such assessments are provided to the Chief Risk Officer, management's Risk Management Committee, and the Audit and Risk Committee of the Board. The Operational Risk Capital function, in conjunction with the corporate capital process managed by Global Finance, establishes necessary operational risk capital levels to assure resiliency against extreme operational risk event scenarios.

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

Compliance Risk: is the risk of financial loss due to regulatory fines or penalties, restriction or suspension of business, or cost of mandatory corrective action as a result of failing to adhere to applicable laws, regulations, principles and supervisory guidance as well as our own internal standards intended to adhere to these laws and regulations. Division Presidents are the accountable executives for compliance risk and are responsible for building and maintaining compliance processes. With the Chief Compliance Officer, Division Presidents are jointly accountable for ensuring the Compliance Management Program requirements are met for their division.

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

Legal Risk: is the risk of material adverse impact due to: (i) new and changed laws and regulations; (ii) new interpretations of law; (iii) the drafting, interpretation and enforceability of contracts; (iv) adverse decisions or consequences arising from litigation or regulatory scrutiny; (v) the establishment, management and governance of our legal entity structure; and (vi) the failure to seek or follow appropriate legal counsel when needed. Our General Counsel is the accountable executive for monitoring and controlling legal risk.

Our Legal Department serves as our control against legal risk by providing legal evaluation and guidance to the enterprise and business areas. This evaluation and guidance is based on the assessment of legal counsel of the type and degree of legal risk associated with the internal business area practices and activities and of the controls the business has in place to mitigate legal risks. Legal risk is governed by and defined in our Legal Risk Policy.

LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity

We have established liquidity guidelines that are intended to ensure that we have sufficient asset-based liquidity to withstand the potential impact of deposit attrition or diminished liquidity in the funding markets. Our guidelines include maintaining an adequate liquidity reserve to cover our potential funding requirements and diversified funding sources to avoid over-dependence on volatile, less reliable funding markets. Our liquidity reserves consist of cash and cash equivalents, unencumbered available-for-sale securities and undrawn committed securitization borrowing facilities. Table 28 below presents the composition of our liquidity reserves as of December 31, 2010 and 2009. Our liquidity reserves decreased by $1.5 billion during 2010 to $37.0 billion as of December 31, 2010.

Table 28: Liquidity Reserves

	December 31,	
(Dollars in millions)	2010	2009
Cash and cash equivalents	$ 5,249	$ 8,685
Securities available for sale(1)	41,537	38,830
Less: Pledged available for sale securities	(9,963)	(11,883)
Unencumbered available-for-sale securities	31,574	26,947
Undrawn committed securitization borrowing facilities	207	2,913
Total liquidity reserves	$ 37,030	$ 38,545

(1) The weighted average life of our available-for-sale securities was approximately 5.1 and 4.9 years as of December 31, 2010 and 2009, respectively.

Funding

Our funding objective is to establish an appropriate maturity profile using a cost-effective mix of both short-term and long-term funds. We use a variety of funding sources, including deposits, loan securitizations, debt and equity securities, securitization borrowing facilities and FHLB advances.

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Deposits

Our deposits provide a stable and relatively low cost of funds and have become our largest source of funding. We have expanded our opportunities for deposit growth through direct and indirect marketing channels, our existing branch network and branch expansion. These channels offer a broad set of deposit products that include demand deposits, money market deposits, negotiable order of withdrawal ("NOW") accounts, savings accounts and certificates of deposit. Table 29 presents the composition of our deposits by type as of December 31, 2010 and 2009. Total deposits increased by $6.4 billion, or 5.5%, in 2010, to $122.2 billion as of December 31, 2010.

Table 29: Deposits

(Dollars in millions)	December 31, 2010	December 31, 2009
Non-interest bearing	$ 15,048	$ 13,439
NOW accounts	13,536	12,077
Money market deposit accounts	44,485	38,094
Savings accounts	26,077	17,019
Other consumer time deposits	15,753	25,456
Total core deposits	114,899	106,085
Public fund certificates of deposit $100,000 or more	177	579
Certificates of deposit $100,000 or more	6,300	8,248
Foreign time deposits	834	897
Total deposits	$ 122,210	$ 115,809

Of our total deposits, approximately $834 million and $897 million were held in foreign banking offices as of December 31, 2010 and 2009, respectively. Large domestic denomination certificates of deposits of $100,000 or more represented $6.5 billion and $8.8 billion of our total deposits as of December 31, 2010 and 2009, respectively. Our funding and liquidity strategy takes into consideration the scheduled maturities of large denomination time deposits. Of the $6.5 billion in large domestic denomination certificates of deposit as of December 31, 2010, $0.7 billion is scheduled to mature within the next three months; $2.3 billion is scheduled to mature between three and 12 months and $3.5 billion is scheduled to mature over 12 months. Based on past activity, we expect to retain a portion of these deposits as they mature.

We have brokered deposits, which we obtained through the use of third-party intermediaries that are included above in Table 28 in money market deposit accounts and other consumer time deposits. The Federal Deposit Insurance Corporation Improvement Act of 1991 limits the use of brokered deposits to "well-capitalized" insured depository institutions and, with a waiver from the Federal Deposit Insurance Corporation, to "adequately capitalized" institutions. COBNA and CONA were "well-capitalized," as defined under the federal banking regulatory guidelines, as of December 31, 2010, and therefore permitted to maintain brokered deposits. Our brokered deposits totaled $14.8 billion, or 12% of total deposits, as of December 31, 2010. Brokered deposits totaled $18.8 billion, or 16% of total deposits, as of December 31, 2009. Based on our historical access to the brokered deposit market, we expect to replace maturing brokered deposits with new brokered deposits or direct deposits and branch deposits.

Table 30 provides a summary of the future maturities of large denomination time deposits. Our funding and liquidity planning factors in the maturities of these deposits. Based on past activity, we expect to retain a portion of these deposits as they mature. Therefore, the expected net cash outflow will be less than reported in the summary table.

Table 30: Maturities of Large Domestic Denomination Certificates—$100,000 or More

	December 31,			
	2010		2009	
(Dollars in millions)	Balance	Percent	Balance	Percent
Three months or less	$707	10.9 %	$1,464	16.6 %
Over 3 through 6 months	650	10.0	1,273	14.4
Over 6 through 12 months	1,612	24.9	1,623	18.4
Over 12 months through 10 years	3,508	54.2	4,467	50.6
Total	$6,477	100.0 %	$8,827	100.0 %

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Table 31 provides a summary of the composition of period end, average deposits, interest expense and the average deposit rate paid for the periods presented.

Table 31: Deposit Composition and Average Deposit Rates

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

	December 31, 2009				
(Dollars in millions)	Period End Balance	Average Balance	Interest Expense	% of Average Deposits	Average Deposit Rate
Non-interest bearing	$13,439	$12,523	N/A	10.8 %	N/A
NOW accounts	12,077	10,690	$60	9.3	0.57 %
Money market deposit accounts	38,094	35,055	412	30.3	1.18
Savings accounts	17,019	11,340	79	9.8	0.69
Other consumer time deposits	25,456	32,736	1,113	28.3	3.40
Total core deposits	106,085	102,344	1,664	88.5	1.63
Public fund certificates of deposit of $100,000 or more	579	1,034	13	0.9	1.31
Certificates of deposit of $100,000 or more	8,248	10,367	385	9.0	3.71
Foreign time deposits	897	1,856	31	1.6	1.66
Total deposits	$115,809	$115,601	$2,093	100.0 %	1.81 %

Short-Term Borrowings

We also have access to and utilize various other short term borrowings to support our operations. These borrowings are generally in the form of federal funds purchased and resale agreements, most of which are overnight borrowings. Other short term borrowings are not a significant portion of our overall funding. Table 32 provides summary information about the amounts borrowed and rates paid on other short term borrowings.

Table 32: Short Term Borrowings

(Dollars in millions)	Maximum Outstanding as of any	Outstanding as of Year-End	Average Outstanding	Average Interest Rate	Year-End Weighted Average

	Month-End				Interest Rate
2010:					
Federal funds purchased and resale agreements	$ 2,469	$ 1,517	$ 1,731	0.23 %	0.13 %
2009:					
Federal funds purchased and resale agreements	$ 3,778	$ 1,140	$ 2,958	0.25 %	0.11 %

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Other Funding Sources

We also access the capital markets to meet our funding needs through loan securitization transactions and the issuance of senior and subordinated debt. In addition, we utilize advances from the FHLB that are secured by our investment securities, residential home loan portfolio, multifamily loans, commercial real-estate loans and home equity lines of credit for our funding needs.

We have committed loan securitization conduit lines of $1.3 billion, of which $1.1 billion was outstanding as of December 31, 2010. Senior and subordinated notes and other borrowings, including FHLB advances, totaled $14.9 billion as of December 31, 2010, down from $17.1 billion as of December 31, 2009. The $2.1 billion decrease was primarily attributable to a reduction in FHLB advances. Our FHLB membership is secured by our investment in FHLB stock, which totaled $269 million as of December 31, 2010. We did not issue any senior or subordinated debt during 2010.

Borrowing Capacity

As of December 31, 2010, we had an effective shelf registration statement filed with the U.S. Securities & Exchange Commission ("SEC") under which, from time to time, we may offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depository shares representing preferred stock, common stock, purchase contracts, warrants, units, trust preferred securities, junior subordinated debt securities, guarantees of trust preferred securities and certain back-up obligations. There is no limit under this shelf registration statement to the amount or number of such securities that we may offer and sell. Under SEC rules, the shelf registration statement, which we filed in May 2009, expires three years after filing. We did not issue any securities under the shelf registration statement in 2010.

In addition to issuance capacity under the shelf registration statement, we have access to other borrowing programs. Table 33 summarizes our borrowing capacity as of December 31, 2010.

Table 33: Borrowing Capacity

(Dollars or dollar equivalents in millions)	Effective/ Issue Date	Capacity(1)	Outstanding	Availability(1)	Final Maturity(2)
FHLB Advances and Letters of Credit (3)	—	9,823	1,394	8,429	—
Committed Securitization Conduits(4)	—	1,263	1,056	207	11/11

(1) All funding sources are non-revolving. Funding availability under all other sources is subject to market conditions. Capacity is the maximum amount that can be borrowed. Availability is the amount that can still be borrowed against the facility.
(2) Maturity date refers to the date the facility terminates, where applicable.
(3) The ability to draw down funding is based on membership status, and the amount is dependent upon the Banks' ability to post collateral.
(4) Committed securitization conduits capacity is set at various dates in conjunction with each arrangement, with the last termination scheduled for November 2011.

Contractual Obligations

In the normal course of business, we into various contractual obligations that may require future cash payments that affect our short- and long-term liquidity and capital resource needs. Commitments for future cash expenditures primarily relate to deposits, debt securities and other borrowings and operating leases. Table 34 provides aggregated information about the listed categories of our contractual obligations as of December 31, 2010. The table includes information about undiscounted future cash payments due under these contractual obligations, including the contractual maturity profile of deposits, debt securities and other borrowings reported on our consolidated balance sheet and our operating leases at December 31, 2010. The timing of actual future payments may differ from those presented due to a number of factors, including discretionary debt repurchases. The table excludes certain obligations such as trade payables and trading liabilities, where the obligation is short-term or subject to valuation based on market factors. The table also excludes the representation and warranty reserve of $816 million.

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Table 34: Contractual Funding Obligations

	December 31, 2010				
(Dollars in millions)	Up to 1 Year	> 1 Year to 3 Years	> 3 Years to 5 Years	> 5 Years	Total
Interest-bearing time deposits(1)	$ 10,208	$ 8,763	$ 2,814	$ 449	$ 22,234
Senior and subordinated notes	884	1,479	1,833	4,454	8,650
Other borrowings(2)	12,222	7,534	4,377	9,013	33,146
Operating leases	159	297	257	785	1,498
Purchase obligations	224	93	6	15	338
Total obligations	$ 23,697	$ 18,166	$ 9,287	$ 14,716	$ 65,866

(1) Includes only those interest bearing deposits which have a contractual maturity date.

(2) Other borrowings includes secured borrowings for our on-balance sheet auto loan securitizations, junior subordinated capital securities and debentures, FHLB advances, federal funds purchased and resale agreements and other short-term borrowings.

Covenants

In connection with the issuance of certain of our trust preferred securities, we entered into Replacement Capital Covenants ("RCCs") granting certain rights to the holders of "covered debt" which was defined in the RCCs as our 5.35% Subordinated Notes due May 1, 2014. The RCCs prohibited the repayment, redemption or purchase of the trust preferred securities except, with limited exceptions, to the extent that we received specified amounts of proceeds from the sale of certain qualifying securities. We commenced a solicitation of consents from the covered debtholders on November 29, 2010, to terminate the RCCs. The RCCs were terminated on December 10, 2010, the expiration date of the consent solicitation, at which time we had received the consent of holders of a majority of the principal amount of the covered debt.

The terms of certain lease and credit facility agreements related to other borrowings and operating leases include several financial covenants that require performance measures and equity ratios to be met. If these covenants are not met, there may be an acceleration of the payment due dates noted in Table 32. As of December 31, 2010, we were not in default of any such covenants.

Capital

The level and composition of our equity capital are determined by multiple factors including our consolidated regulatory capital requirements and an internal risk-based capital assessment, and may also be influenced by rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in our business and market environments.

Capital Standards and Prompt Corrective Action

Bank holding companies and national banks are subject to capital adequacy standards adopted by the Federal Reserve and the OCC, respectively. The capital adequacy standards set forth minimum risk-based and leverage capital requirements that are based on quantitative and qualitative measures of their assets and off-balance sheet items. Under the capital adequacy standards, bank holding companies and banks currently are required to maintain a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4%, and a Tier 1 leverage capital ratio of at least 4% (3% for banks that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate exposure and the highest regulatory rating).

Under prompt corrective action capital regulations, a bank is considered to be well capitalized if it maintains a total risk-based capital ratio of at least 10% (200 basis points higher than the above minimum capital standard), a Tier 1 risk-based capital ratio of at least 6%, a Tier 1 leverage capital ratio of at least 5% and not be subject to any supervisory agreement, order, or directive to meet and maintain a specific capital level for any capital reserve. A bank is considered to be adequately capitalized if it meets the above minimum capital ratios and does not otherwise meet the well capitalized definition. Currently, prompt corrective action capital requirements do not apply to bank holding companies.

In addition to disclosing our regulatory capital ratios, we also disclose Tier 1 common equity and TCE ratios, which are non-GAAP measures widely used by investors, analysts, rating agencies and bank regulatory agencies to assess the capital position of financial services companies. There is currently no mandated minimum or “well capitalized” standard for Tier 1 common equity; instead the risk-based capital rules state voting common stockholders’ equity should be the dominant element within Tier 1 common equity. Management reviews our Tier 1 common equity and TCE ratios, along with other measures of capital, as part of its financial analyses and discloses these non-GAAP capital measures because of current interest in such information on the part of market participants. Please see "Financial Highlights" under "Executive Summary and Business Outlook" for more information on our TCE ratio. Table 35 provides the details of the calculation of our capital ratios, including a reconciliation of the total stockholders’ equity reported in our consolidated balance sheets to Tier 1 common equity.

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Table 35: Risk-Based Capital Components

	December 31,	
(Dollars in millions)	2010	2009
Total stockholders' equity	$26,541	$26,590
Less: Net unrealized (gains) on available-for sale-securities recorded in AOCI(1)	(368)	(200)
Net losses on cash flow hedges recorded in AOCI(1)	86	92
Disallowed goodwill and other intangible assets	(13,953)	(14,125)
Disallowed deferred tax assets	(1,150)	—
Other	(2)	(10)
Tier 1 common equity	11,154	12,347
Plus: Tier 1 restricted core capital items(2)	3,636	3,642
Tier 1 risk-based capital	14,790	15,989
Plus: Long-term debt qualifying as Tier 2 capital	2,827	3,018
Qualifying allowance for loan and lease losses	3,748	1,581
Other Tier 2 components	29	4
Tier 2 risk-based capital	6,604	4,603
Total risk-based capital	$21,394	$20,592
Risk-weighted assets(3)	$127,043	$116,309

(1) Amounts presented are net of tax.
(2) Consists primarily of trust preferred securities.
(3) Under regulatory guidelines for risk-based capital, on-balance sheet assets and credit equivalent amounts of derivatives and off-balance sheet items are assigned to one of several broad risk categories according to the obligor or, if relevant, the guarantor or the nature of any collateral. The aggregate dollar amount in each risk category is then multiplied by the risk weight associated with that category. The resulting weighted values from each of the risk categories are aggregated for determining total risk-weighted assets.

Table 36 provides a comparison of our capital ratios under the Federal Reserve's capital adequacy standards; and the capital ratios of the Banks under the OCC's capital adequacy standards as of December 31, 2010 and 2009. As of December 31, 2010, we exceeded minimum capital requirements and would meet the "well-capitalized" ratio levels specified under prompt corrective action for total risk-based capital and Tier 1 risk-based capital under Federal Reserve capital standards for bank holding companies. As of December 31, 2010, the Banks also exceeded minimum regulatory requirements under the OCC's applicable capital adequacy guidelines and were "well-capitalized" under prompt corrective action requirements.

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Table 36: Capital Ratios(1)

	December 31,					
	2010			2009		
(Dollars in millions)	Capital Ratio	Minimum Capital Adequacy	Well Capitalized	Capital Ratio	Minimum Capital Adequacy	Well Capitalized
Capital One Financial Corp: (2)						
Tier 1 common equity(3)	8.78%	N/A	N/A	10.62%	N/A	N/A
Tier 1 risk-based capital(4)	11.63	4.00%	6.00%	13.75	4.00%	6.00%
Total risk-based capital(5)	16.83	8.00	10.00	17.70	8.00	10.00
Tier 1 leverage(6)	8.13	4.00	N/A	10.28	4.00	N/A
Capital One Bank (USA) N.A.						
Tier 1 risk-based capital	13.50%	4.00%	6.00%	18.27%	4.00%	6.00%
Total risk-based capital	23.57	8.00	10.00	26.40	8.00	10.00
Tier 1 leverage	8.29	4.00	5.00	13.03	4.00	5.00
Capital One, N.A.						
Tier 1 risk-based capital	11.07%	4.00%	6.00%	10.22%	4.00%	6.00%
Total risk-based capital	12.36	8.00	10.00	11.46	8.00	10.00
Tier 1 leverage	8.06	4.00	5.00	7.42	4.00	5.00

(1) Effective January 1, 2010, we are no longer required to apply the subprime capital risk weighting to credit card loans with a credit score equal to or lessr than 660. Accordingly, we no longer disclose these ratios.
(2) The regulatory framework for prompt corrective action does not apply to Capital One Financial Corp. because it is a bank holding company.
(3) Tier 1 common equity ratio is a non-GAAP measure calculated based on Tier 1 common equity divided by risk-weighted assets.
(4) Calculated based on Tier 1 capital divided by risk-weighted assets.
(5) Calculated based on Total risk-based capital divided by risk-weighted assets.
(6) Calculated based on Tier 1 capital divided by quarterly average total assets, after certain adjustments.

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

We elected the phase-in option, which required us to phase-in 50% of consolidated assets beginning with the third quarter of 2010 for purposes of determining risk-weighted assets. However, the phase-in impact was effectively accelerated over the first three quarters of 2010 due to pay downs of outstanding securitization debt. The phase-in provisions expired after December 31, 2010, and the full impact of the consolidated assets on capital ratios will be realized in the first quarter of 2011.

Under the Dodd-Frank Act, many trust preferred securities will cease to qualify for Tier 1 capital, subject to a three year phase-out period expected to begin in 2013. See “Supervision and Regulation” for more information.

Dividend Policy

The declaration and payment of dividends to our stockholders, as well as the amount thereof, are subject to the discretion of the our Board of Directors and will depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. As a bank holding company, our ability to pay dividends is largely dependent upon the receipt of dividends or other payments from our subsidiaries. For additional information on dividends, See "Item 1. Business – Supervision and Regulation – Dividends, Stock Purchases and Transfer of Funds."

Regulatory restrictions exist that limit the ability of the Banks to transfer funds to us. As of December 31, 2010, funds available for dividend payments from the Banks were $1.4 billion and zero, respectively. Funds available for dividend payments from the Banks in the third quarter of 2010 were $803 million and zero, respectively. Although funds are available for dividend payments from COBNA, we would execute a dividend from COBNA in consultation with the OCC. Additionally, a dividend payment by CONA would require prior approval of the OCC. Applicable provisions that may be contained in our borrowing agreements or the borrowing agreements of our subsidiaries may limit our subsidiaries' ability to pay dividends to us or our ability to pay dividends to our stockholders. There can be no assurance that we will declare and pay any dividends.

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In the fourth quarter of 2010, we participated in a Federal Reserve led Capital Plan Review and stress test along with 19 other top U.S. banks. We will incorporate any feedback from our regulators in response to the Capital Plan Review in our ongoing capital management actions.

MARKET RISK MANAGEMENT

Market risk generally represents the risk that our earnings and/or economic value of equity may be adversely affected by changes in market conditions. Market risk is inherent in the financial instruments associated with our operations and activities, including loans, deposits, securities, short-term borrowings, long-term debt and derivatives. Market conditions that may change from time to time, thereby exposing us to market risk, include changes in interest rates and currency exchange rates, credit spreads and price fluctuation or changes in value due to changes in market perception or actual credit quality of issuers. Our most significant market risks include our exposure to interest rate and foreign exchange risk.

We have prescribed risk management policies and limits established by our Asset/Liability Management Committee. Our objective is to manage our asset/liability risk position and exposure to market risk in accordance with these policies and prescribed limits based on prevailing market conditions and long-term expectations. Because no single measure can reflect all aspects of market risk, we use various industry standard market risk measurement techniques and analyses to measure, assess and manage the impact of changes in interest rates and foreign exchange rates on our earnings and the economic value of equity.

Interest Rate Risk

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

Interest rate risk also results from changes in customer behavior and competitors' responses to changes in interest rates or other market conditions. For example, decreases in mortgage interest rates generally results in faster than expected prepayments, which may adversely affect earnings. Increases in interest rates, coupled with strong demand from competitors for deposits, may influence industry pricing. Such competition may affect customer decisions to maintain balances in the deposit accounts, which may require replacing lower cost deposits with higher cost alternative sources of funding.

We employ several strategies to manage our interest rate risk, which include, but are not limited to, changing the maturity and re-pricing characteristics of our various assets and liabilities and using interest rate derivatives. We consider the impact on both earnings and economic value of equity in measuring and managing our interest rate risk.

Our earnings sensitivity measure estimates the impact on net interest income and the valuation of our mortgage servicing rights (net of derivatives) as a result of movements in interest rates. Our economic value of equity sensitivity measure estimates the impact on the net preset value of our assets and liabilities, including derivatives, as a result of movements in interest rates. Our earnings sensitivity and economic value of equity measurements are based on our existing assets and liabilities, including our derivatives, and do not incorporate business growth assumptions or projected plans for funding mix changes. However, we also assess the potential impact of growth assumptions, changing business activities, alternative interest rate scenarios and changing market environments, which we factor into our interest rate risk management decisions.

Under our current asset/liability management policy, we seek to limit the potential decrease in our projected net interest income resulting from a gradual plus or minus 200 basis point change in forward rates to less than 5% over the next 12 months. Our current asset/liability management policy also includes limiting the adverse change in the economic value of our equity due to an instantaneous parallel interest rate shock to spot rates of plus or minus 200 basis points to less than 12%. The federal funds rate remained at a target range of zero to 0.25% throughout 2010. Given the level of short-term rates as of December 31, 2010 and 2009, a scenario where interest rates would decline by 200 basis points is not plausible. We therefore revised our customary declining interest rate scenario of 200 basis points to a 50 basis point decrease.

Table 37 compares the estimated impact on net interest income and the economic value of equity of our selected hypothetical interest rate scenarios as of December 31, 2010 and 2009. All changes in income and value are measured as percentage changes from the projected net interest income and economic value of our equity at the base interest rate scenario. Our earnings and economic value sensitivity measures were low and within our prescribed asset/liability policy limits as of December 31, 2010 and 2009.

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Table 37: Interest Rate Sensitivity Analysis

	December 31, 2010	December 31, 2009
Impact to projected base-line net interest income:		
+ 200 basis points(1)	(0.7)%	(0.4)%
- 50 basis points(1)	(0.2)	(0.1)
Impact to economic value of equity:		
+ 200 basis points(2)	(3.8)%	(3.2)%
- 50 basis points(2)	0.1	0.3

(1) These sensitivities include our net interest income and mortgage servicing rights valuation change (net of hedges). For net interest income, the rate scenarios are based on a hypothetical gradual increase in interest rates of 200 basis points and a hypothetical gradual decrease of 50 basis points to forward rates over the next 9 months. For the mortgage servicing rights valuation change (net of hedges), the rate scenarios are based on a hypothetical instantaneous parallel rate shock of plus 200 basis points and minus 50 basis points to spot rates.

(2) Based on a hypothetical instantaneous parallel shift in the level of interest rates of plus 200 basis points and minus 50 basis points to spot rates.

The interest rate risk models that we use in deriving these measures incorporate contractual information, internally-developed assumptions and proprietary modeling methodologies, which project borrower and deposit behavior patterns in certain interest rate environments. Other market inputs, such as interest rates, market prices and interest rate volatility, are also critical components of our interest rate risk measures. We regularly evaluate, update and enhance these assumptions, models and analytical tools as we believe appropriate to reflect our best assessment of the market environment and the expected behavior patterns of our existing assets and liabilities.

There are inherent limitations in any methodology used to estimate the exposure to changes in market interest rates. The above sensitivity analyses contemplate only certain movements in interest rates and are performed at a particular point in time based on the existing balance sheet, and do not incorporate other factors that may have a significant effect, most notably future business activities and strategic actions that management may take to manage interest rate risk. Actual earnings and economic value of equity could differ from the above sensitivity analyses.

Foreign Exchange Risk

We are exposed to changes in foreign exchange rates, which may impact the earnings of our foreign operations. Our asset/liability management policy requires that we use derivatives to hedge material foreign currency denominated transactions to limit our earnings exposure to foreign exchange risk. The estimated reduction in our 12-month earnings due to adverse foreign exchange rate movements corresponding to a 95% probability was less than 2% as of December 31, 2010 and 2009. The precision of this estimate is limited due to the inherent uncertainty of the underlying forecast assumptions.

Derivative Instruments

Derivatives are one of the primary tools we use in managing interest rate and foreign exchange risk. We execute our derivative contracts in both over-the-counter and exchange-traded derivative markets. Although the majority of our derivatives are interest rate swaps, we also use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage our interest rate and foreign currency risk. The outstanding notional amount of our derivative contracts totaled $50.8 billion as of December 31, 2010, compared with $59.2 billion as of December 31, 2009. See “Note 11—Derivative Instruments and Hedging Activities” for additional information on our derivatives activity.

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SUPPLEMENTAL STATISTICAL TABLES

TABLE A—STATEMENTS OF AVERAGE BALANCES, INCOME AND EXPENSE, YIELDS AND RATES

Table A presents average balance sheet data and an analysis of reported and managed net interest income, net interest spread (the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities) and net interest margin for 2010, 2009 and 2008.

Reported Basis	Year Ended December 31,								
	2010			2009(1)			2008(1)		
(Dollars in millions)	Average Balance	Interest Income/ Expense(2)	Yield/ Rate	Average Balance	Interest Income/ Expense(2)	Yield/ Rate	Average Balance	Interest Income/ Expense(2)	Yield/ Rate
Assets:									
Interest-earning assets:									
Consumer loans:(3)									
Domestic	$ 91,451	$ 11,444	12.51 %	$ 67,160	$ 6,889	10.26 %	$ 66,811	$ 7,303	10.93 %
International	7,499	1,212	16.16	2,613	348	13.31	3,446	445	12.90
Total consumer loans	98,950	12,656	12.79	69,773	7,237	10.37	70,257	7,748	11.03
Commercial loans	29,576	1,278	4.32	30,014	1,520	5.06	28,714	1,712	5.96
Total loans held for investment	128,526	13,934	10.84	99,787	8,757	8.78	98,971	9,460	9.56
Investment securities	39,489	1,342	3.40	36,910	1,610	4.36	25,043	1,224	4.89
Other interest-earning assets:									
Domestic	7,129	75	1.05	7,489	290	3.87	8,030	407	5.06
International	586	2	0.34	1,107	7	0.64	1,040	21	2.05
Total other	7,715	77	1.00	8,596	297	3.46	$ 9,070	428	4.71
Total interest-earning assets(4)	$ 175,730	$ 15,353	8.74 %	$ 145,293	$ 10,664	7.34 %	$ 133,084	$ 11,112	8.35 %
Cash and due from banks(4)	2,128			3,476			2,128		
Allowance for loan and lease losses(4)	(7,257)			(4,470)			(3,267)		
Premises and equipment, net(4)	2,718			2,718			2,318		
Other assets	26,752			24,557			21,964		
Total assets from discontinued	43			24			65		

operations									
Total assets	$ 200,114			$ 171,598			$ 156,292		
Liabilities and Equity:									
Interest-bearing liabilities:									
Deposits:									
Domestic	$ 104,743	$ 1,465	1.40 %	$ 102,337	$ 2,070	2.02 %	$ 79,294	$ 2,422	3.06 %
International(5)	—	—	—	741	23	3.10	3,442	90	2.60
Total deposits	104,743	1,465	1.40	103,078	2,093	2.03	82,736	2,512	3.04
Securitized debt:									
Domestic	29,275	686	2.34	5,516	282	5.11	10,010	550	5.49
International	4,910	123	2.51	—	—	—	—	—	—
Total securitized debt	34,185	809	2.37	5,516	282	5.11	10,010	550	5.49
Senior and subordinated notes	8,571	276	3.22	8,607	260	3.02	8,881	445	5.01
Other borrowings:									
Domestic	5,082	333	6.55	7,941	321	4.04	11,166	444	3.98
International	1,772	13	0.73	1,441	11	0.76	1,039	12	1.15
Total other borrowings	6,854	346	5.05	9,382	332	3.54	12,205	456	3.74
Total interest-bearing liabilities(4)	$ 154,353	$ 2,896	1.88 %	$ 126,583	$ 2,967	2.34 %	$ 113,832	$ 3,963	3.48 %
Non-interest bearing deposits(4)	14,267			12,523			10,772		
Other liabilities(4)	6,105			5,737			6,261		
Total liabilities from discontinued operations	448			149			149		
Total liabilities	175,173			144,992			131,014		
Stockholders' equity(6)	24,941			26,606			25,278		
Total liabilities and stockholders' equity	$ 200,114			$ 171,598			$ 156,292		
Net interest income/spread		$ 12,457	6.86 %		$ 7,697	5.00 %		$ 7,149	4.87 %
Interest income to average earning assets			8.74 %			7.34 %			8.35 %
Interest expense to average earning assets			1.65			2.04			2.97
			7.09 %			5.30 %			5.38 %

Net interest margin	

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

(2) Past due fees included in interest income totaled approximately $1.1 billion, $652 million and $695 million on a reported basis for the years ended December 31, 2010, 2009 and 2008, respectively.

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

(4) Based on continuing operations.

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

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

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Managed Basis	Year Ended December 31,								
	2010			2009(1)			2008(1)		
(Dollars in millions)	Average Balance	Interest Income/ Expense(2)	Yield/ Rate	Average Balance	Interest Income/ Expense(2)	Yield/ Rate	Average Balance	Interest Income/ Expense(2)	Yield/ Rate
Assets:									
Interest-earning assets:									
Consumer loans:(3)									
Domestic	$ 91,547	$ 11,452	12.51 %	$ 105,095	$ 11,766	11.20 %	$ 108,527	$ 12,828	11.82 %
International	7,499	1,212	16.16	8,405	1,149	13.67	10,571	1,488	14.08
Total consumer loans	99,046	12,664	12.79	113,500	12,915	11.38	119,098	14,316	12.02
Commercial loans	29,576	1,278	4.32	30,014	1,520	5.06	28,714	1,712	5.96
Total loans held for investment	128,622	13,942	10.84	143,514	14,435	10.06	147,812	16,028	10.84
Investment securities	39,489	1,342	3.40	36,910	1,610	4.36	25,043	1,224	4.89
Other interest-earning assets:									
Domestic	7,107	75	1.06	4,938	65	1.32	5,826	169	2.88
International	586	2	0.34	614	3	0.49	667	30	4.50
Total other	7,693	77	1.00	5,552	68	1.23	6,493	199	3.05
Total interest-earning assets(4)	$ 175,804	$ 15,361	8.74 %	$ 185,976	$ 16,113	8.66 %	$ 179,348	$ 17,451	9.73 %
Cash and due from banks(4)	2,128			3,476			2,128		
Allowance for loan and lease losses(4)	(7,257)			(4,470)			(3,267)		
Premises and equipment, net(4)	2,718			2,718			2,318		
Other assets	26,749			24,934			22,938		
Total assets from discontinued operations	43			24			65		
Total assets	$ 200,185			$ 212,658			$ 203,530		
Liabilities and Equity:									
Interest-bearing liabilities:									
Deposits:									
Domestic	$ 104,743	$ 1,465	1.40 %	$ 102,337	$ 2,070	2.02 %	$ 81,019	$ 2,422	2.99 %

International(5)	—	—	—		741	23	3.10		1,717	90	5.24	
Total deposits	104,743	1,465	1.40		103,078	2,093	2.03		82,736	2,512	3.04	
Securitized debt:												
Domestic	29,354	690	2.35		40,931	1,191	2.91		50,579	2,234	4.42	
International	4,910	123	2.51		5,686	148	2.60		6,991	382	5.46	
Total securitized debt	34,264	813	2.37		46,617	1,339	2.87		57,570	2,616	4.54	
Senior and subordinated notes	8,571	276	3.22		8,607	260	3.02		8,881	445	5.01	
Other borrowings:												
Domestic	5,082	333	6.55		7,941	321	4.04		11,166	444	3.98	
International	1,772	13	0.73		1,441	11	0.76		1,039	12	1.15	
Total other borrowings	6,854	346	5.05		9,382	332	3.54		12,205	456	3.74	
Total interest-bearing liabilities(4)	$ 154,432	$ 2,900	1.88	%	$ 167,684	$ 4,024	2.40	%	$ 161,392	$ 6,029	3.74	%
Non-interest bearing deposits(4)	14,267				12,523				10,772			
Other liabilities(4)	6,097				5,696				5,939			
Total liabilities from discontinued operations	448				149				149			
Total liabilities	175,244				186,052				178,252			
Stockholders' equity(6)	24,941				26,606				25,278			
Total liabilities and stockholders' equity	$ 200,185				$ 212,658				$ 203,530			
Net interest income/spread		$ 12,461	6.86	%		$ 12,089	6.26	%		$ 11,422	5.99	%
Interest income to average earning assets			8.74	%			8.66	%			9.73	%
Interest expense to average earning assets			1.65				2.16				3.36	
Net interest margin			7.09	%			6.50	%			6.37	%

(1) Certain prior period amounts have been reclassified to conform to the current period presentation. Effective February 27, 2009, we acquired Chevy Chase Bank. Accordingly, our results for the first nine months of 2009 include only a partial impact from Chevy Chase Bank.

(2) Past due fees included in interest income totaled approximately $1.1billion, $1.4 billion and $1.6 billion on a managed basis for the years ended December 31, 2010, 2009 and 2008, respectively.

(3)

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

(4) Based on continuing operations.

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

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

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TABLE B—LOAN PORTFOLIO COMPOSITION

	December 31,				
(Dollars in millions)	2010	2009	2008	2007	2006
Reported loans held for investment:					
Credit Card business:					
Credit card loans:					
Domestic credit card loans	$50,170	$13,374	$20,624	$17,447	$20,211
International credit card loans	7,513	2,229	2,872	3,657	3,207