CAPITAL ONE FINANCIAL CORP
Form 10-Q
May 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from ______ to ______

Commission File No. 1-13300

CAPITAL ONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

(Not applicable)

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

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

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

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

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

As of April 30, 2014, there were 571,580,051 shares of the registrant s Common Stock, par value $.01 per share, outstanding.

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PART I FINANCIAL INFORMATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A)

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 Forward-Looking Statements for more information on the forward-looking statements in this Quarterly Report on Form 10-Q (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 Part II Item 1A. Risk Factors in this Report and in Part I Item 1A. Risk Factors in our 2013 Annual Report on Form 10-K (2013 Form 10-K). Unless otherwise specified, references to notes to our consolidated financial statements refers to the notes to our unaudited condensed consolidated financial statements as of March 31, 2014 included in this Report.

Management monitors a variety of key indicators to evaluate our business results and financial condition. The following MD&A is intended to provide the reader with an understanding of our results of operations, financial condition and liquidity by focusing on changes from year to year in certain key measures used by management to evaluate performance, such as profitability, growth and credit quality metrics. MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited condensed consolidated financial statements and related notes in this Report and the more detailed information contained in our 2013 Form 10-K.

SUMMARY OF SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data from our results of operations for the first quarter of 2014 and 2013, and selected comparative balance sheet data as of March 31, 2014 and December 31, 2013. We also provide selected key metrics we use in evaluating our performance. Certain prior period amounts have been reclassified to conform to the current period presentation. The comparability of our results of operations between reported periods is impacted by the following transactions completed in 2013:

On November 1, 2013, we completed the acquisition of Beech Street Capital, a privately-held, national originator and servicer of Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal Housing Administration (FHA) multifamily commercial real estate loans.

On September 6, 2013, we completed the sale of the Best Buy private label and co-branded credit card portfolio to Citibank, N.A (Portfolio Sale). Pursuant to the agreement we received $6.4 billion for the net portfolio assets.

In 2012, we completed the acquisitions of (i) substantially all of the assets and assumed liabilities of HSBC s credit card and private-label credit card business in the United States (other than the HSBC Bank USA, National Association consumer credit card program and certain other retained assets and liabilities) (the 2012 U.S. card acquisition); and (ii) substantially all of the ING Direct business in the United States (ING Direct) from ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp (the ING Direct acquisition).

We use the term Acquired Loans to refer to a limited portion of the credit card loans acquired in the 2012 U.S. card acquisition and the substantial majority of consumer and commercial loans acquired in the ING Direct and Chevy Chase Bank, F.S.B. (CCB) acquisitions, which were recorded at fair value at acquisition and subsequently accounted for based on expected cash flows to be collected (under the accounting standard formerly known as Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, commonly referred to as SOP 03-3). The period-end carrying value of acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was $27.4 billion and $28.6 billion as of March 31,

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2014 and December 31, 2013, respectively. The difference between the fair value at acquisition and expected cash flows represents the accretable yield, which is recognized into interest income over the life of the loans. The difference between the contractual payments on the loans and expected cash flows represents the nonaccretable difference or the amount of principal and interest not considered collectible, which incorporates future expected credit losses over the life of the loans. Decreases in expected cash flows resulting from further credit deterioration will generally result in an impairment charge recognized in our provision for credit losses and an increase in the allowance for loan and lease losses. Charge-offs are not recorded until the expected credit losses within the nonaccretable difference is depleted. In addition, Acquired Loans are not initially classified as delinquent or nonperforming as we expect to collect our net investment in these loans and the nonaccretable difference is expected to absorb the majority of the losses associated with these loans. The accounting and classification of these loans may significantly alter some of our reported credit quality metrics. We therefore supplement certain reported credit quality metrics with metrics adjusted to exclude the impact of these Acquired Loans. For additional information, see MD&A Credit Risk Profile and Note 4 Loans.

Table 1: Consolidated Financial Highlights (Unaudited)[1]

(Dollars in millions, except per share data as noted)	Three Months Ended March 31, 2014	2013	Change
Income statement			
Net interest income	**$ 4,350**	$ 4,570	**(5)%**
Non-interest income	**1,020**	981	**4**
Total net revenue[2]	**5,370**	5,551	**(3)**
Provision for credit losses	**735**	885	**(17)**
Non-interest expense[3]	**2,932**	2,991	**(2)**
Income from continuing operations before income taxes	**1,703**	1,675	**2**
Income tax provision	**579**	541	**7**
Income from continuing operations, net of tax	**1,124**	1,134	**(1)**
Income (Loss) from discontinued operations, net of tax	**30**	(78)	**138**
Net income	**1,154**	1,056	**9**
Dividends and undistributed earnings allocated to participating securities	**(5)**	(5)	**
Preferred stock dividends	**(13)**	(13)	**
Net income available to common shareholders	**$ 1,136**	$ 1,038	**9%**
Common share statistics			
Earnings per common share:			
Basic earnings per common share	**$ 1.99**	$ 1.79	**11%**
Diluted earnings per common share	**1.96**	1.77	**11**
Weighted average common shares outstanding:			
Basic	**571.0**	580.5	**(2)**
Diluted	**580.3**	586.3	**(1)**
Dividends per common share.	**0.30**	0.05	**500**
Average balances			
Loans held for investment[4]	**$ 193,722**	$ 195,997	**(1)%**
Interest-earning assets	**262,659**	272,345	**(4)**
Total assets	**294,275**	303,226	**(3)**
Interest-bearing deposits	**184,183**	190,612	**(3)**
Total deposits	**205,842**	211,555	**(3)**
Borrowings	**35,978**	41,574	**(13)**
Common equity	**42,006**	40,027	**5**
Total stockholders equity	**42,859**	40,880	**5**

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(Dollars in millions, except per share data as noted)	Three Months Ended March 31, 2014	2013	Change
Selected performance metrics			
Purchase volume[5]	**$ 47,434**	$ 45,098	**5%**
Total net revenue margin[6]	**8.18%**	8.15%	**3bps**
Net interest margin[7]	**6.62**	6.71	**(9)**
Net charge-offs	**$ 931**	$ 1,079	**(14)%**
Net charge-off rate[8]	**1.92%**	2.20%	**(28)bps**
Net charge-off rate (excluding Acquired Loans)[9]	**2.24**	2.69	**(45)**
Return on average assets[10]	**1.53**	1.50	**3**
Return on average tangible assets[11]	**1.61**	1.58	**3**
Return on average common equity[12]	**10.53**	11.15	**(62)**
Return on average tangible common equity[13]	**16.83**	18.69	**(186)**
Equity-to-assets ratio[14]	**14.56**	13.48	**108**
Non-interest expense as a % of average loans held for investment[15]	**6.05**	6.10	**(5)**
Efficiency ratio[16]	**54.60**	53.88	**72**
Effective income tax rate from continuing operations	**34.0**	32.3	**170**

(Dollars in millions except per share data as noted)	March 31, 2014	December 31, 2013	Change
Balance sheet (period end)			
Loans held for investment[4]	**$ 192,941**	$ 197,199	**(2)%**
Interest-earning assets	**259,422**	265,170	**(2)**
Total assets	**290,500**	296,933	**(2)**
Interest-bearing deposits	**184,214**	181,880	**1**
Total deposits	**208,324**	204,523	**2**
Borrowings	**30,118**	40,654	**(26)**
Common equity	**41,948**	40,779	**3**
Total stockholders equity	**42,801**	41,632	**3**
Credit quality metrics (period end)			
Allowance for loan and lease losses.	**$ 4,098**	$ 4,315	**(5)%**
Allowance as a % of loans held for investment (allowance coverage ratio)	**2.12%**	2.19%	**(7)bps**
Allowance as a % of loans held for investment (excluding Acquired Loans)[9]	**2.45**	2.54	**(9)**
30+ day performing delinquency rate	**2.22**	2.63	**(41)**
30+ day performing delinquency rate (excluding Acquired Loans)[9]	**2.59**	3.08	**(49)**
30+ day delinquency rate	**2.51**	2.96	**(45)**
30+ day delinquency rate (excluding Acquired Loans)[9]	**2.93**	3.46	**(53)**
Capital ratios[17]			
Common equity Tier 1 capital ratio[18]	**12.98%**	N/A	**
Tier 1 common ratio[19]	**N/A**	12.19%	**
Tier 1 risk-based capital ratio[20]	**13.36**	12.57	**79bps**
Total risk-based capital ratio[21]	**15.42**	14.69	**73**
Tier 1 leverage ratio[22]	**10.42**	10.06	**36**
Tangible common equity (TCE) ratio[23]	**9.56**	8.89	**67**
Associates			
Full-time equivalent employees (in thousands)	**41.1**	42.0	**(2)%**

** Change is less than one percent or not meaningful.

(1) We adopted ASU 2014-01 *Accounting for Investments in Qualified Affordable Housing Projects* (Investments in Qualified Affordable Housing Projects) as of January 1, 2014. As permitted by the guidance, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. The proportional amortization method amortizes the cost of the investment over the period in which we will receive tax credits and other tax benefits, and the resulting amortization is recognized as a component of income tax expense attributable to continuing operations. Historically, these investments were accounted for under the equity method of accounting and the passive losses related to the investments were recognized within non-interest expense. See Note 1 Summary of Significant Accounting Policies for additional information. Prior period results and related metrics have been recast to conform to this presentation.

(2) Total net revenue was reduced by $163 million and $265 million in the first quarter of 2014 and 2013, respectively, for the estimated uncollectible amount of billed finance charges and fees.

(3) Includes purchased credit card relationship (PCCR) intangible amortization of $98 million and $116 million in the first quarter of 2014 and 2013, respectively, the substantial majority of which is attributable to the 2012 U.S. card acquisition. Also includes core deposit intangible amortization of $36 million and $44 million, and acquisition-related costs of $23 million and $46 million in the first quarter of 2014 and 2013, respectively. These acquisition-related costs are comprised of transaction costs, legal and other professional or consulting fees, restructuring costs, and integration expense.

(4) Loans held for investment includes loans acquired in the CCB, ING Direct and 2012 U.S. card acquisitions. See Note 4 Loans for additional information on Acquired Loans.

(5) Consists of credit card purchase transactions, net of returns, for the period for both loans classified as held for investment and loans classified as held for sale. Excludes cash advance and balance transfer transactions.

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

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

(8) Calculated based on annualized net charge-offs for the period divided by average loans held for investment for the period.

(9) Calculation of ratio adjusted to exclude Acquired Loans. See MD&A Business Segment Financial Performance, MD&A Credit Risk Profile and Note 4 Loans for additional information on the impact of Acquired Loans on our credit quality metrics.

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

(11) Calculated based on annualized income from continuing operations, net of tax, for the period divided by average tangible assets for the period. See MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information.

(12) Calculated based on the annualized sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; (iii) less preferred stock dividends, for the period, divided by average common equity. Our calculation of return on average common equity may not be comparable to similarly titled measures reported by other companies.

(13) Calculated based on the annualized sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; (iii) less preferred stock dividends, for the period, divided by average tangible common equity. Our calculation of return on average tangible common equity may not be comparable to similarly titled measures reported by other companies. See MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information.

(14) Calculated based on average stockholders equity for the period divided by average total assets for the period.

(15) Calculated based on annualized non-interest expense for the period divided by average loans held for investment for the period.

(16) Calculated based on non-interest expense for the period divided by total net revenue for the period.

(17) Beginning on January 1, 2014, we calculate our regulatory capital under Basel III Standardized Approach subject to transition provisions. Prior to January 1, 2014, we calculated regulatory capital under Basel I.

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

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

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

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

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

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

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INTRODUCTION

General

We are a diversified financial services holding company with banking and non-banking subsidiaries. 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. As of March 31, 2014, our principal subsidiaries included:

- Capital One Bank (USA), National Association (COBNA), which offers credit and debit card products, other lending products and deposit products; and

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

The Company is hereafter collectively referred to as we , us or our. COBNA and CONA are collectively referred to as the Banks. Certain business terms used in this document are defined in the Glossary and Acronyms and should be read in conjunction with the Consolidated Financial Statements included in this Report.

We had total loans held for investment of $192.9 billion, deposits of $208.3 billion and stockholders equity of $42.8 billion as of March 31, 2014, compared with total loans held for investment of $197.2 billion, deposits of $204.5 billion and stockholders equity of $41.6 billion as of December 31, 2013.

Our consolidated total net revenues are derived primarily from lending to consumer and commercial customers net of funding costs associated with interest on customer deposits, short-term borrowings and long-term debt. We also earn non-interest income which primarily consists of service charges and other customer related fees, and interchange income net of reward expenses. Our expenses primarily consist of the provision for credit losses, operating expenses (including associate salaries and benefits, occupancy and equipment costs, professional services, infrastructure enhancements, branch operations and expansion costs), marketing expenses and income taxes.

Our principal operations are currently organized for management reporting purposes into three primary business segments, which are defined primarily based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments. Certain activities that are not part of a segment, such as management of our corporate investment portfolio and asset/liability management by our centralized Corporate Treasury group, are included in the Other category.

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

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

- *Commercial Banking:* Consists of our lending, deposit gathering and treasury management services to commercial real estate and commercial and industrial customers. Our commercial and industrial customers typically include companies with annual revenues between $10 million and $1 billion.

Table 2 summarizes our business segment results, which we report based on income from continuing operations, net of tax, for the first quarter of 2014 and 2013 respectively. We provide information on the allocation methodologies used to derive our business segment results in Note 19 Business Segments in our 2013 Form 10-K. We also provide a reconciliation of our total business segment results to our consolidated generally accepted accounting principles in the U.S. (U.S. GAAP) results in Note 13 Business Segments of this Report.

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Table 2: Business Segment Results[(1)]

	Three Months Ended March 31,							
	2014				2013			
	Total Net Revenue[(2)]		Net Income (Loss)[(3)]		Total Net Revenue[(2)]		Net Income (Loss)[(3)]	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	**$ 3,310**	**62%**	**$ 668**	**60%**	$ 3,651	66%	$ 686	60%
Consumer Banking	**1,583**	**30**	**330**	**29**	1,659	30	383	34
Commercial Banking[(4)]	**508**	**9**	**137**	**12**	485	8	193	17
Other[(5)]	**(31)**	**(1)**	**(11)**	**(1)**	(244)	(4)	(128)	(11)
Total from continuing operations	**$ 5,370**	**100%**	**$ 1,124**	**100%**	$ 5,551	100%	$ 1,134	100%

(1) In the first quarter of 2014, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. See Note 1 Summary of Significant Accounting Policies for additional information. Prior periods have been recast to conform to this presentation.
(2) Total net revenue consists of net interest income and non-interest income.
(3) Net income for our business segments is reported based on income from continuing operations, net of tax.
(4) On investments that generate tax-exempt income tax or tax credits, we make certain reclassifications to our Commercial Banking business results to present revenues on a taxable-equivalent basis.
(5) Includes the residual impact of the allocation of certain items, our centralized Corporate Treasury group activities, as well as other items as described in Note 19 Business Segments in our 2013 Form 10-K.

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

We reported net income of $1.2 billion ($1.96 per diluted common share) on total net revenue of $5.4 billion for the first quarter of 2014. In comparison, we reported net income of $1.1 billion ($1.77 per diluted common share) on total net revenue of $5.6 billion for the first quarter of 2013.

Beginning on January 1, 2014, we calculate our regulatory capital under the Basel III Standardized Approach subject to transition provisions. Our common equity Tier 1 capital ratio, as calculated under the Basel III Standardized Approach, including transition provisions, was 12.98% as of March 31, 2014. Our Tier 1 common ratio, as calculated under Basel I was 12.19% as of December 31, 2013. These numbers are not directly comparable.

On March 26, 2014, we announced that our Board of Directors had authorized the repurchase of up to $2.5 billion of shares of our common stock (2014 Stock Repurchase Program). See Capital Management below for additional information.

In the first quarter of 2014, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. These investments are accounted for in our Commercial Banking business and Other segments. Prior period amounts have been recast to conform to the current period presentation. We provide additional information on the adoption under Accounting Changes and Developments and Note 1 Summary of Significant Accounting Policies .

Below are additional highlights of our performance in the first quarter of 2014. These highlights generally are based on a comparison between the results of the first quarter of 2014 and 2013, except as otherwise noted. The changes in our financial condition and credit performance are generally based on our financial condition and credit performance as of March 31, 2014, compared with our financial condition and credit performance as of December 31, 2013. We provide a more detailed discussion of our financial performance in the sections following this

Executive Summary and Business Outlook.

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Total Company

Earnings: Our net income increased by $98 million in the first quarter of 2014, or 9%, to $1.2 billion, compared to $1.1 billion for the first quarter of 2013. Significant drivers of the increase in earnings in the first quarter of 2014 were (i) a decrease in provision for credit losses due to improved credit outlook; and (ii) pre-tax provision benefit of $33 million (which includes a benefit of $47 million in discontinued operations and an expense of $14 million for continuing operations) to the provision for mortgage representation and warranty losses compared to pre-tax provision of $97 million in the first quarter 2013, partially offset by a decrease in net interest income attributable to lower average interest-earning assets.

Loans Held for Investment: Period-end loans held for investment decreased by $4.3 billion, or 2%, in the first quarter of 2014, to $192.9 billion as of March 31, 2014, from $197.2 billion as of December 31, 2013. The decrease was due to the expected continued run-off in our acquired home loans portfolio in our Consumer Banking business, seasonal decreases and run-off of certain credit card loans acquired in the 2012 U.S. card acquisition in our Credit Card business and small-ticket commercial real estate loans in our Commercial Banking business. This run-off was partially offset by continued strong auto loan originations in our Consumer Banking business, as well as commercial real estate loan growth in our Commercial Banking business.

Charge-off and Delinquency Statistics: Our net charge-off rate decreased by 28 basis points in the first quarter of 2014 to 1.92%, compared to 2.20% for the first quarter of 2013. The decrease in our reported net charge-offs and net charge-off rate were largely due to the improvement in delinquencies and run-off of portfolios with higher credit risk. Our reported 30+ day delinquency rate declined to 2.51% as of March 31, 2014, from 2.96% as of December 31, 2013, and 2.74% as of March 31, 2013. We provide additional information on our credit quality metrics below under Business Segment Financial Performance and Credit Risk Profile.

Allowance for Loan and Lease Losses: We reduced our allowance by $217 million to $4.1 billion as of March 31, 2014, from $4.3 billion as of December 31, 2013. The decrease in the allowance was mainly due to an overall improved credit outlook coupled with improvements in delinquency inventories. The allowance coverage ratio declined to 2.12% as of March 31, 2014, from 2.19% as of December 31, 2013.

Representation and Warranty Reserve: The aggregate representation and warranty reserves decreased to $1.1 billion as of March 31, 2014, from $1.2 billion as of December 31, 2013. We recorded a total provision benefit to the provision for mortgage representation and warranty losses of $33 million (which includes a benefit of $47 million in discontinued operations and an expense of $14 million in continuing operations) in the first quarter of 2014, which was primarily driven by updated legal assumptions.

Business Segment Financial Performance

Credit Card: Our Credit Card business generated net income from continuing operations of $668 million in the first quarter of 2014, compared with net income from continuing operations of $686 million in the first quarter of 2013. The decrease in net income was driven by a decrease in net interest income primarily due to lower average loans held for investment due to the Portfolio Sale, which was partially offset by a reduction in provision for loan losses. Period-end loans held for investment in our Credit Card business decreased by $5.4 billion to $75.9 billion as of March 31, 2014 from $81.3 billion as of December 31, 2013. The decrease was primarily due to expected seasonal decreases, as well as the expected continued run-off of certain credit card loans acquired in the 2012 U.S. card acquisition.

Consumer Banking: Our Consumer Banking business generated net income from continuing operations of $330 million in the first quarter of 2014, compared with net income from continuing operations of $383 million in the first quarter of 2013. The decrease in net income is primarily attributable to net interest

margin compression in the Retail Banking and Auto businesses, and the expected continued run-off in our acquired home loans portfolio, partially offset by growth in auto loans. Period-end loans held for investment in our Consumer Banking business decreased by $35 million to $70.7 billion as of March 31, 2014, from $70.8 billion as of December 31, 2013, due to the expected continued run-off in our acquired home loans portfolio which was partially offset by strong auto loan originations.

Commercial Banking: Our Commercial Banking business generated net income from continuing operations of $137 million in the first quarter of 2014, compared with net income from continuing operations of $193 million in the first quarter of 2013. The decrease in net income is primarily due to a higher provision for credit losses. We recorded a provision for credit losses of $40 million in the first quarter of 2014, compared to a benefit of $35 million in the first quarter of 2013. The increase in provision was partially offset by higher revenues due to growth in commercial real estate and commercial and industrial loans. Period-end loans held for investment in our Commercial Banking business increased by $1.2 billion, or 3%, to $46.2 billion as of March 31, 2014, from $45.0 billion as of December 31, 2013. The increase was driven by strong loan originations in the commercial and industrial and commercial real estate businesses, which was partially offset by the continued run-off of the small-ticket commercial real estate loan portfolio.

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 Report. 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 Part I Item 1. Business and Part I Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2013 Form 10-K. 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. Except as otherwise disclosed, 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 that have not been previously disclosed, 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 this Report for more information on forward-looking statements included in this Report and Item 1A. Risk Factors in our 2013 Form 10-K for factors that could materially influence our results.

Total Company Expectations

We expect 2014 pre-provision earnings, excluding non-recurring items, of approximately $10 billion. In addition, we expect modest changes in the components of pre-provision earnings with higher revenue offsetting higher expenses. We expect card loans run-off of approximately $1 billion and home loans run-off of $5 billion in 2014. Actual results are expected to vary from these expectations within reasonable margins.

We believe our actions have created a well-positioned balance sheet with strong capital and liquidity. The Federal Reserve did not object to our capital plan submitted on January 6, 2014. Pursuant to the capital plan, we expect to maintain our quarterly dividend of $0.30 per share, subject to approval by the Board of Directors. In addition, the Board of Directors has authorized the repurchase of up to $2.5 billion in shares of our common stock through the end of the first quarter of 2015.

The timing and exact amount of any common stock repurchases will depend on various factors, including market conditions, our capital position and amount of retained earnings. Our share repurchase program does not include specific price targets, may be executed through open market purchases or privately negotiated transactions, including utilizing Rule 10b5-1 programs, and may be suspended at any time. See MD&A Capital Management Capital Planning and Regulatory Stress Testing for more information.

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Business Segment Expectations

Credit Card: We expect to return to year-over-year growth in Domestic Card in the second half of 2014, despite continuing run-off and other strategic choices we have made. We expect that our focus on resilience and strong credit risk underwriting will drive strong credit results, with normal seasonal patterns. Overall, we believe that our Domestic Card business continues to be well-positioned and will continue to deliver strong, sustainable and resilient returns and generate capital on a strong trajectory.

Consumer Banking: In our Consumer Banking business, we expect Auto credit losses will gradually increase from the historic lows of the past few years and Auto revenues, margins, and returns will decline, but remain resilient and within ranges that support an attractive business. In addition, we expect the impacts of the prolonged low interest rate environment to continue to pressure the economics of our Retail deposit businesses even if rates rise in 2014.

Commercial Banking: In our Commercial Banking business, we expect strong credit performance to continue in 2014. While increasing competition, particularly in generic middle-market lending, may continue to impact the pricing and volume of our new loan originations, we continue to expect our focused and specialized approach to deliver strong results in 2014.

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 under Note 1 Summary of Significant Accounting Policies in our 2013 Form 10-K.

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

- Loan loss reserves
- Asset impairment
- Fair value of financial instruments
- Representation and warranty reserves
- Customer rewards reserves
- 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 discussed our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

We provide additional information on our critical accounting policies and estimates under MD&A Critical Accounting Policies and Estimates in our 2013 Form 10-K.

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ACCOUNTING CHANGES AND DEVELOPMENTS

Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the FASB issued guidance permitting an entity to account for investments in qualified affordable housing projects using the proportional amortization method, if certain criteria are met. The proportional method amortizes the cost of the investment over the period in which the investor expects to receive tax credits and other tax benefits, and the resulting amortization is recognized as a component of income taxes attributable to continuing operations. Historically, these investments were under the equity method of accounting and the passive losses related to the investments were recognized within non-interest expense. Prior period results and related metrics have been recast. See Note 1 Summary of Significant Accounting Policies for more information.

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance for the first quarter of 2014 and 2013. Following this section, we provide a discussion of our business segment results. You should read this section together with our Executive Summary and Business Outlook, where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

Net interest income represents the difference between the interest income and applicable fees earned on our interest-earning assets, which include loans and investment securities, and the interest expense on our interest-bearing liabilities, which include interest-bearing deposits, senior and subordinated notes, securitized debt obligations and other borrowings. We include in interest income any past due fees on loans that we deem collectible. Our net interest margin based on our consolidated results represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities, including the notional impact of non-interest bearing funding. 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.

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Table 3 below presents, for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balances, interest income earned, interest expense incurred, average yield and rate for the first quarter of 2014 and 2013.

Table 3: Average Balances, Net Interest Income and Net Interest Yield[1]

	Three Months Ended March 31,					
	2014			2013		
(Dollars in millions)	Average Balance	Interest Income/ Expense[2][3]	Yield/ Rate	Average Balance	Interest Income/ Expense[2][3]	Yield/ Rate
Assets:						
Interest-earning assets:						
Credit card:						
Domestic	**$ 69,800**	**$ 2,478**	**14.20%**	$ 78,985	$ 2,816	14.26%
International	**7,690**	**319**	**16.59**	8,238	329	15.97
Credit card	**77,490**	**2,797**	**14.44**	87,223	3,145	14.42
Consumer banking	**70,836**	**1,094**	**6.18**	74,456	1,102	5.92
Commercial banking	**45,561**	**395**	**3.47**	38,579	377	3.91
Other	**133**	**21**	**63.16**	183	25	54.64
Total loans, including loans held for sale	**194,020**	**4,307**	**8.88**	200,441	4,649	9.28
Investment securities[4]	**62,124**	**416**	**2.68**	64,798	374	2.31
Cash equivalents and other interest-earning assets	**6,515**	**30**	**1.84**	7,106	28	1.58
Total interest-earning assets	**$ 262,659**	**$ 4,753**	**7.24%**	$ 272,345	$ 5,051	7.42%
Cash and due from banks	**2,881**			2,642		
Allowance for loan and lease losses	**(4,306)**			(4,954)		
Premises and equipment, net	**3,838**			3,682		
Other assets	**29,203**			29,511		
Total assets	**$ 294,275**			$ 303,226		
Liabilities and stockholders equity:						
Interest-bearing liabilities:						
Deposits	**$ 184,183**	**$ 276**	**0.60%**	$ 190,612	$ 326	0.68%
Securitized debt obligations	**10,418**	**38**	**1.46**	11,758	56	1.91
Senior and subordinated notes	**14,162**	**77**	**2.17**	11,984	82	2.74
Other borrowings	**11,398**	**12**	**0.42**	17,832	17	0.38
Total interest-bearing liabilities	**$ 220,161**	**$ 403**	**0.73%**	$ 232,186	$ 481	0.83%
Non-interest bearing deposits	**21,659**			20,943		
Other liabilities	**9,596**			9,217		
Total liabilities	**251,416**			262,346		
Stockholders equity	**42,859**			40,880		
Total liabilities and stockholders equity	**$ 294,275**			$ 303,226		
Net interest income/spread		**$ 4,350**	**6.51%**		$ 4,570	6.59%

Impact of non-interest bearing funding	**0.11**	0.12
Net interest margin	**6.62%**	6.71%

(1) In the first quarter of 2014, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. See Note 1 Summary of Significant Accounting Policies for additional information. Prior periods have been recast to conform to this presentation.

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(2) Past due fees included in interest income totaled approximately $359 million and $480 million in the first quarter of 2014 and 2013, respectively.
(3) Interest income and interest expense and the calculation of average yields on interest-earning assets and average rates on interest-bearing liabilities include the impact of hedge accounting.
(4) Prior to the second quarter of 2013, average balances for investment securities were calculated based on fair value amounts. Effective in the second quarter of 2013, average balances are calculated based on the amortized cost of investment securities. The impact of this change on prior period yields is not material.

Net interest income of $4.4 billion in the first quarter of 2014 decreased by $220 million, or 5%, from the first quarter of 2013, primarily driven by decrease in average interest-earning assets and past due fees, partially offset by higher yields in investment securities and lower funding costs.

Average Interest-Earning Assets: The decrease in average interest-earning assets in the first quarter of 2014 compared to the first quarter of 2013 was driven by lower loan balances. The decrease in average loan balances is due to the Portfolio Sale in the third quarter of 2013, the continued expected run-off in our acquired home loans portfolio, within our Consumer Banking business and the expected continued run-off of receivables acquired in the 2012 U.S. card acquisition, which was partially offset by continued strong growth in commercial and auto loans. The decrease in average investment securities was due to sales and paydowns outpacing purchases.

Net Interest Margin: The decrease in our net interest margin in the first quarter of 2014 compared to the first quarter of 2013 is primarily due to lower yield on our commercial loan portfolio, which was partially offset by a reduction in our cost of funds. Our lowered cost of funds reflects the benefit from the mix of our funding in lower cost consumer and commercial banking deposits.

Table 4 displays the change in our net interest income between periods and the extent to which the variance is attributable to: (i) changes in the volume of our interest-earning assets and interest-bearing liabilities or (ii) changes in the interest rates related to these assets and liabilities.

Table 4: Rate/Volume Analysis of Net Interest Income[1]

	Three Months Ended March 31, 2014 vs. 2013		
(Dollars in millions)	**Total Variance**	**Volume**	**Rate**
Interest income:			
Loans:			
Credit card	**$ (348)**	**$ (351)**	**$ 3**
Consumer banking	**(8)**	**(54)**	**46**
Commercial banking	**18**	**61**	**(43)**
Other	**(4)**	**(7)**	**3**
Total loans, including loans held for sale	**(342)**	**(351)**	**9**
Investment securities	**42**	**(15)**	**57**
Cash equivalents and other interest-earning assets	**2**	**(2)**	**4**
Total interest income	**(298)**	**(368)**	**70**
Interest expense:			
Deposits	**(50)**	**(11)**	**(39)**
Securitized debt obligations	**(18)**	**(6)**	**(12)**
Senior and subordinated notes	**(5)**	**12**	**(17)**
Other borrowings	**(5)**	**(6)**	**1**
Total interest expense	**(78)**	**(11)**	**(67)**
Net interest income	**$ (220)**	**$ (357)**	**$ 137**

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(1) We calculate the change in interest income and interest expense separately for each item. The portion of interest income or interest expense attributable to both volume and rate is allocated proportionately when the calculation results in a positive value. When the portion of interest income or interest expense attributable to both volume and rate results in a negative value, the total amount is allocated to volume or rate, depending on which amount is positive.

Non-Interest Income

Non-interest income primarily consists of service charges and other customer-related fees, interchange income (net of rewards expense), and other non-interest income. Other non-interest income includes the pre-tax provision for mortgage representation and warranty related to continuing operations. It also includes gains and losses from the sale of investment securities, gains and losses on derivatives not accounted for in hedge accounting relationships, as well as hedge ineffectiveness, which we generally do not allocate to our business segments because they relate to centralized asset/liability and market risk management activities undertaken by our Corporate Treasury group.

Table 5 displays the components of non-interest income for the first quarter of 2014 and 2013.

Table 5: Non-Interest Income

	Three Months Ended March 31,	
(Dollars in millions)	**2014**	**2013**
Service charges and other customer-related fees	**$ 474**	$ 550
Interchange fees, net	**440**	445
Net other-than-temporary impairment	**(5)**	(25)
Other non-interest income:		
(Expense) benefit for mortgage representation and warranty[1]	**(14)**	9
Net gains from the sale of investment securities	**13**	2
Net fair value gains (losses) on free-standing derivatives[2]	**13**	(5)
Other	**99**	5
Total other non-interest income	**111**	11
Total non-interest income	**$ 1,020**	$ 981

(1) We recorded a total pre-tax provision benefit of $33 million (which includes a benefit of $47 million in discontinued operations and an expense of $14 million in continuing operations), and a total pre-tax provision of $97 million related to mortgage representation and warranty losses in the first quarter of 2014 and 2013, respectively.

(2) Excludes changes in cumulative credit risk valuation adjustments related to derivatives in a gain position. Credit risk valuation adjustments for derivative assets totaled $7 million as of both of March 31, 2014 and December 31, 2013. See Note 9 Derivative Instruments and Hedging Activities for additional information.

Non-interest income of $1.0 billion in the first quarter of 2014, increased by $39 million, or 4%, from $981 million in the first quarter of 2013. The main drivers were (i) a loss related to a debt exchange in 2013 which did not recur in 2014 and (ii) a reduction in net OTTI losses attributable to improved credit outlook. These were partially offset by (i) a reduction in service and customer-related fees related to the continued run-off of certain credit card loans and (ii) a provision for representation and warranty recorded in continuing operations in the first quarter of 2014 compared to a benefit in the first quarter of 2013.

Provision for Credit Losses

Our provision for credit losses in each period is driven by charge-offs, changes to the allowance for loan and lease losses, and changes to the reserve for unfunded lending commitments. We recorded a provision for credit losses of $735 million in the first quarter of 2014, compared with $885 million in the first quarter of 2013.

The decrease in the provision for credit losses of $150 million in the first quarter of 2014 from the first quarter of 2013 was driven by lower charge-offs attributable to credit improvement of the underlying loan portfolio.

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We provide additional information on the provision for credit losses and changes in the allowance for loan and lease losses under the Credit Risk Profile Summary of Allowance for Loan and Lease Losses, Note 4 Loans and Note 5 Allowance for Loan and Lease Losses. For information on the allowance methodology for each of our loan categories, see Note 1 Summary of Significant Accounting Policies in our 2013 Form 10-K.

Non-Interest Expense

Non-interest expense consists of ongoing operating costs, such as salaries and associate benefits, occupancy and equipment costs, professional services, communications and data processing technology expenses and other miscellaneous expenses. Non-interest expense also includes marketing costs, merger-related expense and amortization of intangibles. Table 6 displays the components of non-interest expense for the first quarter of 2014 and 2013.

Table 6: Non-Interest Expense(1)(2)

(Dollars in millions)	Three Months Ended March 31, 2014	2013
Salaries and associate benefits	**$ 1,161**	$ 1,095
Occupancy and equipment	**405**	357
Marketing	**325**	317
Professional services	**287**	322
Communications and data processing	**196**	216
Amortization of intangibles	**143**	177
Other non-interest expense:		
Collections	**99**	129
Fraud losses	**73**	52
Bankcard, regulatory and other fee assessments	**113**	138
Other	**130**	188
Other non-interest expense	**415**	507
Total non-interest expense	**$ 2,932**	$ 2,991

(1) In the first quarter of 2014, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. See Note 1 Summary of Significant Accounting Policies for additional information. Prior periods have been recast to conform to this presentation.
(2) Includes acquisition-related costs of $23 million and $46 million in the first quarter of 2014 and 2013, respectively. These amounts are comprised of transaction costs, legal and other professional or consulting fees, restructuring costs, and integration expense.

Non-interest expense of $2.9 billion in the first quarter of 2014, decreased by $59 million, or 2%, from the first quarter of 2013. The decrease reflects a reduction in acquisition-related costs and a decrease in amortization of intangibles attributable to the 2012 U.S card acquisition. These were partially offset by (i) higher operating expenses attributable to growth in our auto loan portfolio; (ii) the change to include auto repossession-related expenses as a component of operating expenses, prior to January 1, 2014 these costs were reported as a component of net charge-offs; and (iii) the growth in Commercial banking business.

Income Taxes

We recorded an income tax provision of $579 million (34.0% effective income tax rate) in the first quarter of 2014, compared to an income tax provision of $541 million (32.3% effective income tax rate) in the first quarter of 2013.

The increase in our effective income tax rate in the first quarter of 2014, from the first quarter of 2013 was primarily attributable to $28 million in discrete tax expense recorded in the first quarter of 2014 for certain state

tax law changes that required a reduction of deferred tax assets and adjustments for the resolution of certain tax issues and audits. In comparison, we recorded $6 million in net discrete tax benefits in the first quarter of 2013 for the adjustment of prior taxes paid, certain state tax rate reductions, and the resolution of certain tax issues and audits.

Our effective income tax rate, excluding the impact of discrete tax items discussed above, was 32.4%, and 32.7% in the first quarter of 2014 and 2013, respectively. The decrease in the effective tax rate excluding discrete items was primarily due to the impact of increased amounts of tax credits and tax exempt income in the first quarter of 2014, over the first quarter of 2013.

We provide additional information on items affecting our income taxes and effective tax rate in our 2013 Form 10-K in Note 17 Income Taxes.

Income/Loss from Discontinued Operations, Net of Tax

Income/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 that we closed in 2007.

Income from discontinued operations, net of tax, was $30 million as of the first quarter of 2014, compared to a loss of $78 million in the first quarter of 2013. We recorded a total pre-tax release of the mortgage representation and warranty reserve of $47 million ($30 million after taxes) and a pre-tax provision of $107 million ($67 million after taxes) in discontinued operations in the first quarter of 2014 and 2013, respectively.

We provide additional information on the provision for mortgage representation and warranty losses and the related reserve for potential representation and warranty claims in Consolidated Balance Sheets Analysis Potential Mortgage Representation and Warranty Liabilities and Note 14 Commitments, Contingencies, Guarantees, and Others.

BUSINESS SEGMENT FINANCIAL PERFORMANCE

Our principal operations are currently organized into three major business segments, which are defined based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments. Certain activities that are not part of a segment, such as management of our corporate investment portfolio and asset/liability management by our centralized Corporate Treasury group, are included in the Other category.

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. We provide additional information on the allocation methodologies used to derive our business segment results in Note 19 Business Segments in our 2013 Form 10-K.

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 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.

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Below we summarize our business segment results for the first quarter of 2014 and 2013 and provide a comparative discussion of these results. We also discuss changes in our financial condition and credit performance statistics as of March 31, 2014, compared with December 31, 2013. We provide a reconciliation of our total business segment results to our reported consolidated results in Note 13 Business Segments. We also provide information on the outlook for each of our business segments as described above under Executive Summary and Business Outlook.

Credit Card Business

The primary sources of revenue for our Credit Card business are interest income, fees collected from customers and interchange fees. Expenses primarily consist of the provision for credit losses, operating costs such as salaries and associate benefits, occupancy and equipment, professional services, communications and data processing technology expenses, as well as marketing expenses. Rewards costs are generally netted against interchange fees.

Net income from continuing operations in our Credit Card business decreased by $18 million, or 3%, to $668 million in the first quarter of 2014, from $686 million in the first quarter of 2013.

Table 7 summarizes the financial results of our Credit Card business, which is comprised of Domestic Card, including installment loans, and International Card, and displays selected key metrics for the periods indicated.

Table 7: Credit Card Business Results

	Three Months Ended March 31,		
(Dollars in millions)	**2014**	**2013**	**Change**
Selected income statement data:			
Net interest income	**$ 2,525**	$ 2,830	**(11)%**
Non-interest income	**785**	821	**(4)**
Total net revenue[1]	**3,310**	3,651	**(9)**
Provision for credit losses	**558**	743	**(25)**
Non-interest expense	**1,726**	1,848	**(7)**
Income from continuing operations before income taxes	**1,026**	1,060	**(3)**
Income tax provision	**358**	374	**(4)**
Income from continuing operations, net of tax	**$ 668**	$ 686	**(3)%**
Selected performance metrics:			
Average loans held for investment[2]	**$ 77,502**	$ 82,952	**(7)%**
Average yield on loans held for investment[3]	**14.43%**	15.16%	**(73)bps**
Total net revenue margin[4]	**17.08**	17.61	**(53)**
Net charge-offs	**$ 780**	$ 922	**(15)%**
Net charge-off rate	**4.02%**	4.45%	**(43)bps**
Card loan premium amortization and other intangible accretion[5]	**$ 37**	$ 57	**(35)%**
PCCR intangible amortization	**98**	116	**(16)**
Purchase volume[6]	**47,434**	45,098	**5**

(Dollars in millions)	**March 31, 2014**	**December 31, 2013**	**Change**
Selected period-end data:			
Loans held for investment[2]	**$ 75,850**	$ 81,305	**(7)%**
30+ day performing delinquency rate	**3.08%**	3.46%	**(38)bps**
30+ day delinquency rate	**3.16**	3.54	**(38)**
Nonperforming loan rate[7]	**0.11**	0.11	**
Allowance for loan and lease losses	**$ 2,984**	$ 3,214	**(7)%**
Allowance coverage ratio[8]	**3.93%**	3.95%	**(2)bps**

** Change is less than one percent or not meaningful.

(1) We recognize billed finance charges and fee income on open-ended loans in accordance with the contractual provisions of the credit arrangements and estimate the uncollectible amount on a quarterly basis. The estimated uncollectible amount of billed finance charges and fees is reflected as a reduction in revenue and is not included in our net charge-offs. Total net revenue was reduced by $163 million and $265 million in the first quarter of 2014 and 2013, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled $174 million and $190 million as of March 31, 2014 and December 31, 2013, respectively.

(2) Credit card period-end loans held for investment and average loans held for investment include accrued finance charges and fees, net of the estimated uncollectible amount.

(3) Calculated by dividing annualized interest income for the period by average loans held for investment during the period for the specified loan category. Annualized interest income also includes interest income on loans held for sale. The transfer of Best Buy loan portfolio from loans held for investment to loans held for sale resulted in an increase in the average yield for the Total Credit Card business of 97 basis points in the first quarter of 2013.

(4) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period for the specified loan category. Annualized interest income also includes interest income on loans held for sale. The transfer of Best Buy loan portfolio from loans held for investment to loans held for sale resulted in an increase in the net revenue margin for the Total Credit Card business of 112 basis points in the first quarter of 2013.

(5) Represents the net reduction in interest income attributable to the amortization of premiums on purchased loans accounted for based on contractual cash flows and the accretion of other intangibles associated with the 2012 U.S. card acquisition.

(6) Consists of credit card purchase transactions, net of returns for the period for both loans classified as held for investment and loans classified as held for sale. Excludes cash advance and balance transfer transactions.

(7) Calculated by dividing nonperforming loans as of the end of the period by period-end loans held for investment. Nonperforming credit card loans generally include International Card loans that are 90 or 120 days delinquent.

(8) Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.

Key factors affecting the results of our Credit Card business for the first quarter of 2014, compared with the first quarter of 2013, and changes in financial condition and credit performance between March 31, 2014 and December 31, 2013 include the following:

Net Interest Income: Net interest income decreased by $305 million, or 11%, in the first quarter of 2014, to $2.5 billion from $2.8 billion in the first quarter of 2013. The decrease in net interest income is primarily driven by (i) the decrease in average loans held for investment due to the Portfolio Sale in 2013 and the expected continued run-off of certain credit card loans acquired in the 2012 U.S. card acquisition and (ii) the decrease in past due fees is attributable to the Portfolio Sale in 2013 and the expected continued run-off of certain credit card loans acquired in the 2012 U.S. card acquisition.

Non-Interest Income: Non-interest income decreased by $36 million, or 4%, in the first quarter of 2014, to $785 million from $821 million in the first quarter of 2013. The decrease was primarily driven by a smaller portfolio, resulting in a reduction in customer fees.

Provision for Credit Losses: The provision for credit losses related to our Credit Card business decreased by $185 million, or 25%, to $558 million in the first quarter of 2014, from $743 million in the first quarter of 2013. The decrease was driven by lower charge-offs attributable to credit improvement of the underlying loan portfolio in the first quarter of 2014.

Non-Interest Expense: Non-interest expense decreased by $122 million, or 7%, in the first quarter of 2014, to $1.7 billion from $1.8 billion in the first quarter of 2013. The decrease was largely due to lower acquisition-related costs and lower operating expenses due to the Portfolio Sale, as well as operating efficiencies. This includes PCCR intangible amortization of $98 million in the first quarter of 2014, compared with $116 million in the first quarter of 2013.

Loans Held for Investment: Period-end loans held for investment in our Credit Card business decreased by $5.4 billion, or 7%, to $75.9 billion as of March 31, 2014, from $81.3 billion as of December 31, 2013. The decrease was due to expected seasonal decreases, as well as the expected continued run-off of certain credit card loans acquired in the 2012 U.S. card acquisition.

Charge-off and Delinquency Statistics: Our reported net charge-off rate decreased to 4.02% in the first quarter of 2014, from 4.45% in the first quarter of 2013. The decrease were largely due to continued economic improvement, portfolio seasoning, and run-off of certain credit

card loans acquired in the 2012 U.S. card acquisition. The 30+ day delinquency rate decreased to 3.16% as of March 31, 2014, from 3.54% as of December 31, 2013.

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Domestic Card Business

Domestic Card generated net income from continuing operations of $595 million in the first quarter of 2014, a decrease of $49 million, or 8%, compared with net income from continuing operations of $644 million in the first quarter of 2013. Domestic Card accounted for 89% of total net revenues for our Credit Card business in the first quarter of 2014, compared with 90% in the first quarter of 2013.

Table 7.1 summarizes the financial results for Domestic Card and displays selected key metrics for the periods indicated.

Table 7.1: Domestic Card Business Results

	Three Months Ended March 31,		
(Dollars in millions)	**2014**	**2013**	**Change**
Selected income statement data:			
Net interest income	**$ 2,255**	$ 2,556	**(12)%**
Non-interest income	**702**	724	**(3)**
Total net revenue	**2,957**	3,280	**(10)**
Provision for credit losses	**486**	647	**(25)**
Non-interest expense	**1,545**	1,633	**(5)**
Income from continuing operations before income taxes	**926**	1,000	**(7)**
Income tax provision	**331**	356	**(7)**
Income from continuing operations, net of tax	**$ 595**	$ 644	**(8)%**
Selected performance metrics:			
Average loans held for investment[1]	**$ 69,810**	$ 74,714	**(7)%**
Average yield on loans held for investment[2]	**14.19%**	15.07%	**(88)bps**
Total net revenue margin[3]	**16.94**	17.56	**(62)**
Net charge-offs	**$ 700**	$ 827	**(15)%**
Net charge-off rate	**4.01%**	4.43%	**(42)bps**
Card loan premium amortization and other intangible accretion[4]	**$ 37**	$ 57	**(35)%**
PCCR intangible amortization	**98**	116	**(16)**
Purchase volume[5]	**44,139**	41,831	**6**

(Dollars in millions)	**March 31, 2014**	**December 31, 2013**	**Change**
Selected period-end data:			
Loans held for investment[1]	**$ 68,275**	$ 73,255	**(7)%**
30+ day delinquency rate	**3.02%**	3.43%	**(41)bps**
Allowance for loan and lease losses	**$ 2,622**	$ 2,836	**(8)%**
Allowance coverage ratio[6]	**3.84%**	3.87%	**(3)bps**

(1) Credit card period-end loans held for investment and average loans held for investment include accrued finance charges and fees, net of the estimated uncollectible amount.

(2) Calculated by dividing annualized interest income for the period by average loans held for investment during the period for the specified loan category. Annualized interest income includes interest income on loans held for sale. The transfer of Best Buy loan portfolio from loans held for investment to loans held for sale resulted in an increase in the average yield for the Domestic Card business of 107 basis points in the first quarter of 2013.

(3) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period. Annualized interest income includes interest income on loans held for sale. The transfer of Best Buy loan portfolio from loans held for investment to loans held for sale resulted in an increase in the net revenue margin for the Domestic Card business of 123 basis points in the first quarter of 2013.

(4) Represents the net reduction in interest income attributable to the amortization of premiums on purchased loans accounted for based on contractual cash flows and the accretion of other intangibles associated with the 2012 U.S. card acquisition.

(5)

Consists of domestic card purchase transactions, net of returns, for the period for both loans classified as held for investment and loans classified as held for sale. Excludes cash advance and balance transfer transactions.

(6) Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.

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Because our Domestic Card business 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. The primary drivers of the decline in net income for our Domestic Card business in the first quarter of 2014, compared with the first quarter of 2013 were declines in revenue primarily driven by the decrease in average loans held for investment due to the Portfolio Sale in 2013, partially offset by lower provision for loan and lease losses, and operating expenses associated with the reduction in the portfolio size.

The decrease in period-end loans held for investment was due to the expected seasonal decreases and continued run-off of certain credit card loans acquired in the 2012 U.S. card acquisition.

International Card Business

International Card generated net income from continuing operations of $73 million in the first quarter of 2014, an increase of $31 million, or 74%, compared with net income from continuing operations of $42 million in the first quarter of 2013. International Card accounted for 11% of total net revenues for our Credit Card business in the first quarter of 2014, compared with 10% in the first quarter of 2013.

Table 7.2 summarizes the financial results for International Card and displays selected key metrics for the periods indicated.

Table 7.2: International Card Business Results

	Three Months Ended March 31,		
(Dollars in millions)	**2014**	**2013**	**Change**
Selected income statement data:			
Net interest income	**$ 270**	$ 274	**(1)%**
Non-interest income	**83**	97	**(14)**
Total net revenue	**353**	371	**(5)**
Provision for credit losses	**72**	96	**(25)**
Non-interest expense	**181**	215	**(16)**
Income from continuing operations before income taxes	**100**	60	**67**
Income tax provision	**27**	18	**50**
Income from continuing operations, net of tax	**$ 73**	$ 42	**74%**
Selected performance metrics:			
Average loans held for investment[1]	**$ 7,692**	$ 8,238	**(7)%**
Average yield on loans held for investment[2]	**16.64%**	15.97%	**67bps**
Total net revenue margin[3]	**18.38**	18.01	**37**
Net charge-offs	**$ 80**	$ 95	**(16)%**
Net charge-off rate	**4.17%**	4.59%	**(42)bps**
Purchase volume[4]	**$ 3,295**	$ 3,267	**1%**

(Dollars in millions)	**March 31, 2014**	**December 31, 2013**	**Change**
Selected period-end data:			
Loans held for investment[1]	**$ 7,575**	$ 8,050	**(6)%**
30+ day performing delinquency rate	**3.59%**	3.71%	**(12)bps**
30+ day delinquency rate	**4.41**	4.56	**(15)**
Nonperforming loan rate[5]	**1.07**	1.10	**(3)**
Allowance for loan and lease losses	**$ 362**	$ 378	**(4)%**
Allowance coverage ratio[6]	**4.77%**	4.70%	**7bps**

[1] Credit card period-end loans held for investment and average loans held for investment include accrued finance charges and fees, net of the uncollectible amount.
[2] Calculated by dividing annualized interest income for the period by average loans held for investment during the period.
[3] Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period.
[4] Consists of international card purchase transactions, net of returns for the period. Excludes cash advance and balance transfer transactions.
[5] Calculated by dividing nonperforming loans as of the end of the period by period-end loans held for investment. Nonperforming credit card loans include International Card loans that are generally 90 or 120 days delinquent.
[6] Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.

The primary drivers of the improvement in results for our International Card business in the first quarter of 2014, compared with the first quarter of 2013, included: (i) a reduction in non-interest expense resulting from operating efficiencies and timing of spend; and (ii) a reduction in the provision for credit losses attributable to lower net charge-offs, reflecting the improvement in the credit environment in Canada and the U.K. These were partially offset by a reduction in revenue driven by lower average loans held for investments.

Consumer Banking Business

The primary sources of revenue for our Consumer Banking business are net interest income from loans and deposits and non-interest income from customer fees. Expenses primarily consist of the provision for credit losses, ongoing operating costs, such as salaries and associate benefits, occupancy and equipment, professional services, communications and data processing technology expenses, as well as marketing expenses.

Our Consumer Banking business generated net income from continuing operations of $330 million in the first quarter of 2014, compared with net income from continuing operations of $383 million in the first quarter of 2013.

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

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Table 8: Consumer Banking Business Results

(Dollars in millions)	Three Months Ended March 31, 2014	2013	Change
Selected income statement data:			
Net interest income	**$ 1,433**	$ 1,478	**(3)%**
Non-interest income	**150**	181	**(17)**
Total net revenue	**1,583**	1,659	**(5)**
Provision for credit losses	**140**	175	**(20)**
Non-interest expense	**930**	890	**4**
Income from continuing operations before income taxes	**513**	594	**(14)**
Income tax provision	**183**	211	**(13)**
Income from continuing operations, net of tax	**$ 330**	$ 383	**(14)%**
Selected performance metrics:			
Average loans held for investment:[1]			
Auto	**$ 32,387**	$ 27,477	**18%**
Home loan	**34,646**	43,023	**(19)**
Retail banking	**3,630**	3,786	**(4)**
Total consumer banking	**$ 70,663**	$ 74,286	**(5)%**
Average yield on loans held for investment[2]	**6.18%**	5.93%	**25bps**
Average deposits	**$ 168,676**	$ 171,089	**(1)%**
Average deposit interest rate	**0.57%**	0.64%	**(7)bps**
Core deposit intangible amortization	**$ 30**	$ 37	**(19)%**
Net charge-offs	**148**	143	**3**
Net charge-off rate	**0.84%**	0.78%	**6bps**
Net charge-off rate (excluding Acquired Loans)	**1.37**	1.47	**(10)**
Auto loan originations	**$ 4,727**	$ 3,789	**25%**

(Dollars in millions)	March 31, 2014	December 31, 2013	Change
Selected period-end data:			
Loans held for investment:[1]			
Auto	**$ 33,080**	$ 31,857	**4%**
Home loan	**34,035**	35,282	**(4)**
Retail banking	**3,612**	3,623	**
Total consumer banking	**$ 70,727**	$ 70,762	**%**
30+ day performing delinquency rate	**2.57%**	3.20%	**(63)bps**
30+ day performing delinquency rate (excluding Acquired Loans)[3]	**4.17**	5.32	**(115)**
30+ day delinquency rate	**3.14**	3.89	**(75)**
30+ day delinquency rate (excluding Acquired Loans)[3]	**5.09**	6.47	**(138)**
Nonperforming loans rate[4]	**0.74**	0.86	**(12)**
Nonperforming loans rate (excluding Acquired Loans)[3]	**1.20**	1.44	**(24)**
Nonperforming asset rate[5]	**1.00**	1.12	**(12)**
Nonperforming asset rate (excluding Acquired Loans)[3]	**1.62**	1.86	**(24)**
Allowance for loan and lease losses	**$ 744**	$ 752	**(1)%**
Allowance coverage ratio[6]	**1.05%**	1.06%	**(1)bps**
Deposits	**$ 171,529**	$ 167,652	**2%**

Loans serviced for others	**6,868**	7,665	**(10)**

** Change is less than one percent or not meaningful.

(1) Includes Acquired Loans with carrying value of $27.1 billion and $28.2 billion as of March 31, 2014 and December 31, 2013, respectively. The average balance of Consumer Banking loans held for investment, excluding Acquired Loans, was $43.2 billion and $39.2 billion in the first quarter of 2014 and 2013, respectively.

(2) Calculated by dividing annualized interest income for the period by average loans held for investment during the period.

(3) Calculation of ratio adjusted to exclude impact from Acquired Loans. See Credit Risk Profile and Note 4 Loans for additional information on the impact of Acquired Loans on our credit quality metrics.

(4) Calculated by dividing nonperforming loans as of the end of the period by period-end loans held for investment. 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.

(5) Calculated by dividing nonperforming assets as of the end of the period by the sum of period-end loans held for investment, foreclosed properties, and other foreclosed assets.

(6) Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.

Key factors affecting the results of our Consumer Banking business for the first quarter of 2014, compared with the first quarter of 2013, and changes in financial condition and credit performance between March 31, 2014 and December 31, 2013 include the following:

Net Interest Income: Net interest income decreased by $45 million, or 3%, in the first quarter of 2014, to $1.4 billion from $1.5 billion in the first quarter of 2013. The decrease in net interest income is primarily attributable to compression in deposit spreads in the Retail Banking business and decrease in home loans held for investment, partially offset by higher net interest income generated by growth in auto loans held for investment.

Consumer Banking yields increased in the first quarter of 2014, to 6.2% as compared to 5.9% in the first quarter of 2013. This increase is driven by changes in mix towards higher yield auto loans driven by growth in auto and the continued run-off of the acquired home loans portfolio. While the shift to auto loans drove an increase in the total Consumer Banking yield, the average yield on auto loans decreased to 9.0% in the first quarter of 2014 as compared to 10.1% in the first quarter of 2013. This decrease is primarily attributable to a shift in the credit quality mix of our auto loan portfolio and increased competition in Auto business. The average yield on home loans was 3.7% in the first quarter of 2014 compared to 3.3% in the first quarter of 2013. The higher yield in home loans is driven by an increase in expected cash flows as a result of credit improvement on the acquired portfolios.

Non-Interest Income: Non-interest income decreased by $31 million, or 17%, in the first quarter of 2014, to $150 million from $181 million in the first quarter of 2013, primarily driven by higher provision for representation and warranty for our home loans portfolio related to our continuing operations.

Provision for Credit Losses: The provision for credit losses decreased by $35 million or 20% in the first quarter of 2014, to $140 million from $175 million in the first quarter of 2013, driven primarily by a lower allowance build in our Auto business.

Non-Interest Expense: Non-interest expense increased by $40 million, or 4%, in the first quarter of 2014, to $930 million from $890 million in the first quarter of 2013. The increase was largely due to the growth in our auto loan portfolio and the change to include the auto repossession-related expenses as a component of operating expenses. Prior to January 1, 2014 these costs were reported as a component of net charge-offs.

Loans Held for Investment: Period-end loans in the Consumer Banking business was flat in the first quarter of 2014 compared to December 31, 2013, primarily due to the expected continued run-off of our acquired home loan portfolio, offset by growth in the auto portfolio.

Deposits: Period-end deposits in our Consumer Banking business increased by $3.8 billion, or 2%, to $171.5 billion as of March 31, 2014, from $167.7 billion as of December 31, 2013, primarily driven by typical seasonality of deposits reflected in strong deposit growth in

Retail Banking.

Charge-off and Delinquency Statistics: The reported net charge-off rate increased by 6 basis points to 0.84% in the first quarter of 2014, from 0.78% in the first quarter of 2013. The 30+ day delinquency rate decreased

by 75 basis points to 3.14% as of March 31, 2014, from 3.89% as of December 31, 2013. The increase in the net charge-off rate and decrease in 30+ delinquency rate reflects a mix shift towards auto, which carries higher charge-off rates than our home loans portfolio.

Commercial Banking Business

The primary sources of revenue for our Commercial Banking business are net interest income from loans and deposits and non-interest income from customer fees. Because we have some investments that generate tax-exempt income or tax credits, we make certain reclassifications to our Commercial Banking business results to present revenues on a taxable-equivalent basis. Expenses primarily consist of the provision for credit losses, ongoing operating costs, such as salaries and associate benefits, occupancy and equipment, professional services, communications and data processing technology expenses, as well as marketing expenses.

On November 1, 2013, we acquired Beech Street Capital, a privately-held, national originator and servicer of Fannie Mae, Freddie Mac and FHA multifamily commercial real estate loans. Beech Street Capital results are reported within the Commercial Banking business.

On January 1, 2014, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. The proportional amortization method amortizes the cost of the investment over the period in which we will receive tax credits and other tax benefits, and the resulting amortization is recognized as a component of income taxes attributable to continuing operations. Historically, these investments were accounted for under the equity method of accounting and the passive losses related to the investments were recognized within non-interest expense. See Note 1 Summary of Significant Accounting Policies for more information.

Our Commercial Banking business generated net income from continuing operations of $137 million in the first quarter of 2014, compared with net income from continuing operations of $193 million in the first quarter of 2013.

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[1]

(Dollars in millions)	Three Months Ended March 31, 2014	2013	Change
Selected income statement data:			
Net interest income	**$ 421**	$ 401	**5%**
Non-interest income	**87**	84	**4**
Total net revenue	**508**	485	**5**
Provision (benefit) for credit losses	**40**	(35)	**214**
Non-interest expense	**255**	221	**15**
Income from continuing operations before income taxes	**213**	299	**(29)**
Income tax provision	**76**	106	**(28)**
Income from continuing operations, net of tax	**$ 137**	$ 193	**(29)%**
Selected performance metrics:			
Average loans held for investment:[2]			
Commercial and multifamily real estate	**$ 20,962**	$ 17,454	**20%**
Commercial and industrial	**23,541**	19,949	**18**
Total commercial lending	**44,503**	37,403	**19**
Small-ticket commercial real estate	**932**	1,173	**(21)**
Total commercial banking	**$ 45,435**	$ 38,576	**18%**
Average yield on loans held for investment[3]	**3.47%**	3.91%	**(44)bps**
Average deposits	**$ 31,627**	$ 30,335	**4%**
Average deposit interest rate	**0.25%**	0.28%	**(3)bps**
Core deposit intangible amortization	**$ 6**	$ 7	**(14)%**
Net charge-offs	**4**	7	**(43)**
Net charge-off rate	**0.04%**	0.07%	**(3)bps**

(Dollars in millions)	March 31, 2014	December 31, 2013	Change
Selected period-end data:			
Loans held for investment[2]:			
Commercial and multifamily real estate	**$ 21,256**	$ 20,750	**2%**
Commercial and industrial	**24,064**	23,309	**3**
Total commercial lending	**45,320**	44,059	**3**
Small-ticket commercial real estate	**910**	952	**(4)**
Total commercial banking	**$ 46,230**	$ 45,011	**3%**
Nonperforming loans rate	**0.33%**	0.33%	****bps**
Nonperforming asset rate[4]	**0.36**	0.37	**(1)**
Allowance for loan and lease losses	**$ 362**	$ 338	**7%**
Allowance coverage ratio[5]	**0.78%**	0.75%	**3bps**
Deposits	**$ 31,485**	$ 30,567	**3%**
Loans serviced for others	**11,073**	10,786	**3**

** Change is less than one percent or not meaningful.

(1) In the first quarter of 2014, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. See Note 1 Summary of Significant Accounting Policies for additional information. Prior periods have been recast to conform to this presentation.

(2) Includes Acquired Loans with carrying value of $224 million and $262 million as of March 31, 2014 and December 31, 2013, respectively. The average balance of commercial banking loans held for investment, excluding Acquired Loans, was $45.2 billion and $38.2 billion in the first quarter of 2014 and 2013, respectively.

(3) Calculated by dividing annualized interest income for the period by average loans held for investment during the period.

(4) Calculated by dividing nonperforming assets as of the end of the period by the sum of period-end loans held for investment, foreclosed properties, and other foreclosed assets.
(5) Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.

Key factors affecting the results of our Commercial Banking business for the first quarter of 2014, compared with the first quarter of 2013, and changes in financial condition and credit performance between March 31, 2014 and December 31, 2013 include the following:

- *Net Interest Income:* Net interest income increased by $20 million, or 5%, in the first quarter of 2014, to $421 million from $401 million in the first quarter of 2013. The increase was driven by growth in commercial loans and higher deposit balances, partially offset by lower loan yields driven by market and competitive pressures.

- *Non-Interest Income*: Non-interest income increased by $3 million, or 4%, in the first quarter of 2014, to $87 million, from $84 million in the first quarter of 2013, driven by increased revenue related to fee-based products and services from the Beech Street Capital acquisition, partially offset by other one-time items.

- *Provision for Credit Losses*: Provision for credit losses increased by $75 million, in the first quarter of 2014, to $40 million, from a benefit of $35 million in the first quarter of 2013, primarily related to growth in the portfolio. The increase in allowance for loan and lease losses and reserve for unfunded lending commitments was $36 million in the first quarter of 2014, compared with a release of $41 million in the first quarter of 2013.

- *Non-Interest Expense*: Non-interest expense increased by $34 million, or 15%, in the first quarter of 2014, to $255 million, from $221 million in the first quarter of 2013, driven by operating expenses associated with continued investments in business growth and Beech Street Capital.

- *Loans Held for Investment*: Period-end loans held for investment in our Commercial Banking business increased by $1.2 billion, or 3%, to $46.2 billion as of March 31, 2014, from $45.0 billion as of December 31, 2013. The increase was driven by strong loan growth in the commercial and industrial and commercial real estate business.

- *Deposits*: Period-end deposits in the Commercial Banking business increased by $918 million, or 3%, to $31.5 billion as of March 31, 2014, from $30.6 billion as of December 31, 2013, driven by typical seasonality and our strategy to deepen and expand relationships with commercial customers.

- *Charge-off Statistics*: The net charge-off rate was 0.04% in the first quarter of 2014, compared to 0.07% in the first quarter of 2013. The nonperforming loan rate remained unchanged at 0.33% both as of March 31, 2014 and December 31, 2013. The continued strength in the credit metrics in our Commercial Banking business reflected stable credit trends and underlying collateral values.

Other Category

Other includes unallocated amounts related to our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management. Gains and losses on our investment securities portfolio and certain trading activities are included in the Other category. The Other category also includes foreign exchange-rate fluctuations related to the revaluation of foreign currency-denominated investments; certain gains and losses on the sale and securitization of loans; unallocated corporate expenses that do not directly support the operations of the business segments or for which the business segments are not considered financially accountable in evaluating their performance, such as certain acquisition and restructuring charges; a portion of the provision for representation and warranty reserves related to continuing operations; certain material items that are non-recurring in nature; and offsets related to certain line-item reclassifications.

Net loss from continuing operations decreased by $117 million, or 91%, in the first quarter of 2014 to $11 million from $128 million in the first quarter of 2013. The decrease was primarily due to higher net interest income driven by higher interest rates, lower funding costs, continued

run-off of higher rate brokered deposits, as well as the absence of the one-time charge associated with our redemption of trust preferred securities in January 2013.

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Table 10 summarizes the financial results of our Other category for the periods indicated.

Table 10: Other Results[1]

(Dollars in millions)	Three Months Ended March 31, 2014	2013	Change
Selected income statement data:			
Net interest expense[2]	**$ (29)**	$ (139)	**79%**
Non-interest income	**(2)**	(105)	**98**
Total net revenue	**(31)**	(244)	**87**
Provision (benefit) for credit losses	**(3)**	2	**(250)**
Non-interest expense	**21**	32	**(34)**
Loss from continuing operations before income taxes	**(49)**	(278)	**82**
Income tax benefit	**(38)**	(150)	**75**
Loss from continuing operations, net of tax	**$ (11)**	$ (128)	**91%**

(1) In the first quarter of 2014, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. See Note 1 Summary of Significant Accounting Policies for additional information. Prior periods have been recast to conform to this presentation.

(2) Some of our tax-related commercial investments generate tax-exempt income or tax credits, accordingly we make certain reclassifications within our Commercial Banking business results to present revenues and yields on a taxable-equivalent basis, calculated assuming an effective tax rate approximately equal to our federal statutory tax rate of 35%.

CONSOLIDATED BALANCE SHEETS ANALYSIS

Total assets of $290.5 billion as of March 31, 2014 decreased by $6.4 billion, or 2%, from $296.9 billion as of December 31, 2013. Total liabilities of $247.7 billion as of March 31, 2014, decreased by $7.6 billion, or 3%, from $255.3 billion as of December 31, 2013. Stockholders equity increased by $1.2 billion to $42.8 billion as of March 31, 2014. The increase in stockholders equity was primarily attributable to our net income of $1.2 billion for the first quarter of 2014.

Following is a discussion of material changes in the major components of our assets and liabilities during the first quarter of 2014. Period-end balance sheet amounts may vary from average balance sheet amounts due to liquidity and balance sheet management activities that are intended to ensure the adequacy of capital while managing our liquidity requirements for the company and our customers and our market risk exposure in accordance with our risk appetite.

Investment Securities

Our investment portfolio consists primarily of the following: U.S. Treasury debt, U.S. agency debt and corporate debt securities guaranteed by U.S. government agencies (Agency); Agency and non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS); other asset-backed securities (ABS) and other investments. The carrying value of our investments in U.S. Treasury, Agency securities and other securities guaranteed by the U.S. government or agencies of the U.S. government represented 78% and 77% of our total investment securities portfolio as of March 31, 2014 and December 31, 2013, respectively.

Our investment portfolio includes securities available for sale as well as securities held to maturity. We classify securities as available for sale or held to maturity based on our investment strategy and management s assessment of our intent and ability to hold the securities until maturity. We report securities available for sale in our consolidated balance sheets at fair value with unrealized gains and losses recorded, net of tax, as a component of accumulated

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other comprehensive income (AOCI). We report securities held to maturity on our consolidated balance sheets at carrying value. Carrying value generally consists of amortized cost. For securities transferred from available for sale to held to maturity, carrying value also includes unrealized gains and losses recognized in AOCI at the date of transfer. Such unrealized gains or losses are accreted over the remaining life of the security with no impact on future net income.

During the first quarter of 2014, the fair value of our investment portfolio increased by $199 million, or 3% from $61.0 billion as of December 31, 2013 to $61.2 billion as of March 31, 2014. This increase was primarily driven by lower interest rates.

We had gross unrealized gains of $855 million and gross unrealized losses of $458 million on available-for sale investment securities as of March 31, 2014, compared with gross unrealized gains of $799 million and gross unrealized losses of $631 million as of December 31, 2013. The decrease in gross unrealized losses in the first quarter of 2014 was primarily driven by the lower interest rates in the first quarter of 2014. Of the $458 million in gross unrealized losses as of March 31, 2014, $86 million was related to securities that had been in a loss position for more than 12 months.

Table 11 presents the amortized cost, carrying value and fair value for the major categories of our portfolio of investment securities as of March 31, 2014 and December 31, 2013.

Table 11: Investment Securities

	March 31, 2014		December 31, 2013	
(Dollars in millions)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Investment securities available for sale				
U.S. Treasury debt obligations	**$ 827**	**$ 829**	$ 831	$ 833
U.S. Agency debt obligations	**1**	**1**	1	1
Corporate debt securities guaranteed by U.S. government agencies	**1,147**	**1,113**	1,282	1,234
RMBS:				
Agency	**21,241**	**21,245**	21,572	21,479
Non-agency	**3,070**	**3,561**	3,165	3,600
Total RMBS	**24,311**	**24,806**	24,737	25,079
CMBS:				
Agency	**4,131**	**4,075**	4,262	4,198
Non-agency	**1,879**	**1,855**	1,854	1,808
Total CMBS	**6,010**	**5,930**	6,116	6,006
Other ABS[1]	**6,577**	**6,606**	7,123	7,136
Other securities[2]	**1,451**	**1,436**	1,542	1,511
Total investment securities available for sale	**$ 40,324**	**$ 40,721**	$ 41,632	$ 41,800
(Dollars in millions)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Investment securities held to maturity				
Agency RMBS	**$ 18,313**	**$ 18,591**	$ 17,443	$ 17,485
Agency CMBS	**1,837**	**1,872**	1,689	1,700
Total investment securities held to maturity	**$ 20,150**	**$ 20,463**	$ 19,132	$ 19,185

(1) ABS collateralized by credit card loans constituted approximately 67% and 65% of the other ABS portfolio as of March 31, 2014, and December 31, 2013, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 13% and 15% of the other ABS portfolio as of March 31, 2014 and December 31, 2013, respectively. Approximately 88% of the securities in our other asset-backed security portfolio were rated AAA or its equivalent as of March 31, 2014, compared with 87% as of December 31, 2013.

(2) Includes foreign government/agency bonds, covered bonds, corporate securities, municipal securities and equity investments primarily related to activities under the Community Reinvestment Act (CRA).

We provide information on OTTI losses recognized in earnings on our investment securities above under Consolidated Results of Operations Non-Interest Income.

Credit Ratings

Our portfolio of investment securities continues to be concentrated in securities that generally have high credit ratings and low credit risk, such as securities issued and guaranteed by the U.S. Treasury and other government sponsored enterprises or agencies. Approximately 91% and 92% of our total investment securities portfolio was rated AA+ or its equivalent, or better as of March 31, 2014 and December 31, 2013, respectively, while approximately 6% and 5% was below investment grade as of March 31, 2014 and December 31, 2013, respectively. We categorize the credit ratings of our investment securities based on the lowest credit rating as issued by the rating agencies: Standard & Poor s Ratings Services (S&P), Moody s Investors Service (Moody s) and Fitch Ratings (Fitch).

Table 12 provides information on the credit ratings of our non-agency RMBS, non-agency CMBS, other asset-backed securities and other securities in our portfolio as of March 31, 2014 and December 31, 2013.

Table 12: Non-Agency Investment Securities Credit Ratings

	March 31, 2014				December 31, 2013			
(Dollars in millions)	Amortized Cost	AAA	Other Investment Grade	Below Investment Grade or Not Rated	Amortized Cost	AAA	Other Investment Grade	Below Investment Grade or Not Rated
Non-agency RMBS	**$ 3,070**	**%**	**4%**	**96%**	$ 3,165	%	4%	96%
Non-agency CMBS	**1,879**	**96**		**4**	1,854	99	1	
Other asset-backed securities	**6,577**	**88**	**11**	**1**	7,123	87	12	1
Other securities[1]	**1,451**	**3**	**88**	**9**	1,542	9	82	9

(1) Includes foreign government/agency bonds, covered bonds, corporate securities, municipal securities and equity investments primarily related to activities under the CRA.

For additional information on our investment securities, see Note 3 Investment Securities.

Loans Held for Investment

Total loans that we manage consist of loans held for investment recorded on our consolidated balance sheets and consolidated loans held in our securitization trusts. Loans underlying our securitization trusts are reported on our consolidated balance sheets in restricted loans for securitization investors. Table 13 summarizes our portfolio of loans held for investment by business segment, net of the allowance for loan and lease losses, as of March 31, 2014 and December 31, 2013.

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Table 13: Net Loans Held for Investment

	March 31, 2014			December 31, 2013		
(Dollars in millions)	Total Loans Held For Investment	Allowance	Net Loans Held For Investment	Total Loans Held For Investment	Allowance	Net Loans Held For Investment
Credit Card	**$ 75,850**	**$ 2,984**	**$ 72,866**	$ 81,305	$ 3,214	$ 78,091
Consumer Banking	**70,727**	**744**	**69,983**	70,762	752	70,010
Commercial Banking	**46,230**	**362**	**45,868**	45,011	338	44,673
Other	**134**	**8**	**126**	121	11	110
Total	**$ 192,941**	**$ 4,098**	**$ 188,843**	$ 197,199	$ 4,315	$ 192,884

Period-end loans held for investment decreased by $4.3 billion, or 2%, in the first quarter of 2014, to $192.9 billion as of March 31, 2014, from $197.2 billion as of December 31, 2013. The decrease was due to the expected run-off of our acquired home loans portfolio in our Consumer Banking business, seasonal decreases and run-off of certain credit card loans acquired in the 2012 U.S. card acquisition in our Credit Card business and small-ticket commercial real estate loans in our Commercial Banking business. This run-off was partially offset by continued strong auto loan originations in our Consumer Banking business, as well as commercial and industrial and commercial real estate loan growth in our Commercial Banking business.

We provide additional information on the composition of our loan portfolio and credit quality below in Credit Risk Profile and in Note 4 Loans.

Loans Held for Sale

Loans held for sale, which are carried at lower of cost or fair value, increased to $259 million as of March 31, 2014, from $218 million as of December 31, 2013. We provide additional information for loans held for sale in Note 4 Loans.

Customer Deposits

Our customer deposits represent our largest source of funding for our operations, providing a sizable and consistent source of low-cost funds. Total customer deposits increased by $3.8 billion to $208.3 billion as of March 31, 2014, from $204.5 billion as of December 31, 2013. The increase in deposits was driven by seasonality and growth in retail banking, which reflected our focus on deepening deposit relationships with existing customers and our continued marketing strategy to attract new business. We provide information on the composition of our deposits, average outstanding balances, interest expense and yield below in Liquidity Risk Profile.

Securitized Debt Obligations

Securitization debt obligations decreased by $506 million during the first quarter of 2014, to $9.8 billion as of March 31, 2014, from $10.3 billion as of December 31, 2013. The decrease was driven by maturities of $1.5 billion partially offset by the issuances of $950 million of credit card securitization debt during the first quarter of 2014. We provide additional information on our borrowings below in Liquidity Risk Profile.

Other Debt

Other debt, which consists of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and other borrowings, including Federal Home Loan Banks (FHLB) advances, but excluding securitized debt obligations, totaled $20.3 billion as of March 31, 2014, of which $4.4 billion represented short-term borrowings and $15.9 billion represented long-term debt. Other debt totaled $30.4 billion as of December 31, 2013, of which $16.2 billion represented short-term borrowings and $14.2 billion represented long-term borrowings.

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The decrease of $10.1 billion in the first quarter of 2014 was primarily attributable to net maturities of $12.4 billion of FHLB advances, as well as the maturity of $275 million of unsecured senior notes. These decreases in our other debt were partially offset by the issuance of $2.0 billion of unsecured senior notes as well as a $629 million increase in our federal funds purchased and securities loaned or sold under agreements to repurchase in the first quarter of 2014. We provide additional information on our borrowings below in Liquidity Risk Profile and in Note 8 Deposits and Borrowings.

Potential Mortgage Representation & Warranty Liabilities

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, LLC, which was acquired in February 2005; GreenPoint, which was acquired in December 2006 as part of the North Fork acquisition; and CCB, which was acquired in February 2009 and subsequently merged into CONA.

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

The aggregate reserves for all three subsidiaries totaled $1.1 billion as of March 31, 2014, compared with $1.2 billion as of December 31, 2013.

The table below summarizes changes in our representation and warranty reserves in the first quarter of 2014 and 2013.

Table 14: Changes in Representation and Warranty Reserve

(Dollars in millions)	Three Months Ended March 31, 2014	2013
Representation and warranty repurchase reserve, beginning of period[1]	**$ 1,172**	$ 899
Provision (benefit) for mortgage representation and warranty losses[2]	**(33)**	97
Net realized losses	**(11)**	(2)
Representation and warranty repurchase reserve, end of period[1]	**$ 1,128**	$ 994

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

(2) We recorded a total pre-tax provision benefit of $33 million (which includes a benefit of $47 million in discontinued operations and an expense of $14 million in continuing operations), and a total pre-tax provision of $97 million (which includes an expense of $107 million in discontinued operations and a benefit of $10 million in continuing operations) to our provision for mortgage representation and warranty losses in the first quarter of 2014 and 2013, respectively.

As part of our business planning processes, we have considered various outcomes relating to the potential future representation and warranty liabilities of our subsidiaries that are possible but do not rise to the level of being both probable and reasonably estimable outcomes justifying an incremental accrual under applicable accounting standards. Our current best estimate of reasonably possible future losses from representation and warranty claims beyond what was in our reserve as of March 31, 2014, is approximately $2.5 billion, a decline from our estimate of $2.6 billion as of December 31, 2013. The estimate as of March 31, 2014 covers all reasonably possible losses relating to representation and warranty claim activity.

We provide additional information related to the representation and warranty reserve, including factors that may impact the adequacy of the reserves and the ultimate amount of losses incurred by our subsidiaries, in Note 14 Commitments, Contingencies, Guarantees, and Others.

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

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

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 $3.3 billion and $423 million, respectively, as of March 31, 2014, and our maximum exposure to loss was $3.8 billion as of March 31, 2014. We provide a discussion of our activities related to these VIEs in Note 6 Variable Interest Entities and Securitizations.

CAPITAL MANAGEMENT

The level and composition of our equity capital are determined by multiple factors, including our consolidated regulatory capital requirements and internal risk-based capital assessments, including our economic capital and internal stress testing frameworks. The level and composition of our capital 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 assets and off-balance sheet items. National banks, as insured depository institutions, are also subject to Prompt Corrective Action (PCA) capital regulations, which require the U.S. federal banking agencies to take prompt corrective action for banks that do not meet established capital requirements.

In July 2013, the Federal Reserve, the OCC and the FDIC (collectively, the U.S. federal banking agencies) finalized a new capital rule (the Final Rule) that implements the Basel III capital accord developed by the Basel Committee on Banking Supervision (Basel Committee) and certain Dodd-Frank Act capital provisions and updates the PCA capital requirements.

The Final Rule amended both the Advanced Approaches and the Basel I frameworks, establishing a new Common Equity Tier 1 Capital requirement and setting higher minimum capital ratio requirements. Certain provisions of the Final Rule began to take effect on January 1, 2014 for Advanced Approaches banking organizations. The Company refers to the amended Basel I framework as the Basel III Standardized Approach, and the amended Advanced Approaches framework as the Basel III Advanced Approaches.

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Prior to being revised in the Final Rule, the minimum risk-based capital requirements adopted by the U.S. federal banking agencies followed the Basel I framework originally promulgated pursuant to the Basel Committee s Basel I Accord. At the end of 2012, the Company met one of the two independent eligibility criteria set by banking regulators for becoming subject to the advanced approaches capital rules (the Advanced Approaches regime), based upon the framework originally promulgated as a result of the Basel II Accord. As a result, the Company has undertaken a multi-year process of implementing the Advanced Approaches regime for calculating risk-weighted assets and regulatory capital levels. The Company will be subject to a parallel run under Advanced Approaches beginning in 2015, during which it will calculate capital ratios under both Basel III Standardized Approach and Basel III Advanced Approaches, though it will continue to use the Basel III Standardized Approach for purposes of meeting regulatory capital requirements. By rule, the parallel run must last at least four consecutive quarters. The first quarter of 2016 is the earliest possible date on which the Company would use the Advanced Approaches framework to calculate its regulatory capital and risk-weighted assets for purposes of risk-based capital requirements. Consistent with the experience of other U.S. banks, it is quite possible that our parallel run will last longer than the four quarter minimum.

As of January 1, 2014, the new minimum risk-based capital requirements for Advanced Approaches banking organizations include a Common Equity Tier 1 Capital ratio of at least 4.0%, a Tier 1 Risk-Based Capital ratio of at least 5.5%, a Total Risk-Based Capital ratio of at least 8% and a Tier 1 Leverage Capital ratio of at least 4%. On January 1, 2015, the minimum risk-based capital ratio requirements will increase to 4.5% for the Common Equity Tier 1 Capital ratio and to 6.0% for the Tier 1 Risk-Based Capital ratio. The minimum requirements for the Total Risk-Based Capital ratio and Tier 1 Leverage Capital ratio will not change from 2014 to 2015.

Insured depository institutions are also subject to PCA capital regulations. Under current PCA regulations, an insured depository institution is considered to be well capitalized if it maintains a Tier 1 Risk-Based Capital ratio of at least 6%, a Total Risk-Based Capital ratio of at least 10%, a Tier 1 Leverage capital ratio of at least 5%, and is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by its regulator. While the Final Rule increases some of the thresholds for the PCA capital categories and adds the new Common Equity Tier 1 Capital ratio to the PCA regulations, the changes are not effective until January 1, 2015. Beginning on January 1, 2015, the well capitalized level for the Tier 1 Risk-Based Capital ratio will increase to 8% and the well capitalized level for the Common Equity Tier 1 Capital ratio will be established at 6.5%. The well capitalized levels for the Total Risk-Based Capital ratio and Tier 1 Leverage Capital ratios will not change.

Prior to 2014, we also disclosed a Tier 1 Common Capital ratio for our bank holding company, which is a regulatory capital measure widely used by investors, analysts, rating agencies and bank regulatory agencies to assess the capital position of financial services companies. There was no mandated minimum or well capitalized standard for the Tier 1 Common Capital ratio.

We disclose a non-GAAP Tangible Common Equity ratio in MD&A Summary of Selected Financial Data. While the TCE ratio is a capital measure widely used by investors, analysts, rating agencies, and bank regulatory agencies to assess the capital position of financial services companies, it may not be comparable to similarly titled measures reported by other companies. We provide information on the calculation of this ratio in MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures.

Table 15 provides a comparison of our regulatory capital ratios under the U.S. federal banking agencies capital adequacy standards as of March 31, 2014 and December 31, 2013. Under the Final Rule, beginning on January 1, 2014, as an Advanced Approaches banking organization that has yet to enter or exit parallel run, we began using the Basel III Standardized Approach for calculating our regulatory capital, subject to applicable transition provisions. In 2014, however, we will continue to use Basel I for calculating our risk-weighted assets in our regulatory capital ratios. Beginning on January 1, 2015, we will use the Basel III Standardized Approach for calculating our risk-weighted assets in our regulatory capital ratios.

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Table 15: Capital Ratios[1][2]

	March 31, 2014			December 31, 2013		
	Capital Ratio	**Minimum Capital Adequacy**	**Well Capitalized**	**Capital Ratio**	**Minimum Capital Adequacy**	**Well Capitalized**
Capital One Financial Corp:						
Common equity Tier 1[3]	**12.98%**	**4.00%**	**N/A**	N/A	N/A	N/A
Tier 1 common[4]	**N/A**	**N/A**	**N/A**	12.19%	N/A	N/A
Tier 1 risk-based capital[5]	**13.36**	**5.50**	**6.00%**	12.57	4.00%	6.00%
Total risk-based capital[6]	**15.42**	**8.00**	**10.00**	14.69	8.00	10.00
Tier 1 leverage[7]	**10.42**	**4.00**	**N/A**	10.06	4.00	N/A
Capital One Bank (USA) N.A.:						
Common equity Tier 1[3]	**12.69%**	**4.00%**	**N/A**	N/A	N/A	N/A
Tier 1 risk-based capital[5]	**12.69**	**5.50**	**6.00%**	11.47%	4.00%	6.00%
Total risk-based capital[6]	**16.26**	**8.00**	**10.00**	14.90	8.00	10.00
Tier 1 leverage[7]	**10.53**	**4.00**	**5.00**	10.21	4.00	5.00
Capital One, N.A.:						
Common equity Tier 1[3]	**13.27%**	**4.00%**	**N/A**	N/A	N/A	N/A
Tier 1 risk-based capital[5]	**13.27**	**5.50**	**6.00%**	12.67%	4.00%	6.00%
Total risk-based capital[6]	**14.36**	**8.00**	**10.00**	13.76	8.00	10.00
Tier 1 leverage[7]	**9.23**	**4.00**	**5.00**	8.96	4.00	5.00

(1) In the first quarter of 2014, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. See Note 1 Summary of Significant Accounting Policies for additional information. Prior periods have been recast to conform to this presentation.
(2) Capital ratios are calculated based on the Basel I capital framework as of December 31, 2013 and calculated based on the Basel III Standardized Approach framework, subject to applicable transition provisions, as of March 31, 2014. Capital ratios that are not applicable are denoted by N/A. See MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information.
(3) Basel III Common equity Tier 1 capital ratio is a regulatory measure calculated based on Common equity Tier 1 capital divided by risk-weighted assets.
(4) Tier 1 common capital ratio is a regulatory capital measure under Basel I calculated based on Tier 1 common capital divided by Basel I risk-weighted assets.
(5) Tier 1 risk-based capital ratio is a regulatory capital measure calculated based on Tier 1 capital divided by risk-weighted assets.
(6) Total risk-based capital ratio is a regulatory capital measure calculated based on total risk-based capital divided by risk-weighted assets.
(7) Tier 1 leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by average assets, after certain adjustments.

Our Common Equity Tier 1 Capital ratio, as calculated under the Basel III Standardized Approach framework, subject to transition provisions, was 12.98% as of March 31, 2014. Our Tier 1 common capital ratio, as calculated under Basel I, was 12.19% as of December 31, 2013. These numbers are not directly comparable due to methodological differences in the calculation of the ratios and the transition requirements under the Final Rule. Capital One Financial Corporation exceeded U.S. federal banking agencies minimum capital requirements and the Banks also exceeded minimum regulatory requirements and were well capitalized under PCA requirements as of March 31, 2014 and December 31, 2013.

As described above, we are currently using the Basel III Standardized Approach for calculating our regulatory capital, subject to transition periods. Basel III Standardized Common Equity Tier 1 Capital under the Final Rule includes additional adjustments and deductions not included in Tier 1 common capital calculated under Basel I, such as the inclusion of the unrealized gains and losses on available-for-sale securities included in AOCI and the deduction of assets related to defined benefit pension and other post-retirement employee benefit plans. These adjustments are phased-in at 20% for 2014, at 40% for 2015, at 60% for 2016, at 80% for 2017 and at 100% for 2018. Also as described above, we will continue to use Basel I for calculating our risk-weighted assets in our regulatory capital ratios in 2014. However, beginning on January 1, 2015, we must use the Basel III Standardized Approach for calculating our risk-weighted assets in our regulatory capital ratios.

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The following table compares our Common Equity Tier 1 Capital and risk-weighted assets as of March 31, 2014, calculated based on the Final Rule, subject to applicable transition provisions, to our estimated Common Equity Tier 1 Capital and risk-weighted assets as of March 31, 2014, calculated under Basel III Standardized Approach, as it applies when fully phased-in. See the table and notes below for further discussion on our interpretations, expectations and assumptions used in calculating this ratio.

Table 16: Estimated Common Equity Tier 1 Ratio under Fully Phased-In Basel III Standardized Approach

(Dollars in millions, except ratio)	
Common Equity Tier 1 Capital under Basel III Standardized as of March 31, 2014	**$ 28,434**
Adjustments related to unrealized gains (losses) on available for sale securities in AOCI and defined benefit pension plans[1]	**(528)**
Adjustments related to PCCR intangible[1]	**(1,254)**
Other adjustments[1][2]	**(30)**
Estimated Common Equity Tier 1 Capital under Fully Phased-In Basel III Standardized	**$ 26,622**
Risk-weighted assets under Basel I	**$ 219,047**
Adjustments for Basel III Standardized[3]	**8,878**
Estimated risk-weighted assets under Fully Phased-in Basel III Standardized	**$ 227,925**
Estimated Common Equity Tier 1 Capital Ratio under Fully Phased-In Basel III Standardized[4][5]	**11.7%**

(1) Includes full phase-In.
(2) Other adjustments are related to disallowed deferred tax assets from net operating losses and tax credit carry forwards, mortgage servicing rights and other intangibles net of associated deferred tax liabilities.
(3) Adjustments to the Basel I approach to calculating risk-weighted assets include higher risk weights for 90 days or more past due exposures, high volatility commercial real estate, securitization exposures and corresponding adjustments to PCCR intangibles, deferred tax assets and certain other assets in the calculation of Common Equity Tier 1 Capital under the Basel III Standardized Approach.
(4) Calculated by dividing estimated Common Equity Tier 1 Capital under the Fully Phased-In Basel III Standardized Approach by estimated risk-weighted assets under the Basel III Standardized Approach.
(5) Comparable to our Common equity Tier 1 as of March 31, 2014 of 12.98% calculated under Basel III Standardized Approach subject to transition provisions

Under the Final Rule, when we complete our parallel run for the Advanced Approaches, our minimum risk-based capital requirement will be the greater requirement of the Basel III Standardized and the Basel III Advanced Approaches. See Supervision and Regulation Basel III and U.S. Capital Rules in our 2013 Annual Report on Form 10-K for additional information. Based on our business mix, we anticipate that we will need to hold more regulatory capital under the Basel III Advanced Approaches than under Basel I or the Basel III Standardized Approach to meet our minimum required regulatory capital ratios.

Capital Planning and Regulatory Stress Testing

In November 2011, the Federal Reserve finalized capital planning rules applicable to large bank holding companies like us (commonly referred to as Comprehensive Capital Analysis and Review or CCAR). Under these rules, bank holding companies with consolidated assets of $50 billion or more must submit capital plans to the Federal Reserve on an annual basis and must obtain approval from the Federal Reserve before making most capital distributions. The purpose of the rules is to ensure that large bank holding companies have robust, forward-looking capital planning processes that account for their unique risks and capital needs to continue operations through times of economic and financial stress.

On January 6, 2014 we submitted our capital plan to the Board of Governors of the Federal Reserve as part of the 2014 CCAR cycle. On March 26, 2014, we were informed by the Board of Governors of the Federal Reserve that it had completed its review under the CCAR process and that it did not object to our proposed capital distribution plans submitted pursuant to CCAR.

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As a result of this non-objection to our capital plan, we expect to maintain our quarterly dividend of $0.30 per share, subject to approval by our Board of Directors. In addition, our Board of Directors has authorized the repurchase of up to $2.5 billion of shares of common stock through the end of the first quarter of 2015.

Dividend Policy and Stock Purchases

We paid common stock dividends of $0.30 per share in the first quarter of 2014. We paid preferred stock dividends of $15.00 per share on the outstanding shares of our 6.00% fixed rate non-cumulative perpetual preferred stock, Series B (the Series B Preferred Stock) during the first quarter of 2014. On May 1, 2014, our Board of Directors declared a quarterly dividend of $0.30 per share of common stock, payable May 22, 2014 to stockholders of record as of May 12, 2014, and a quarterly dividend of $15.00 per share of Series B Preferred Stock. Each outstanding share of the Series B Preferred Stock is represented by depositary shares, each representing a 1/40th interest in a share of Series B Preferred Stock. The dividend of $15.00 per share (equivalent to $0.375 per outstanding depository share) will be paid on June 2, 2014 to stockholders of record at the close of business on May 16, 2014.

The declaration and payment of dividends to our stockholders, as well as the amount thereof, are subject to the discretion of our Board of Directors and 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. Regulatory restrictions exist that limit the ability of the Banks to transfer funds to our bank holding company. Funds available for dividend payments from COBNA and CONA were $1.6 billion and $76 million, respectively, as of March 31, 2014. There can be no assurance that we will declare and pay any dividends. For additional information on dividends, see Part I-Item 1. Business Supervision and Regulation Dividends, Stock Purchases and Transfer of Funds in our 2013 Form 10-K.

As highlighted under Capital Planning and Regulatory Stress Testing above, we plan to repurchase up to $2.5 billion of common stock within the CCAR 2014 approval period from the second quarter of 2014 through the first quarter of 2015. The timing and exact amount of any common stock repurchases will depend on various factors, including market conditions, our capital position and amount of retained earnings. Our share repurchase program does not include specific price targets, may be executed through open market purchases or privately negotiated transactions, including utilizing Rule 10b5-1 programs, and may be suspended at any time. For additional information on stock repurchases, see Part I-Item 1. Business-Supervision and Regulation-Dividends, Stock Repurchases and Transfer of Funds in our 2013 Form 10-K.

RISK MANAGEMENT

Overview

We use a risk framework to manage risk. We execute against our risk management framework with the Three Lines of Defense risk management model to demonstrate and structure the roles, responsibilities and accountabilities in the organization for taking and managing risk. The First Line of Defense is comprised of the business areas that through their day-to-day business activities take risk on our behalf. As the business owner, the first line is responsible for identifying, assessing, managing and controlling that risk, and for mitigating our overall risk exposure. The Second Line of Defense provides oversight of first line risk taking and management, and is comprised of our Risk Management organization and other staff control functions. The second line assists in determining risk capacity, risk appetite, and the strategies, policies and structure for managing risks. The second line is both an expert advisor to the first line and an effective challenger of first line risk activities. The Third Line of Defense is comprised of our Internal Audit and Credit Review functions. The third line provides independent and objective assurance to senior management and to the Board of Directors that first and second

line risk management and internal control systems and its governance processes are well-designed and working as intended. Our risk framework, which is built around governance, processes and people, consists of the following eight key elements:

- Establish governance processes, accountabilities, and risk appetites
- Identify and assess risks and ownership
- Develop and operate controls, monitoring and mitigation plans
- Test and detect control gaps and perform corrective action
- Escalate key risks and gaps to Executive Management, and when appropriate the Board of Directors
- Calculate and allocate capital in alignment with risk management and measurement processes (including stress testing)
- Support with the right culture, talent and skills
- Enabled by the right data, infrastructure and programs

We provide additional discussion of our risk management principles, roles and responsibilities, framework and risk appetite under MD&A Risk Management in our 2013 Form 10-K.

CREDIT RISK PROFILE

Our loan portfolio accounts for the substantial majority of our credit risk exposure. These activities are also governed under our credit policy and are subject to independent review and approval. Below we provide information about the composition of our loan portfolio, key concentrations and credit performance metrics.

We also engage in certain non-lending activities that may give rise to credit and counterparty settlement risk, including the purchase of securities for our investment securities portfolio, entering into derivative transactions to manage our market risk exposure and to accommodate customers, foreign exchange transactions, and customer overdrafts. We provide additional information on credit risk related to our investment securities portfolio under Consolidated Balance Sheets Analysis Investment Securities and credit risk related to derivative transactions in Note 9 Derivative Instruments and Hedging Activities.

Loan Portfolio Composition

We provide a variety of lending products. Our primary products include credit cards, auto loans, home loans and commercial loans. For information on our lending policies and procedures, including our underwriting criteria for our primary loan products, see MD&A Credit Risk

Profile in our 2013 Form 10-K.

Our total loan portfolio consists of loans held for investment, loans held for sale and loans underlying our securitization trusts. Loans underlying our securitization trusts are reported on our consolidated balance sheets in restricted loans for securitization investors. Table 17 presents the composition of our portfolio of loans held for investment, by business segments, as of March 31, 2014 and December 31, 2013. Table 17 also displays Acquired Loans. For additional information on the accounting for Acquired Loans, see MD&A Credit Risk Profile Loan Portfolio Composition and Note 1 Summary of Significant Accounting Policies in our 2013 Form 10-K. Table 17 and the credit metrics presented in this section exclude loans held for sale, which are carried at lower of cost or fair value and totaled $259 million and $218 million as of March 31, 2014 and December 31, 2013, respectively.

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Table 17: Loan Portfolio Composition

(Dollars in millions)	March 31, 2014 Loans	Acquired Loans	Total	% of Total	December 31, 2013 Loans	Acquired Loans	Total	% of Total
Credit Card:								
Credit card loans:								
Domestic credit card and installment loans[1]	**$ 68,222**	**$ 53**	**$ 68,275**	**35.4%**	$ 73,192	$ 63	$ 73,255	37.1%
International credit card loans	**7,575**		**7,575**	**3.9**	8,050		8,050	4.1
Total credit card	**75,797**	**53**	**75,850**	**39.3**	81,242	63	81,305	41.2
Consumer Banking:								
Auto	**33,077**	**3**	**33,080**	**17.1**	31,852	5	31,857	16.2
Home loan	**6,977**	**27,058**	**34,035**	**17.6**	7,098	28,184	35,282	17.9
Retail banking	**3,560**	**52**	**3,612**	**1.9**	3,587	36	3,623	1.8
Total consumer banking	**43,614**	**27,113**	**70,727**	**36.6**	42,537	28,225	70,762	35.9
Commercial Banking:[2]								
Commercial and multifamily real estate	**21,188**	**68**	**21,256**	**11.0**	20,666	84	20,750	10.5
Commercial and industrial	**23,908**	**156**	**24,064**	**12.5**	23,131	178	23,309	11.8
Total commercial lending	**45,096**	**224**	**45,320**	**23.5**	43,797	262	44,059	22.3
Small-ticket commercial real estate	**910**		**910**	**0.5**	952		952	0.5
Total commercial banking	**46,006**	**224**	**46,230**	**24.0**	44,749	262	45,011	22.8
Other:								
Other loans	**134**		**134**	**0.1**	121		121	0.1
Total loans held for investment	**$ 165,551**	**$ 27,390**	**$ 192,941**	**100.0%**	$ 168,649	$ 28,550	$ 197,199	100.0%

[1] Domestic credit card loans includes installment loans of $261 million and $323 million as of March 31, 2014 and December 31, 2013, respectively.
[2] Includes construction loans and land development loans totaling $2.1 billion and $2.0 billion as of March 31, 2014 and December 31, 2013, respectively.

Credit Risk Measurement

We closely monitor economic conditions and loan performance trends to assess and manage our exposure to credit risk. Key metrics we track 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. Trends in delinquency rates are a primary indicator of credit risk within our consumer loan portfolios, as changes in delinquency rate provide an early warning of changes in credit losses. The primary indicator of credit risk in our commercial loan portfolios is risk ratings. Because we generally classify loans that have been delinquent for an extended period of time and other loans with significant risk of loss as nonperforming, the level of nonperforming assets represents another indicator of the potential for future credit losses. In addition to delinquency rates, the geographic distribution of our loans provides insight as to the credit quality of the portfolio based on regional economic conditions.

We use borrower credit scores in underwriting for most consumer loans. We do not use credit scores as a primary indicator of credit quality because product differences, loan structure, and other factors drive large differences in credit quality for a given credit score. We continuously adjust our management of credit lines and collection strategies based on customer behavior and risk profile changes.

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As noted above, our Credit Card business accounted for $75.9 billion, or 39%, of our total loan portfolio as of March 31, 2014, with Domestic Card accounting for $68.3 billion, or 35%, of our total loan portfolio as of March 31, 2014. In comparison, our Credit Card business accounted for $81.3 billion, or 41%, of our total loan portfolio as of December 31, 2013, with Domestic Card accounting for $73.3 billion, or 37%, of our total loan portfolio as of December 31, 2013. Based on our most recent data, we estimate that approximately one-third of our Domestic Card portfolio had credit scores equal or below 660 or no score, based on loan balances, as of March 31, 2014, consistent with the proportion of the Domestic Card portfolio with credit scores equal or below 660 or no score as of December 31, 2013.

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. We also present adjusted credit quality metrics excluding impact from Acquired Loans.

See Note 4 Loans in this Report for additional credit quality information. See Note 1 Summary of Significant Accounting Policies in our 2013 Form 10-K for information on our accounting policies for delinquent, nonperforming loans, charge-offs and troubled debt restructurings (TDRs) for each of our loan categories.

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 18 compares 30+ day performing and total 30+ day delinquency rates, by loan category, as of March 31, 2014 and December 31, 2013. Table 18 also presents these metrics adjusted to exclude from the denominator Acquired Loans accounted for based on expected cash flows expected to be collected over the life of the loans.

Our 30+ day delinquency metrics include all loans held for investment that are 30 or more days past due, whereas our 30+ day performing delinquency metrics include loans that are 30 or more days past due and that are also currently classified as performing and accruing interest. The 30+ day delinquency and 30+ day performing delinquency metrics are generally the same for credit card loans, as we continue to classify the substantial majority of credit card loans as performing until the account is charged-off, typically when the account is 180 days past due. See Note 1 Summary of Significant Accounting Policies in our 2013 Form 10-K for information on our policies for classifying loans as nonperforming for each of our loan categories.

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Table 18: 30+ Day Delinquencies

	March 31, 2014						December 31, 2013					
	30+ Day Performing			30+ Day Total			30+ Day Performing			30+ Day Total		
(Dollars in millions)	Amount	Rate[1]	Adjusted Rate[2]	Amount	Rate[1]	Adjusted Rate[2]	Amount	Rate[1]	Adjusted Rate[2]	Amount	Rate[1]	Adjusted Rate[2]
Credit Card:												
Domestic credit card and installment loans	**$ 2,062**	**3.02%**	**3.02%**	**$ 2,062**	**3.02%**	**3.02%**	$ 2,514	3.43%	3.43%	$ 2,514	3.43%	3.43%
International credit card loans	**272**	**3.59**	**3.59**	**334**	**4.41**	**4.41**	299	3.71	3.71	367	4.56	4.56
Total credit card	**2,334**	**3.08**	**3.08**	**2,396**	**3.16**	**3.16**	2,813	3.46	3.46	2,881	3.54	3.55
Consumer Banking:												
Auto	**1,750**	**5.29**	**5.29**	**1,862**	**5.63**	**5.63**	2,181	6.85	6.85	2,375	7.46	7.46
Home loan	**42**	**0.12**	**0.60**	**303**	**0.89**	**4.34**	55	0.16	0.78	323	0.91	4.55
Retail banking	**27**	**0.74**	**0.75**	**57**	**1.57**	**1.59**	25	0.69	0.70	52	1.44	1.46
Total consumer banking	**1,819**	**2.57**	**4.17**	**2,222**	**3.14**	**5.09**	2,261	3.20	5.32	2,750	3.89	6.47
Commercial Banking:												
Commercial and multifamily real estate	**59**	**0.28**	**0.28**	**100**	**0.47**	**0.47**	29	0.14	0.14	64	0.31	0.31
Commercial and industrial	**64**	**0.27**	**0.27**	**104**	**0.43**	**0.44**	73	0.31	0.32	108	0.46	0.47
Total commercial lending	**123**	**0.27**	**0.27**	**204**	**0.45**	**0.45**	102	0.23	0.23	172	0.39	0.39
Small-ticket commercial real estate	**7**	**0.72**	**0.72**	**12**	**1.35**	**1.35**	8	0.79	0.79	11	1.17	1.17
Total commercial banking	**130**	**0.28**	**0.28**	**216**	**0.47**	**0.47**	110	0.24	0.25	183	0.41	0.41
Other:												
Other loans	**5**	**3.34**	**3.34**	**18**	**13.26**	**13.26**	4	3.32	3.32	19	15.72	15.72
Total	**$ 4,288**	**2.22%**	**2.59%**	**$ 4,852**	**2.51%**	**2.93%**	$ 5,188	2.63%	3.08%	$ 5,833	2.96%	3.46%

(1) Calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category, including Acquired Loans as applicable.
(2) Calculated by excluding Acquired Loans impact.

Table 19 presents an aging of 30+ day delinquent loans included in the above table.

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Table 19: Aging and Geography of 30+ Day Delinquent Loans

	March 31, 2014		December 31, 2013	
(Dollars in millions)	**Amount**	**% of Total Loans[1]**	**Amount**	**% of Total Loans[1]**
Total loan portfolio	**$ 192,941**	**100.0%**	$ 197,199	100.00%
Delinquency status:				
30 59 days	**$ 2,204**	**1.14%**	$ 2,617	1.33%
60 89 days	**1,035**	**0.54**	1,344	0.68
90 + days	**1,613**	**0.83**	1,872	0.95
Total	**$ 4,852**	**2.51%**	$ 5,833	2.96%
Geographic region:				
Domestic	**$ 4,518**	**2.34%**	$ 5,466	2.77%
International	**334**	**0.17**	367	0.19
Total	**$ 4,852**	**2.51%**	$ 5,833	2.96%

[1] Calculated by dividing loans in each delinquency status category or geographic region as of the end of the period by the total loans held for investment, including Acquired Loans accounted for based on expected cash flows.

Table 20 summarizes loans that were 90 days or more past due as to interest or principal and still accruing interest as of March 31, 2014 and December 31, 2013. 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 generally continue to accrue interest and fees on domestic credit card and installment loans through the date of charge-off, which is typically in the period the account becomes 180 days past due. While domestic credit card loans typically remain on accrual status until the loan is charged-off, we reduce the balance of our credit card receivables by the amount of finance charges and fees billed but not expected to be collected and exclude this amount from revenue.

Table 20: 90+ Day Delinquent Loans Accruing Interest

	March 31, 2014		December 31, 2013	
(Dollars in millions)	**Amount**	**% of Total Loans**	**Amount**	**% of Total Loans**
Loan category:[1]				
Credit card	**$ 1,104**	**1.46%**	$ 1,283	1.58%
Consumer	**1**		2	
Commercial	**7**	**0.01**	6	0.01
Total	**$ 1,112**	**0.58%**	$ 1,291	0.65%
Geographic region:[2]				
Domestic	**$ 1,026**	**0.54%**	$ 1,195	0.60%
International	**86**	**0.04**	96	0.05
Total	**$ 1,112**	**0.58%**	$ 1,291	0.65%

[1] Delinquency rates are calculated for each loan category by dividing 90+ day delinquent loans accruing interest by period-end loans held for investment for the specified loan category, including Acquired Loans accounted for based on expected cash flows as applicable.
[2] Calculated by dividing loans in each geographic region by total period-end loans held for investment.

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Nonperforming Assets

Nonperforming assets consist of nonperforming loans, foreclosed property and repossessed assets and the net realizable value of auto loans that have been charged-off as a result of a bankruptcy. 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. In addition, we separately track and report Acquired Loans accounted for based on expected cash flows and disclose our delinquency and nonperforming loan rates with and without these Acquired Loans. See Note 1 Summary of Significant Accounting Policies in our 2013 Form 10-K for information on our policies for classifying loans as nonperforming for each of our loan categories.

Table 21 presents comparative information on nonperforming loans, by loan category, and other nonperforming assets, as of March 31, 2014 and December 31, 2013. We do not classify loans held for sale as nonperforming, as they are recorded at the lower of cost or fair value.

Table 21: Nonperforming Loans and Other Nonperforming Assets[(1)(2)(3)]

	March 31, 2014		December 31, 2013	
(Dollars in millions)	Amount	% of Total Loans HFI	Amount	% of Total Loans HFI
Nonperforming loans held for investment:				
Credit card:				
International credit card loans	**$ 81**	**1.07%**	$ 88	1.10%
Total credit card	**81**	**0.11**	88	0.11
Consumer Banking:				
Auto	**112**	**0.34**	194	0.61
Home loan	**370**	**1.09**	376	1.06
Retail banking	**42**	**1.15**	41	1.13
Total consumer banking	**524**	**0.74**	611	0.86
Commercial Banking:				
Commercial and multifamily real estate	**58**	**0.27**	52	0.25
Commercial and industrial	**86**	**0.36**	93	0.40
Total commercial lending	**144**	**0.32**	145	0.33
Small-ticket commercial real estate	**6**	**0.73**	4	0.41
Total commercial banking	**150**	**0.33**	149	0.33
Other:				
Other loans	**17**	**12.47**	19	15.83
Total nonperforming loans held for investment[(4)]	**$ 772**	**0.40%**	$ 867	0.44%
Other nonperforming assets:				
Foreclosed property[(5)]	**$ 109**	**0.06%**	$ 113	0.06%
Other assets[(6)]	**158**	**0.08**	160	0.08
Total other nonperforming assets	**267**	**0.14**	273	0.14
Total nonperforming assets	**$ 1,039**	**0.54%**	$ 1,140	0.58%

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

(2) The nonperforming loan ratio, excluding Acquired Loans impact for home loan, total consumer banking, and total nonperforming loans held for investment was 5.31%, 1.20%, and 0.47%, respectively, as of March 31, 2014, compared with 5.29%, 1.44%, and 0.51%, respectively, as of December 31, 2013. The nonperforming asset ratio, excluding the impact of Acquired Loans was 0.59% and 0.63% as of March 31, 2014 and December 31, 2013, respectively.

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(3) We recognized interest income for loans classified as nonperforming of $3 million and $4 million in the first quarter of 2014 and 2013, respectively. Interest income foregone related to nonperforming loans was $16 million and $18 million in the first quarter of 2014 and 2013, respectively. Foregone interest income represents the amount of interest income that would have been recorded during the period for nonperforming loans as of the end of the period had the loans performed according to their contractual terms.

(4) Nonperforming loans as a percentage of loans held for investment, excluding the impact of domestic credit card and installment loans, was 0.62% and 0.70% as of March 31, 2014 and December 31, 2013, respectively.

(5) Includes foreclosed properties related to Acquired Loans of $64 million and $68 million as of March 31, 2014 and December 31, 2013, respectively.

(6) Includes the net realizable value of auto loans that have been charged-off as a result of a bankruptcy and repossessed assets obtained in satisfaction of auto loans. Both of these amounts are included in other assets.

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 varies based on the loan type. See Note 1 Summary of Significant Accounting Policies Loans in our 2013 Form 10-K for information on our charge-off policy for each of our loan categories.

Table 22 presents our net charge-off amounts and rates, by business segment, in the first quarter of 2014 and 2013.

Table 22: Net Charge-Offs

	Three Months Ended March 31,					
	2014			2013		
(Dollars in millions)	Amount	Rate[(1)]	Adjusted Rate[(2)]	Amount	Rate[(1)]	Adjusted Rate[(2)]
Credit Card business:						
Domestic credit card and installment loans	**$ 700**	**4.01%**	**4.01%**	$ 827	4.43%	4.44%
International credit card loans	**80**	**4.17**	**4.17**	95	4.59	4.59
Total credit card	**780**	**4.02**	**4.03**	922	4.45	4.46
Consumer Banking business:						
Auto	**134**	**1.66**	**1.66**	122	1.78	1.78
Home loan	**5**	**0.06**	**0.29**	4	0.04	0.22
Retail banking	**9**	**0.95**	**0.96**	17	1.85	1.87
Total consumer banking	**148**	**0.84**	**1.37**	143	0.78	1.47
Commercial Banking business:						
Commercial and multifamily real estate	**1**	**0.01**	**0.01**	1	0.01	0.01
Commercial and industrial	**2**	**0.03**	**0.03**	2	0.04	0.04
Total commercial lending	**3**	**0.02**	**0.02**	3	0.03	0.03
Small-ticket commercial real estate	**1**	**0.67**	**0.67**	4	1.41	1.41
Total commercial banking	**4**	**0.04**	**0.04**	7	0.07	0.07
Other:						
Other loans	**(1)**	**(0.68)**	**(0.68)**	7	14.53	18.47
Total	**$ 931**	**1.92%**	**2.24%**	$ 1,079	2.20%	2.69%

Average loans held for investment	**$ 193,722**	$ 195,997
Average loans held for investment (excluding acquired loans)	**165,962**	160,291

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(1) Calculated for each loan category by dividing annualized net charge-offs for the period by average loans held for investment during the period.
(2) Calculated by excluding Acquired Loans from the denominator.

Loan Modifications and Restructurings

As part of our loss mitigation efforts, we may provide short-term (three to twelve months) or long-term (greater than twelve months) modifications to a borrower experiencing financial difficulty to improve long-term collectability of the loan and to avoid the need for foreclosure or repossession of collateral.

Table 23 presents the loan balances as of March 31, 2014 and December 31, 2013, for which loan modifications were made as part of our loss mitigation efforts, all of which are considered to be TDR. Table 23 excludes loan modifications that do not meet the definition of a TDR and Acquired Loans, with the exception of commercial loans, accounted for based on expected cash flows, which we track and report separately.

Table 23: Loan Modifications and Restructurings

	March 31, 2014		December 31, 2013	
(Dollars in millions)	**Amount**	**% of Total Modifications**	**Amount**	**% of Total Modifications**
Modified and restructured loans:				
Credit card[1]	**$ 749**	**44.0%**	$ 780	46.4%
Auto	**371**	**21.8**	355	21.1
Home loan	**241**	**14.2**	244	14.5
Retail banking	**58**	**3.4**	64	3.8
Commercial banking	**282**	**16.6**	238	14.2
Total	**$ 1,701**	**100.0%**	$ 1,681	100.0%
Status of modified and restructured loans:				
Performing	**$ 1,276**	**75.0%**	$ 1,250	74.4%
Nonperforming	**425**	**25.0**	431	25.6
Total	**$ 1,701**	**100.0%**	$ 1,681	100.0%

(1) Amount reported reflects the total outstanding customer balance, which consists of unpaid principal balance, accrued interest and fees.

The vast majority of our credit card TDR loan modifications involve a reduction in the interest rate on the account and placing the customer on a fixed payment plan not exceeding 60 months. We determine the effective interest rate for purposes of measuring impairment on modified loans that involve a reduction and are considered to be a TDR based on the interest rate in effect immediately prior to the loan entering the modification program. In some cases, the interest rate on a credit card account is automatically increased due to non-payment, late payment or similar events. In all cases, we cancel the customer s available line of credit on the credit card. If the customer does not comply with the modified payment terms, then the credit card loan agreement may revert to its original payment terms, with the amount of any loan outstanding reflected in the appropriate delinquency category. The loan amount may then be charged-off in accordance with our standard charge-off policy.

The majority of our modified home loans involve a combination of an interest rate reduction, term extension or principal reduction. The vast majority of modified auto and commercial loans include a reduction in interest rate or a term extension. We provide additional information on modified loans accounted for as TDRs, including the performance of those loans subsequent to modification, in Note 4 Loans.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due from the borrower in accordance with the original contractual terms of the loan.

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Generally, we report loans as impaired based on the method for measuring impairment in accordance with applicable accounting guidance. Loans defined as individually impaired, include larger balance commercial nonperforming loans and TDR loans. Loans held for sale are not reported as impaired, as these loans are recorded at lower of cost or fair value. Impaired loans also exclude Acquired Loans accounted for based on expected cash flows because this accounting methodology takes into consideration future credit losses expected to be incurred, as discussed above under Summary of Selected Financial Data.

Impaired loans, including TDRs, totaled $2.0 billion as of March 31, 2014, compared with $1.9 billion as of December 31, 2013. TDRs accounted for $1.7 billion of impaired loans as of both March 31, 2014 and December 31, 2013. We provide additional information on our impaired loans, including the allowance established for these loans, in Note 4 Loans and Note 5 Allowance for Loan and Lease Losses.

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 provide additional information on the methodologies and key assumptions used in determining our allowance for loan and lease losses in Note 1 Summary of Significant Accounting Policies in our 2013 Form 10-K.

Our allowance decreased by $217 million to $4.1 billion as of March 31, 2014 from $4.3 billion as of December 31, 2013. The reduction in the allowance was mainly due to a reduction in loan balances and an improved credit outlook.

Table 24 displays changes in our allowance for loan and lease losses for the first quarter of 2014 and 2013, which details by loan type, the provision for credit losses recognized in our consolidated statements of income for each period and charge-offs recorded against the allowance for loan and lease losses.

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Table 24: Allowance for Loan and Lease Losses Activity

(Dollars in millions)	Three Months Ended March 31, 2014	2013
Balance at beginning of period, as reported	**$ 4,315**	$ 5,156
Provision for credit losses[1]	**723**	835
Charge-offs:		
Credit Card:		
Domestic credit card and installment loans	**(964)**	(1,119)
International credit card loans	**(131)**	(143)
Total credit card	**(1,095)**	(1,262)
Consumer Banking:		
Auto	**(205)**	(182)
Home loan	**(11)**	(7)
Retail banking	**(15)**	(25)
Total consumer banking	**(231)**	(214)
Commercial Banking:		
Commercial and multifamily real estate	**(2)**	(2)
Commercial and industrial	**(4)**	(4)
Total commercial lending	**(6)**	(6)
Small-ticket commercial real estate	**(1)**	(6)
Total commercial banking	**(7)**	(12)
Other loans	**(2)**	(8)
Total charge-offs	**(1,335)**	(1,496)
Recoveries:		
Credit Card:		
Domestic credit card and installment loans	**264**	292
International credit card loans	**51**	48
Total credit card	**315**	340
Consumer Banking:		
Auto	**71**	60
Home loan	**6**	3
Retail banking	**6**	8
Total consumer banking	**83**	71
Commercial Banking:		
Commercial and multifamily real estate	**1**	1
Commercial and industrial	**2**	2
Total commercial lending	**3**	3
Small-ticket commercial real estate		2

Total commercial banking	**3**	5
Other loans	**3**	1
Total recoveries	**404**	417
Net charge-offs	**(931)**	(1,079)
Impact of loan transfers, sales and other changes[2]	**(9)**	(306)
Balance at end of period	**$ 4,098**	$ 4,606
Allowance for loan and lease losses as a percentage of loans held for investment	**2.12%**	2.41%

[1] The total provision for credit losses reported in our consolidated statements of income of $735 million and $885 million in the first quarter of 2014 and 2013, respectively, consists of a provision for loan and lease losses and a provision for unfunded lending commitments. The provision for credit losses reported in the above table relates only to the provision for loan and lease losses. It does not include the provision for unfunded lending commitments of $12 million and $50 million in the first quarter of 2014 and 2013, respectively.

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(2) Consists of a reduction in the allowance of $289 million, which was attributable to the transfer of loans from HFI to HFS related to Best Buy, in the first quarter of 2013. It also contains a foreign translation and an other adjustment of $9 million and $17 million in the first quarter of 2014 and 2013, respectively.

Table 25 presents an allocation of our allowance for loan and lease losses by loan category as of March 31, 2014 and December 31, 2013.

Table 25: Allocation of the Allowance for Loan and Lease Losses[1]

	March 31, 2014		December 31, 2013	
(Dollars in millions)	**Amount**	**Coverage Ratio**	**Amount**	**Coverage Ratio**
Credit Card[2]:				
Domestic credit card and installment loans	**$ 2,622**	**3.84%**	$ 2,836	3.87%
International credit card loans	**362**	**4.77**	378	4.70
Total credit card	**2,984**	**3.93**	3,214	3.95
Consumer Banking[2]:				
Auto	**608**	**1.84**	606	1.90
Home loan	**72**	**0.21**	83	0.24
Retail banking	**64**	**1.78**	63	1.74
Total consumer banking	**744**	**1.05**	752	1.06
Commercial Banking[2]:				
Commercial and multifamily real estate	**158**	**0.74**	143	0.69
Commercial and industrial	**180**	**0.75**	166	0.71
Total commercial lending	**338**	**0.75**	309	0.70
Small-ticket commercial real estate	**24**	**2.60**	29	3.05
Total commercial banking	**362**	**0.78**	338	0.75
Other loans	**8**	**5.68**	11	9.09
Total	**$ 4,098**	**2.12%**	$ 4,315	2.19%
Total allowance coverage ratios:				
Period-end loans held for investment	**$ 192,941**	**2.12%**	$ 197,199	2.19%
Period-end loans held for investment (excluding Acquired Loans)	**165,551**	**2.45**	168,649	2.54
Nonperforming loans[3]	**772**	**530.72**	867	497.69
Allowance coverage ratios by loan category[4]:				
Credit card (30+ day delinquent loans)	**2,396**	**124.52%**	2,881	111.56%
Consumer banking (30+ day delinquent loans)	**2,222**	**33.47**	2,750	27.35
Commercial banking (nonperforming loans)	**150**	**241.06**	149	226.85

(1) The coverage ratio, excluding Acquired Loans impact for home loan and total consumer banking was 0.54%, and 1.62%, respectively, as of March 31, 2014, compared with 0.64% and 1.68%, respectively, as of December 31, 2013.

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

(3) Our policy is generally not to classify domestic credit card and installment loans as nonperforming and we generally accrue interest on domestic credit card and installment loans through the date of charge-off. The allowance for loan and lease losses as a percentage of nonperforming loans, excluding the allowance related to our domestic credit card and installment loans, was 191.08% as of March 31, 2014 and 170.59% as of December 31, 2013.

(4) Calculated based on the total allowance for loan and lease losses divided by the outstanding balance of loans within the specified loan category.

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LIQUIDITY RISK PROFILE

We have established liquidity guidelines that are intended to ensure 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 readily-marketable or pledgable assets which can be used as a source of liquidity, if needed.

Table 26 below presents the composition of our liquidity reserves as of March 31, 2014 and December 31, 2013.

Table 26: Liquidity Reserves

(Dollars in millions)	March 31, 2014	December 31, 2013
Cash and cash equivalents	**$ 6,182**	$ 6,291
Investment securities available for sale, at fair value[1]	**40,721**	41,800
Investment securities held to maturity, at fair value[1]	**20,463**	19,185
Total investment securities portfolio.	**61,184**	60,985
FHLB borrowing capacity secured by loans	**30,186**	28,623
Outstanding FHLB advances and letters of credit secured by loans	**(1,411)**	(8,917)
Outstanding FHLB advances and letters of credit secured by securities	**(2,905)**	(7,808)
Securities encumbered for Public Funds and others	**(10,983)**	(9,491)
Total liquidity reserves	**$ 82,253**	$ 69,683

(1) The weighted average life of our securities was approximately 6.3 years as of both March 31, 2014 and December 31, 2013.

Our liquidity reserves increased by $12.6 billion, or 18%, in the first quarter of 2014, to $82.3 billion as of March 31, 2014 from $69.7 billion as of December 31, 2013. This increase was primarily attributable to lower short-term FHLB advances as we experienced a seasonal drop in loan balances coupled with an increase in consumer deposits within the quarter. See MD&A Risk Management in our 2013 Form 10-K for additional information on our management of liquidity risk.

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 customer deposits, short-term borrowings, the issuance of senior and subordinated notes and other borrowings, and loan securitization transactions. In addition, we utilize FHLB advances, which are secured by certain portions of our loan and investment securities portfolios, for our funding needs.

Customer Deposits

Our customer deposits provide a stable and relatively low cost of funds and are our largest source of funding. Table 27 provides a comparison of the composition of our customer deposits, average balances, interest expense and average deposit rates for the first quarter of 2014 and full year 2013.

Table 27: Deposit Composition and Average Deposit Rates

	Three Months Ended March 31, 2014				
(Dollars in millions)	Period End Balance	Average Balance	Interest Expense	% of Average Deposits	Average Deposit Rate
Non-interest bearing checking accounts	$ 24,110	$ 21,659	N/A	10.5%	N/A
Interest-bearing checking accounts[1]	43,770	43,896	$ 56	21.3	0.51%
Saving deposits[2]	130,690	128,887	$ 185	62.6	0.57
Time deposits less than $100,000	5,901	6,028	20	2.9	1.30
Total core deposits	204,471	200,470	261	97.4	0.52
Time deposits of $100,000 or more	2,696	2,758	14	1.3	2.06
Foreign time deposits[3]	1,157	2,614	1	1.3	0.16
Total customer deposits	$ 208,324	$ 205,842	$ 276	100.0%	0.53%

	Twelve Months Ended December 31, 2013				
(Dollars in millions)	Period End Balance	Average Balance	Interest Expense	% of Average Deposits	Average Deposit Rate
Non-interest bearing checking accounts	$ 22,643	$ 21,345	N/A	10.2%	N/A
Interest-bearing checking accounts[1]	43,880	43,823	$ 254	21.0	0.58%
Saving deposits[2]	127,667	129,373	714	61.8	0.55
Time deposits less than $100,000	6,299	8,955	161	4.3	1.80
Total core deposits	200,489	203,496	1,129	97.3	0.55
Time deposits of $100,000 or more	2,852	3,938	108	1.9	2.74
Foreign time deposits[3]	1,182	1,611	4	0.8	0.25
Total customer deposits	$ 204,523	$ 209,045	$ 1,241	100.0%	0.59%

(1) Includes Negotiable Order of Withdrawal (NOW) accounts.
(2) Includes Money Market Deposit Accounts (MMDA).
(3) Substantially all of our foreign time deposits are greater than $100,000 as of both March 31, 2014 and December 31, 2013.

Total deposits increased by $3.8 billion during the first quarter of 2014 to $208.3 billion as of March 31, 2014, from $204.5 billion as of December 31, 2013, primarily driven by seasonality and growth in Retail Banking, which reflected our focus on deepening deposit relationships with existing customers and our continued marketing strategy to attract new business. Our deposits include brokered deposits, which we obtained through the use of third-party intermediaries. Those brokered deposits are reported in savings deposit accounts and time deposits in the above table and totaled $5.0 billion and $6.0 billion as of March 31, 2014 and December 31, 2013, respectively.

FDIC limits the use of brokered deposits to well-capitalized insured depository institutions and, with a waiver from the FDIC, to adequately capitalized institutions. COBNA and CONA were well-capitalized, as defined under the federal banking regulatory guidelines, as of both March 31, 2014 and December 31, 2013, and therefore were permitted to maintain brokered deposits.

Short-term Borrowings and Long-term Debt

We access the capital markets to meet our funding needs through the issuance of senior and subordinated notes, loan securitization transactions, and federal funds purchased and securities loaned or sold under agreements to repurchase. We participate in the federal funds market regularly to take advantage of attractive offers and to keep a visible presence in the market, which is intended to ensure that we are able to access the federal funds market in

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a time of need. In addition, we may utilize short-term as well as long-term FHLB advances for our funding needs. FHLB advances are secured by our investment securities, residential home loans, multifamily loans, commercial real-estate loans and home equity lines of credit.

Our short-term borrowings include those borrowings with an original contractual maturity of one year or less, do not include the current portion of long-term debt, and typically have not represented a significant portion of our overall funding. The short-term borrowings, which consist of federal funds purchased and securities loaned or sold under agreements to repurchase, and short-term FHLB advances, decreased by $11.8 billion in the first quarter of 2014, from $16.2 billion as of December 31, 2013 to $4.4 billion as of March 31, 2014. This decrease reflects $16.8 billion in payoffs of FHLB advances, partially offset by $4.4 billion in new advances.

Our long-term debt, which consists of securitized debt obligations, senior and subordinated notes, and long-term FHLB advances, increased by $1.2 billion in the first quarter of 2014, from $24.4 billion as of December 31, 2013 to $25.7 billion as of March 31, 2014. The increase was primarily attributable to new senior note issuances of $2.0 billion and card securitization issuances of $950 million, partially offset by $1.7 billion of expected maturities.

Table 28 provides the average balances, weighted average interest rate, and maximum month-end outstanding amounts of our short-term borrowings for the three months ended March 31, 2014 and 2013. This table also presents the period-end balances and weighted average interest rate of our short-borrowings as of March 31, 2014 and December 31, 2013.

Table 28: Short-Term Borrowings

	Three Months Ended March 31,			
	2014		2013	
(Dollars in millions)	Outstanding Amount	Weighted Average Interest Rate	Outstanding Amount	Weighted Average Interest Rate
Average during the period:				
Federal funds purchased and repurchase agreements	**$ 1,483**	**0.08%**	$ 1,109	0.18%
FHLB advances	**8,980**	**0.25**	15,647	0.27
Total short-term borrowings	**$ 10,463**	**0.23%**	$ 16,756	0.26%

	March 31, 2014			December 31, 2013		
(Dollars in millions)	Amount	Weighted Average Interest Rate	Maximum Month-End Outstanding Amount	Amount	Weighted Average Interest Rate	Maximum Month-End Outstanding Amount
Period-end balance:						
Federal funds purchased and repurchase agreements	**$ 1,544**	**0.06%**	**$ 1,544**	$ 915	0.06%	$ 2,258
FHLB advances	**2,900**	**0.20**	**12,500**	15,300	0.25	16,600
Total short-term borrowings	**$ 4,444**	**0.15%**		$ 16,215	0.24%	

Table 29 displays the maturity profile, based on contractual maturities, of our short-term borrowings and long-term debt including securitization debt obligations, senior and subordinated notes and other borrowings as of March 31, 2014, and the outstanding balances as of December 31, 2013.

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Table 29: Contractual Maturity Profile of Outstanding Debt

	March 31, 2014							
(Dollars in millions)	Up to 1 Year	> 1 Year to 2 Years	> 2 Years to 3 Years	> 3 Years to 4 Years	> 4 Years to 5 Years	> 5 Years	Total	December 31, 2013
Short-term borrowings:								
Federal funds purchased and securities loaned or sold under agreements to repurchase	$ 1,544	$	$	$	$	$	$ 1,544	$ 915
FHLB advances	2,900						2,900	15,300
Total short-term borrowings	4,444						4,444	16,215
Long-term debt:								
Securitized debt obligations	1,680	1,654	4,425	1,811	138	75	9,783	10,289
Senior and subordinated notes:								
Unsecured senior debt	3,260	1,639	2,471	1,220	1,584	2,026	12,200	10,464
Unsecured subordinated debt	100		1,111			1,480	2,691	2,670
Total senior and subordinated notes	3,360	1,639	3,582	1,220	1,584	3,506	14,891	13,134
Other long-term borrowings:								
FHLB advances	931	17	19	24	6	3	1,000	1,016
Total long-term debt[1]	5,971	3,310	8,026	3,055	1,728	3,584	25,674	24,439
Total short-term borrowings and long-term debt	$ 10,415	$ 3,310	$ 8,026	$ 3,055	$ 1,728	$ 3,584	$ 30,118	$ 40,654
Percentage of total	34%	11%	27%	10%	6%	12%	100%	

[1] Includes unamortized discounts, premiums and other cost basis adjustments, which together result in a net reduction of $233 million and $236 million as of March 31, 2014 and December 31, 2013, respectively.

We provide additional information on our short-term borrowings and long-term debt above under Consolidated Condensed Balance Sheets Analysis Securitized Debt Obligations, Consolidated Condensed Balance Sheet Analysis Other Debt and in Note 8 Deposits and Borrowings.

Borrowing Capacity

Under our shelf registration statement filed with the U.S. Securities and Exchange Commission on April 30, 2012, from time to time, we may offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depository shares, common stock, purchase contracts, warrants and units. There is no limit under this shelf registration statement to the amount or number of such securities that we may offer and sell, subject to market conditions. Our current shelf registration statement will expire three years from the filing date.

In addition to our issuance capacity under the shelf registration statement, we also have access to FHLB advances with a maximum borrowing capacity of $37.8 billion as of March 31, 2014. This borrowing capacity was secured by posting $30.2 billion of loans and $7.6 billion of securities as collateral. As of March 31, 2014, we had outstanding FHLB advances and letters of credit of $4.3 billion and $33.5 billion still available to us to borrow under this program. The ability to draw down funding is based on membership status and the amount is dependent upon the Banks ability to post collateral. Our FHLB membership is secured by our investment in FHLB stock of $205 million and $774 million as of March 31, 2014 and December 31, 2013, respectively, which are determined in part based on our outstanding advances. We also have access to the Federal Reserve Discount Window but did not utilize this funding source during 2014 or 2013.

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Credit Ratings

Our credit ratings have a significant impact on our ability to access capital markets and our borrowing costs. Rating agencies base their ratings on numerous factors, including liquidity, capital adequacy, asset quality, quality of earnings and the probability of systemic support. Significant changes in these factors could result in different ratings. Such ratings help to support our cost effective unsecured funding as part of our overall financing programs. Table 30 provides a summary of the credit ratings for the senior unsecured debt of Capital One Financial Corporation, COBNA and CONA as of March 31, 2014 and December 31, 2013.

Table 30: Senior Unsecured Debt Credit Ratings

	March 31, 2014			December 31, 2013		
	Capital One Financial Corporation	Capital One Bank (USA), N.A.	Capital One, N.A.	Capital One Financial Corporation	Capital One Bank (USA), N.A.	Capital One, N.A.
Moody s	**Baa1**	**A3**	**A3**	Baa1	A3	A3
S&P	**BBB**	**BBB+**	**BBB+**	BBB	BBB+	BBB+
Fitch	**A-**	**A-**	**A-**	A-	A-	A-

As of May 5, 2014, Moody s, S&P and Fitch have us on a stable outlook.

MARKET RISK PROFILE

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

Primary Market Risk Exposures

Our primary source of market risk is interest rate risk. We also have exposure to foreign exchange risk.

Interest Rate Risk

Interest rate risk, which represents exposure to instruments whose yield or price varies with the level or volatility of interest rates, is our most significant source of market risk exposure. Banks are inevitably exposed to interest rate risk due to differences in the timing between the maturities or repricing of assets and liabilities.

Foreign Exchange Risk

Foreign exchange risk represents exposure to changes in the values of current holdings and future cash flows denominated in other currencies. Changes in foreign exchange rates affect the reported earnings of our foreign operations and the value of non-dollar denominated equity invested in those foreign operations. We measure our earnings exposure using a stress-based simulation of foreign exchange rates. As of March 31, 2014, our pre-tax earnings exposure to volatility of foreign exchange rates was minimal. The impact of changes in foreign exchange rates on our non-dollar equity invested overseas, measured on a quarterly basis, manifests itself in our AOCI and capital ratios.

Market Risk Management

We employ several techniques to manage our interest rate and foreign exchange risk, which include, but are not limited to, altering the duration and re-pricing characteristics of our various assets and liabilities through interest

rate derivatives or mitigating the foreign exchange exposure of certain non-dollar denominated transactions through foreign exchange derivatives. 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 both our interest rate and foreign currency risk. The outstanding notional amount of our derivative contracts totaled $66.6 billion as of March 31, 2014, compared with $63.4 billion as of December 31, 2013.

Market Risk Measurement

We have prescribed risk management policies and limits established by our Market and Liquidity Risk Policy and approved by the Board of Directors. 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 on our net interest income and our economic value of equity and foreign exchange rates on our non-dollar denominated earnings. We provide additional information below in Economic Value of Equity .

We consider the impact on both net interest income and economic value of equity in measuring and managing our interest rate risk. Because the federal funds rate was lowered to near zero in December 2008 and since then has remained in a target range of zero to 0.25%, we use a 50 basis point decrease as our declining interest rate scenario, since a scenario where interest rates would decline by 200 basis points is not plausible. In scenarios where a 50 basis point decline would result in a rate less than 0%, we assume a rate of 0%. Below we discuss the assumptions used in calculating each of these measures.

Net Interest Income Sensitivity

Our net interest income sensitivity measure estimates the impact on our projected 12-month base-line adjusted net interest income resulting from movements in interest rates. Adjusted net interest income consists of net interest income and changes in the fair value of mortgage servicing rights, including related derivative hedging activity, and changes in the fair value of free-standing interest rate swaps. In addition to our existing assets and liabilities, we incorporate expected future business growth assumptions, such as loan and deposit growth and pricing, and plans for projected changes in our funding mix in our baseline forecast. In measuring the sensitivity of interest rate movements on our adjusted projected net interest income, we assume an instantaneous plus 200 basis point and minus 50 basis point shock, with the lower rate scenario limited to zero as described above.

Economic Value of Equity

Our economic value of equity sensitivity measure estimates the impact on the net present value of our assets and liabilities, including derivative hedging activity, resulting from movements in interest rates. Our economic value of equity sensitivity measures are calculated based on our existing assets and liabilities, including derivatives, and do not incorporate business growth assumptions or projected plans for funding mix changes. In measuring the sensitivity of interest rate movements on our economic value of equity, we assume a hypothetical instantaneous parallel shift in the level of interest rates of plus 200 basis points and minus 50 basis points to spot rates.

We have included the table below that shows net interest income and economic value of equity sensitivity as of March 31, 2014 and December 31, 2013.

Table 31 shows the estimated percentage impact on our projected base-line adjusted net interest income and economic value of equity, calculated under the hypothetical interest rate scenarios described above, as of March 31, 2014 and December 31, 2013. In addition to these industry standard measures, we will continue to factor into our internal interest rate risk management decisions the potential impact of alternative interest rate scenarios, such as stressed rate shocks as well as steepening and flattening yield curve scenarios.

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Table 31: Interest Rate Sensitivity Analysis

(Dollars in millions)	March 31, 2014	December 31, 2013
Impact on projected base-line adjusted net interest income:		
+200 basis points	**4.5%**	4.9%
50 basis points	**(1.8)**	(1.5)
Impact on economic value of equity:		
+200 basis points	**(4.6)**	(5.7)
50 basis points	**(0.4)**	0.3

Our projected net interest income and economic value of equity sensitivity measures were within our prescribed policy limits as of March 31, 2014 and December 31, 2013.

Limitations of Market Risk Measures

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 depositor 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 analysis contemplates only certain movements in interest rates and is performed at a particular point in time based on the existing balance sheet and, in some cases, expected future business growth and funding mix assumptions. The strategic actions that management may take to manage our balance sheet may differ significantly from our projections, which could cause our actual earnings and economic value of equity sensitivities to differ substantially from the above sensitivity analysis.

SUPERVISION AND REGULATION

Debit Interchange Fees

The Dodd-Frank Act requires that the amount of any interchange fee received by a debit card issuer with respect to debit card transactions be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. In June 2011, the Federal Reserve adopted a final rule and an interim final rule (which largely was adopted in final form in July 2012) implementing the portion of the Dodd-Frank Act that limits interchange fees received by a debit card issuer. The final rules limited interchange fees per debit card transaction to $0.21 plus five basis points of the transaction amount and provided for an additional $0.01 fraud prevention adjustment to the interchange fee for issuers that meet certain fraud prevention requirements. On July 31, 2013, the U.S. District Court for the District of Columbia issued a ruling that would have required the Federal Reserve to reconsider the current permissible interchange amount. On August 21, 2013, however, the Federal Reserve appealed this ruling. On March 21, 2014, the U.S. Court of Appeals for the District of Columbia reversed the District Court and upheld the Federal Reserve s rules in all material respects. It is not known if the plaintiffs will attempt to appeal the decision.

Basel III and U.S. Capital Rules

The Federal Banking Agencies issued a rule in July 2013 implementing the Basel III capital framework developed by the Basel Committee on Banking Supervision (Basel Committee) as well as certain Dodd-Frank Act and other capital provisions (Final Rule). For additional information, see our 2013 Form 10-K under Part I Item 1.

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Business Supervision and Regulation Capital Adequacy. For Basel III Advanced Approaches institutions like the Company and Banks, the Final Rule included a supplementary leverage ratio based upon the Basel III leverage ratio. On April 8, 2014, the Federal Banking Agencies announced proposed changes to the supplementary leverage ratio consistent with subsequent revisions made by the Basel Committee to the leverage ratio. We are currently assessing the potential impact to us should the proposed rules be adopted in their current form.

We provide additional information on our Supervision and Regulation in our 2013 Form 10-K under Part I Item 1 Business Supervision and Regulation.

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, expenses, capital measures, 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 and regulations governing bank capital and liquidity standards, including Basel-related initiatives and potential changes to financial accounting and reporting standards;
- developments, changes or actions relating to any litigation matter involving us;
- the inability to sustain revenue and earnings growth;
- increases or decreases in interest rates;
- our ability to access the capital markets at attractive rates and terms to capitalize and fund our operations and future growth;

the success of our marketing efforts in attracting and retaining customers;

increases or decreases in our aggregate loan balances or the number of customers and the growth rate and composition thereof, including increases or decreases resulting from factors such as shifting product mix, amount of actual marketing expenses we incur and attrition of loan balances;

the level of future repurchase or indemnification requests we may receive, the actual future performance of mortgage loans relating to such requests, the success rates of claimants against us, any developments in litigation and the actual recoveries we may make on any collateral relating to claims against us;

the amount and rate of deposit growth;

changes in the reputation of, or expectations regarding, the financial services industry or us with respect to practices, products or financial condition;

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- any significant disruption in our operations or technology platform;
- our ability to maintain a compliance infrastructure suitable for the nature of our business;
- 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;
- any significant disruption of, or loss of public confidence in the internet, affecting the ability of our customers to access their accounts and conduct banking transactions;
- our ability to recruit and retain experienced personnel to assist in the management and operations of new products and services;
- changes in the labor and employment markets;
- fraud or misconduct by our customers, employees or business partners;
- competition from providers of products and services that compete with our businesses; and
- other risk factors listed from time to time in reports that we file with the SEC.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events or otherwise. You should carefully consider the factors discussed above in evaluating these forward-looking statements. For additional information on factors that could materially influence forward-looking statements included in this Report, see the risk factors set forth under Part II Item 1A. Risk Factors in this Report and in Part I Item 1A. Risk Factors in our 2013 Form 10-K.

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SUPPLEMENTAL TABLES

Table A Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures[1]

(Dollars in millions)	March 31, 2014	December 31, 2013
Average Equity to Non-GAAP Average Tangible Common Equity		
Average stockholders equity	**$ 42,859**	$ 42,355
Adjustments: Average goodwill and other intangible assets[2]	**(15,727)**	(15,847)
Noncumulative perpetual preferred stock[3]	**(853)**	(853)
Average tangible common equity	**$ 26,279**	$ 25,655
End of Period Stockholders Equity to Non-GAAP Tangible Common Equity		
End of period stockholders equity	**$ 42,801**	$ 41,632
Adjustments: Goodwill and other intangible assets[2]	**(15,666)**	(15,784)
Noncumulative perpetual preferred stock[3]	**(853)**	(853)
Tangible common equity	**$ 26,282**	$ 24,995
Average quarterly Assets to Average Tangible Assets		
Average assets	**$ 294,275**	$ 294,040
Adjustments: Average goodwill and other intangible assets[2]	**(15,727)**	(15,847)
Average tangible assets	**$ 278,548**	$ 278,193
End of Period Assets to Tangible Assets		
End of period assets	**$ 290,500**	$ 296,933
Adjustments: Goodwill and other intangible assets[2]	**(15,666)**	(15,784)
Tangible assets	**$ 274,834**	$ 281,149
Non-GAAP TCE ratio		
TCE ratio[4]	**9.56%**	8.89%

Regulatory Capital Ratios Under Basel III Standardized Approach[5]	**March 31, 2014**
Common equity excluding AOCI	**$ 42,658**
Adjustments: AOCI[6][7]	**(182)**
Goodwill[2]	**(13,811)**
Intangible Assets[2][7]	**(314)**
Other	**83**
Common equity Tier 1 capital	**28,434**
Adjustments: Tier 1 capital instruments[3]	**853**
Additional Tier 1 capital adjustments	**(30)**

Tier 1 capital		**29,257**
Adjustments: Tier 2 capital instruments[3]		**1,764**
Qualifying allowance for loan and lease losses		**2,757**
Additional Tier 2 capital adjustments		**6**
Tier 2 capital		**4,527**
Total risk-based capital[8]	**$**	**33,784**
Risk-weighted assets[9]	**$**	**219,047**
Average assets for the leverage ratio	**$**	**280,907**

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Regulatory Capital Ratios Under Basel I[5]	December 31, 2013
Total stockholders equity	$ 41,632
Adjustments: Net unrealized losses on investment securities available for sale recorded in AOCI[6]	791
Net losses on cash flow hedges recorded in AOCI[6]	136
Disallowed goodwill and other intangible assets[2]	(14,326)
Disallowed deferred tax assets	
Noncumulative perpetual preferred stock[3]	(853)
Other	(5)
Tier 1 common capital	27,375
Adjustments: Noncumulative perpetual preferred stock[3]	853
Tier 1 restricted core capital items	2
Tier 1 capital	28,230
Adjustments: Long-term debt qualifying as Tier 2 capital	1,914
Qualifying allowance for loan and lease losses	2,833
Other Tier 2 components	10
Tier 2 capital	4,757
Total risk-based capital[8]	$ 32,987
Risk-weighted assets	$ 224,556
Average assets for the leverage ratio	$ 280,574

	March 31, 2014	December 31, 2013
Common equity Tier 1 capital ratio[10]	**12.98%**	N/A
Tier 1 common ratio[11]	**N/A**	12.19%
Tier 1 risk-based capital ratio[12]	**13.36**	12.57
Total risk-based capital ratio[13]	**15.42**	14.69
Tier 1 leverage ratio[14]	**10.42**	10.06

(1) In the first quarter of 2014, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. See Note 1 Summary of Significant Accounting Policies for additional information. Prior periods have been recast to conform to this presentation.
(2) Includes impact of related deferred taxes.
(3) Includes related surplus.
(4) TCE ratio is a non-GAAP measure calculated based on tangible common equity divided by tangible assets.
(5) Beginning on January 1, 2014, we calculate our regulatory capital under Basel III Standardized Approach subject to transition provisions. Prior to January 1, 2014, we calculated regulatory capital under Basel I.
(6) Amounts presented are net of tax.
(7) Amounts based on transition provisions for regulatory capital deductions and adjustments of 20% for 2014.
(8) Total risk-based capital equals the sum of Tier 1 capital and Tier 2 capital.
(9) Risk-weighted assets continue to be calculated based on Basel I in 2014 consistent with the transition provisions.
(10) Common equity Tier 1 capital ratio is a regulatory capital measure calculated based on Common equity Tier 1 capital divided by risk-weighted assets.
(11) Tier 1 common capital ratio is a regulatory capital measure under Basel I calculated based on Tier 1 common capital divided by Basel I risk-weighted assets.
(12) Tier 1 risk-based capital ratio is a regulatory capital measure calculated based on Tier 1 capital divided by risk-weighted assets.
(13) Total risk-based capital ratio is a regulatory capital measure calculated based on total risk-based capital divided by risk-weighted assets.
(14) Tier 1 leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by average assets, after certain adjustments.

Glossary and Acronyms

2012 U.S. card acquisition: On May 1, 2012, pursuant to the agreement with HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc. (collectively, HSBC), we closed the acquisition of substantially all of the assets and assumed liabilities of HSBC s credit card and private label credit card business in the United States (other than the HSBC Bank USA, consumer credit card program and certain other retained assets and liabilities).

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Acquired Loans: A limited portion of the credit card loans acquired in the 2012 U.S. card acquisition and the substantial majority of consumer and commercial loans acquired in the ING Direct and Chevy Chase Bank acquisitions, which were recorded at fair value at acquisition and subsequently accounted for based on expected cash flows to be collected (under the accounting standard formerly known as Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, commonly referred to as SOP 03-3). The difference between the fair value at acquisition and expected cash flows represents the accretable yield, which is recognized into interest income over the life of the loans. The difference between the contractual payments on the loans and expected cash flows represents the nonaccretable difference or the amount of principal and interest not considered collectible, which incorporates future expected credit losses over the life of the loans. Decreases in expected cash flows resulting from further credit deterioration will generally result in an impairment charge recognized in our provision for credit losses and an increase in the allowance for loan and lease losses. Charge-offs are not recorded until the expected credit losses within the nonaccretable difference is depleted. In addition, Acquired Loans are not classified as delinquent or nonperforming as we expect to collect our net investment in these loans and the nonaccretable difference will absorb the majority of the losses associated with these loans.

Annual Report: References to our 2013 Form 10-K or 2013 Annual Report are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

Banks: Refers to COBNA and CONA.

Basel Committee: The Basel Committee on Banking Supervision.

Benefit Obligation and Projected Benefit Obligation: Benefit Obligation refers to the total of the projected benefit obligation for pension plans and the accumulated postretirement benefit obligations. Projected Benefit Obligation represents the actuarial present value of all benefits accrued on employee service rendered prior to the calculation date, including allowance for future salary increases if the pension benefit is based on future compensation levels.

BHC Act: The Bank Holding Company Act of 1956, as amended (12 U.S.C. § 1842).

Capital One: Capital One Financial Corporation and its subsidiaries.

Carrying Value (with respect to loans)**:** The amount at which a loan is recorded on the balance sheet. For loans recorded at amortized cost, carrying value is the unpaid principal balance net of unamortized deferred loan origination fees and costs, and unamortized purchase premium or discount. For loans that are or have been on nonaccrual status, the carrying value is also reduced by any net charge-offs that have been recorded and the amount of interest payments applied as a reduction of principal under the cost recovery method. For credit card loans, the carrying value also includes interest that has been billed to the customer. For loans classified as held-for-sale, carrying value is the lower of carrying value as described in the sentences above, or fair value. For Acquired Loans, the carrying value equals fair value upon acquisition adjusted for subsequent cash collections and yield accreted to date.

CCB: Chevy Chase Bank, F.S.B., which was acquired by the Company on February 27, 2009.

COBNA: Capital One Bank (USA), National Association, one of our fully owned subsidiaries, which offers credit and debit card products, other lending products and deposit products.

Collective trusts: An investment fund formed from the pooling of investments by investors.

Commercial Real Estate Lending: Primarily provides financing to real estate investors/owners for multifamily properties as well as financing office, retail and industrial properties.

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Common Equity Tier 1 Capital: Common Equity, related surplus, and retained earnings less accumulated other comprehensive income net of applicable phase-ins, less goodwill and intangibles net of associated deferred tax liabilities and applicable phase-ins, less other deductions, as defined by regulators.

Company: Capital One Financial Corporation and its subsidiaries.

CONA: Capital One, National Association, one of our fully owned subsidiaries, which offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients.

Credit derivatives: Contractual agreements that provide insurance against a credit event of one or more referenced credits. Such events include bankruptcy, insolvency and failure to meet payment obligations when due.

Credit risk: Credit risk is the risk of loss from an obligor s failure to meet the terms of any contract or otherwise fail to perform as agreed.

Derivative: A contract or agreement whose value is derived from changes in interest rates, foreign exchange rates, prices of securities or commodities, credit worthiness for credit default swaps or financial or commodity indices.

Discontinued operations: The operating results of a component of an entity, as defined by ASC 205, that are removed from continuing operations when that component has been disposed of or it is management s intention to sell the component.

Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act): Regulatory reform legislation signed into law on July 21, 2010. This law broadly affects the financial services industry and contains numerous provisions aimed at strengthening the sound operation of the financial services sector.

Exchange Act: The Securities Exchange Act of 1934.

eXtensible Business Reporting Language (XBRL): A language for the electronic communication of business and financial data.

Federal Reserve: Board of Governors of the Federal Reserve System.

Final Rule: A new capital rule finalized by the Federal Reserve, the OCC and the FDIC (collectively, the U.S. federal banking agencies) that implements the Basel III capital accord developed by the Basel Committee on Banking Supervision and incorporates certain Dodd-Frank Act capital provisions and updates to the PCA capital requirements.

Foreign currency swaps: An agreement to exchange contractual amounts of one currency for another currency at one or more future dates.
home

Foreign exchange contracts: Contracts that provide for the future receipt or delivery of foreign currency at previously agreed-upon terms.

Forward rate agreements: Contracts to exchange payments on a specified future date, based on a market change in interest rates from trade date to contract settlement date.

GreenPoint: Refers to our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. (GreenPoint), which was closed in 2007.

GSE or **Agencies:** A government sponsored enterprise is a financial services corporation created by the United States Congress. Examples of U.S. government agencies include Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and Government National Mortgage Association (Ginnie Mae).

Impairment: The condition when the carrying amount of an asset exceeds and expected to exceed its fair value.

Impaired loans: A loan is considered impaired when, based on current information and events, it is probable that we will not be able to collect all amounts due from the borrower in accordance with the original contractual terms of the loan.

Inactive Insured Securitizations: Securitizations as to which the monoline bond insurers have not made repurchase requests or loan file requests to one of our subsidiaries.

ING Direct acquisition: On February 17, 2012, we completed the acquisition of substantially all of the ING Direct business in the United States (ING Direct) from ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp.

Insured Securitizations: Securitizations supported by bond insurance.

Interest rate sensitivity: The exposure to interest rate movements.

Interest rate swaps: Contracts in which a series of interest rate flows in a single currency are exchanged over a prescribed period. Interest rate swaps are the most common type of derivative contract that we use in our asset/liability management activities.

Investment grade: Represents Moody s long-term rating of Baa3 or better; and/or a Standard & Poor s, Fitch or DBRS long-term rating of BBB- or better; or if unrated, an equivalent rating using our internal risk ratings. Instruments that fall below these levels are considered to be non-investment grade.

Investments in Qualified Affordable Housing Projects: Capital One invests in private investment funds that make equity investments in multi-family affordable housing properties, that provide affordable housing tax credits for these investments. The activities of these entities are financed with a combination of invested equity capital and debt.

Investor Entities: Entities that invest in community development entities (CDE) that provide debt financing to businesses and non-profit entities in low-income and rural communities.

Leverage ratio (Basel I guideline): Tier 1 capital divided by average assets after certain adjustments, as defined by the regulators.

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

Loan-to-value (LTV) ratio: The relationship expressed as a percentage, between the principal amount of a loan and the appraised value of the collateral (i.e. residential real estate, autos, etc.) securing the loan.

Managed basis: A non-GAAP presentation of financial results that includes reclassifications to present revenue on a fully taxable-equivalent basis. Management uses this non-GAAP financial measure at the segment level, because it believes this provides information to enable investors to understand the underlying operational performance and trends of the particular business segment and facilitates a comparison of the business segment with the performance of competitors.

Market risk: Market risk is the risk that an institution s earnings or the economic value of equity could be adversely impacted by changes in interest rates, foreign exchange rates, or other market factors.

Master netting agreement: An agreement between two counterparties that have multiple contracts with each other that provides for the net settlement of all contracts through a single payment in the event of default or termination of any one contract.

Mortgage-Backed Security (MBS): An asset backed security whose cash flows are backed by the principal and interest payments of a set of mortgage loans.

Mortgage Servicing Rights (MSR): The right to service a mortgage loan when the underlying loan is sold or securitized. Servicing includes collections for principal, interest and escrow payments from borrowers and accounting for and remitting principal and interest payments to investors.

Net interest margin: The result of dividing net interest revenue by average interest-earning assets.

Nonperforming loans and leases: Loans and leases that have been placed on non-accrual status.

Operational risk: The risk of loss, capital impairment, adverse customer experience, or reputational impact resulting from failure to comply with policies and procedures, failed internal processes or systems, or from external events.

Option-ARM Loans: The option-ARM real estate loan product is an adjustable-rate mortgage loan that provides the borrower with the option each month to make a fully amortizing, interest-only or minimum payment.

Other-than-temporary impairment (OTTI): An impairment charge taken on a security whose fair value has fallen below the carrying value on the balance sheet and its value is not expected to recover through the holding period of the security.

Patriot Act: The USA PATRIOT Act of 2001 (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism).

Portfolio Sale: The sale of the Best Buy private label and co-branded credit card portfolio to Citibank, N.A., which was completed on September 6, 2013.

Proxy Statement: Capital One s Proxy Statement for the 2014 Annual Stockholders Meeting.

Public Fund deposits: Deposits that are derived from a variety of political subdivisions such as school districts and municipalities.

Purchase volume: Dollar amount of customer purchases, net of returns.

Rating Agency: An independent agency that assesses the credit quality and likelihood of default of an issue or issuer and assigns a rating to that issue or issuer.

Repurchase Agreement: An instrument used to raise short term funds whereby securities are sold with an agreement for the seller to buy back the securities at a later date.

Restructuring charges: Charges typically from the consolidation and/or relocation of operations.

Return on assets: Calculated based on annualized income from continuing operations, net of tax, for the period divided by average total assets for the period.

Return on common equity: Calculated based on the annualized sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; (iii) less preferred stock dividends, for the period, divided by average common equity. Our calculation of return on average common equity may not be comparable to similarly titled measures reported by other companies.

Return on tangible common equity: Calculated based on the annualized sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; (iii) less preferred stock dividends, for the period, divided by average tangible common equity. Our calculation of return on average tangible common equity may not be comparable to similarly titled measures reported by other companies.

Risk-weighted assets: Risk-weighted assets consist of on- and off-balance sheet assets that are assigned to one of several broad risk categories and weighted by factors representing their risk and potential for default. In 2014, the calculation of risk weighted assets is based on the general risk-based approach, as defined by regulators.

Securitized Debt Obligations: A type of asset-backed security and structured credit product constructed from a portfolio of fixed-income assets.

SOP 03-3: Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer.

Small-ticket commercial real estate: Our small-ticket commercial real estate portfolio is predominantly low, or no documentation loans, with balances generally less than $2 million. This portfolio was originated on a national basis through a broker network, and is in a run-off mode.

Subprime: For purposes of lending in our Credit Card business we generally consider FICO scores of 660 or below, or other equivalent risk scores, to be subprime. For purposes of auto lending in our Consumer Banking business we generally consider borrowers FICO scores of 620 or below to be subprime.

Tangible common equity (TCE): Common equity less goodwill and intangible assets adjusted for deferred tax liabilities associated with non-tax deductible intangible assets and tax deductible goodwill.

Tier 1 Common Capital: Tier 1 capital less preferred stock, qualifying trust preferred securities, hybrid securities and qualifying noncontrolling interest in subsidiaries under Basel I.

Troubled debt restructuring (TDR): A TDR is deemed to occur when the Company modifies the contractual terms of a loan agreement by granting a concession to a borrower that is experiencing financial difficulty.

U.S. federal banking agencies: The Federal Reserve, the OCC and the FDIC.

U.S. GAAP: Accounting principles generally accepted in the United States of America. Accounting rules and conventions defining acceptable practices in preparing financial statements in the U.S.

Unfunded commitments: Legally binding agreements to provide a defined level of financing until a specified future date.

Variable Interest Entity (VIE): An entity that: (1) lacks enough equity investment at risk to permit the entity to finance its activities without additional financial support from other parties; (2) has equity owners that lack the right to make significant decisions affecting the entity s operations; and/or (3) has equity owners that do not have an obligation to absorb or the right to receive the entity s losses or return.

Acronyms

ABS: Asset-backed securities

AOCI: Accumulated other comprehensive income

ARM: Adjustable rate mortgage

Bps: Basis points

CCAR: Comprehensive Capital Analysis and Review

CDE: Community development entities

CFPB: Consumer Financial Protection Bureau

CFTC: Commodity Futures Trading Commission

CMBS: Commercial mortgage-backed securities

COEP: Capital One (Europe) plc

COF: Capital One Financial Corporation

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COSO: Committee of Sponsoring Organizations of the Treadway Commission

CRA: Community Reinvestment Act

DUS: Delegated underwriter and servicing

Fannie Mae: Federal National Mortgage Association

FASB: Financial Accounting Standards Board

FCA: U.K. Financial Conduct Authority

FDIC: Federal Deposit Issuance Corporation

FDICIA: The Federal Deposit Insurance Corporation Improvement Act of 1991

FFIEC: Federal Financial Institutions Examination Council

FHA: Federal Housing Administration

FHLB: Federal Home Loan Banks

Fitch: Fitch Ratings

Freddie Mac: Federal Home Loan Mortgage Corporation

FTE: Fully taxable-equivalent

FVC: Fair Value Committee

GDP: Gross domestic product

Ginnie Mae: Government National Mortgage Association

GSE or **Agencies:** Government Sponsored Enterprise

HBC: Hudson Bay Company

HELOCs: Home Equity Lines of Credit

HFI: Held for Investment

HSBC: HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc.

LIBOR: London Interbank Offered Rate

Moody s: Moody s Investors Service

NOW: Negotiable order of withdrawal

OCC: Office of the Comptroller of the Currency

OIS: Overnight Indexed Swap

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OTC: Over-the-counter

PCA: Prompt corrective action

PCCR: Purchased credit card relationship

S&P: Standard & Poor s

SCRA: Servicemembers Civil Relief Act

SEC: U.S. Securities and Exchange Commission

TAV: Trade Analytics and Valuation team

TCE: Tangible Common Equity

TILA: Truth in Lending Act

UCL: Unfair Competition Law

VAC: Valuations Advisory Committee

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CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in millions, except per share-related data)	Three Months Ended March 31, 2014	2013
Interest income:		
Loans, including loans held for sale	**$ 4,307**	$ 4,649
Investment securities	**416**	374
Other	**30**	28
Total interest income	**4,753**	5,051
Interest expense:		
Deposits	**276**	326
Securitized debt obligations	**38**	56
Senior and subordinated notes	**77**	82
Other borrowings	**12**	17
Total interest expense	**403**	481
Net interest income	**4,350**	4,570
Provision for credit losses	**735**	885
Net interest income after provision for credit losses	**3,615**	3,685
Non-interest income:		
Service charges and other customer-related fees	**474**	550
Interchange fees, net	**440**	445
Total other-than-temporary impairment	**(3)**	(6)
Less: Portion of other-than-temporary impairment recorded in AOCI	**(2)**	(19)
Net other-than-temporary impairment recognized in earnings	**(5)**	(25)
Other	**111**	11
Total non-interest income	**1,020**	981
Non-interest expense:		
Salaries and associate benefits	**1,161**	1,095
Occupancy and equipment	**405**	357
Marketing	**325**	317
Professional services	**287**	322
Communications and data processing	**196**	216
Amortization of intangibles	**143**	177
Other	**415**	507
Total non-interest expense	**2,932**	2,991
Income from continuing operations before income taxes	**1,703**	1,675
Income tax provision	**579**	541
Income from continuing operations, net of tax	**1,124**	1,134

Income (loss) from discontinued operations, net of tax	**30**	(78)
Net income	**1,154**	1,056
Dividends and undistributed earnings allocated to participating securities	**(5)**	(5)
Preferred stock dividends	**(13)**	(13)
Net income available to common stockholders	**$ 1,136**	$ 1,038
Basic earnings per common share:		
Net income from continuing operations	**$ 1.94**	$ 1.92
Income (loss) from discontinued operations	**0.05**	(0.13)
Net income per basic common share	**$ 1.99**	$ 1.79
Diluted earnings per common share:		
Net income from continuing operations	**$ 1.91**	$ 1.90
Income (loss) from discontinued operations	**0.05**	(0.13)
Net income per diluted common share	**$ 1.96**	$ 1.77
Dividends paid per common share	**$ 0.30**	$ 0.05

See Notes to Condensed Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended March 31,	
(Dollars in millions)	**2014**	**2013**
Net income	**$ 1,154**	$ 1,056
Other comprehensive income (loss) before taxes:		
Net unrealized gains (losses) on securities available for sale	**229**	(209)
Net unrealized gains on securities held to maturity	**28**	0
Net unrealized gains (losses) on cash flow hedges	**30**	(21)
Foreign currency translation adjustments	**(13)**	(125)
Other	**(1)**	4
Other comprehensive income (loss) before taxes	**273**	(351)
Income tax provision (benefit) related to other comprehensive income	**111**	(85)
Other comprehensive income (loss), net of tax	**162**	(266)
Comprehensive income	**$ 1,316**	$ 790

See Notes to Condensed Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in millions, except per share data)	March 31, 2014	December 31, 2013
Assets:		
Cash and cash equivalents:		
Cash and due from banks	**$ 3,373**	$ 2,821
Interest-bearing deposits with banks	**2,641**	3,131
Federal funds sold and securities purchased under agreements to resell	**168**	339
Total cash and cash equivalents	**6,182**	6,291
Restricted cash for securitization investors	**550**	874
Securities available for sale, at fair value	**40,721**	41,800
Securities held to maturity, at carrying value	**20,150**	19,132
Loans held for investment:		
Unsecuritized loans held for investment	**156,072**	157,651
Restricted loans for securitization investors	**36,869**	39,548
Total loans held for investment	**192,941**	197,199
Less: Allowance for loan and lease losses	**(4,098)**	(4,315)
Net loans held for investment	**188,843**	192,884
Loans held for sale, at lower of cost or fair value	**259**	218
Premises and equipment, net	**3,807**	3,839
Interest receivable	**1,325**	1,418
Goodwill	**13,974**	13,978
Other	**14,689**	16,499
Total assets	**$ 290,500**	$ 296,933
Liabilities:		
Interest payable	**$ 259**	$ 307
Customer deposits:		
Non-interest bearing deposits	**24,110**	22,643
Interest-bearing deposits	**184,214**	181,880
Total customer deposits	**208,324**	204,523
Securitized debt obligations	**9,783**	10,289
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	**1,544**	915
Senior and subordinated notes	**14,891**	13,134
Other borrowings	**3,900**	16,316
Total other debt	**20,335**	30,365
Other liabilities	**8,998**	9,817
Total liabilities	**247,699**	255,301
Commitments, contingencies and guarantees (see Note 14)		
Stockholders equity:		
Preferred stock, par value $.01 per share; 50,000,000 shares authorized; 875,000 shares issued and outstanding as of March 31, 2014 and December 31, 2013	**0**	0

Common stock, par value $.01 per share; 1,000,000,000 shares authorized; 637,961,344 and 637,151,800 shares issued as of March 31,2014 and December 31, 2013, respectively, and 572,919,084 and 572,675,375 shares outstanding as of March 31, 2014 and December 31, 2013, respectively	**6**	6
Additional paid-in capital, net	**26,605**	26,526
Retained earnings	**21,259**	20,292
Accumulated other comprehensive losses	**(710)**	(872)
Less: Treasury stock, at cost; par value $.01 per share; 65,042,260 and 64,476,425 shares as of March 31, 2014 and December 31, 2013, respectively	**(4,359)**	(4,320)
Total stockholders equity	**42,801**	41,632
Total liabilities and stockholders equity	**$ 290,500**	$ 296,933

See Notes to Condensed Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)

	Preferred Stock		Common Stock				Accumulated Other		
(Dollars in millions, except per share data)	**Shares**	**Amount**	**Shares**	**Amount**	**Additional Paid-In Capital**	**Retained Earnings[1]**	**Comprehensive Income (Loss)**	**Treasury Stock**	**Total Stockholders Equity**
Balance as of December 31, 2013	875,000	$ 0	637,151,800	$ 6	$ 26,526	$ 20,292	$ (872)	$ (4,320)	$ 41,632
Comprehensive income						1,154	162		1,316
Cash dividends common stock $0.30 per share						(174)			(174)
Cash dividends preferred stock 6% per annum						(13)			(13)
Purchases of treasury stock								(39)	(39)
Issuances of common stock and restricted stock, net of forfeitures			634,845		27				27
Exercise of stock options and tax benefits of exercises and restricted stock vesting			174,699		12				12
Compensation expense for restricted stock awards and stock options					40				40
Balance as of March 31, 2014	**875,000**	**$ 0**	**637,961,344**	**$ 6**	**$ 26,605**	**$ 21,259**	**$ (710)**	**$ (4,359)**	**$ 42,801**

[1] Retained earnings as of December 31, 2013 includes the cumulative impact of $112 million resulting from the adoption of ASU 2014-01 *Accounting For Investments in Qualified Affordable Housing Projects*. See Note 1 Summary of Significant Accounting Policies for additional information.

See Notes to Condensed Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)	**Three Months Ended March 31, 2014**	**2013**
Operating activities:		
Income from continuing operations, net of tax	**$ 1,124**	$ 1,134
Income (loss) from discontinued operations, net of tax	**30**	(78)
Net income	**1,154**	1,056
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	**735**	885
Depreciation and amortization, net	**514**	341
Net gains on sales of securities available for sale	**(13)**	(2)
Impairment losses on securities available for sale	**5**	25
Loans held for sale:		
Originations and purchases	**(695)**	(266)
Gain on sales	**(7)**	(10)
Proceeds from sales and paydowns	**667**	379
Stock plan compensation expense	**84**	54
Changes in operating assets and liabilities:		
Decrease in interest receivable	**93**	316
Decrease in other assets	**1,501**	650
Decrease in interest payable	**(48)**	(140)
Decrease in other liabilities	**(782)**	(810)
Net cash used by discontinued operations	**(49)**	(108)
Net cash provided by operating activities	**3,159**	2,370
Investing activities:		
Purchases of securities	**(4,712)**	(5,921)
Proceeds from paydowns and maturities of securities	**2,030**	4,877
Proceeds from sales of securities	**2,976**	720
Net decrease in loans held for investment	**2,817**	6,299
Principal recoveries of loans previously charged off	**404**	417
Purchases of premises and equipment	**(129)**	(236)
Net cash provided by investing activities	**3,386**	6,156
Financing activities:		
Decrease (increase) in restricted cash for securitization investors	**324**	(590)
Net increase (decrease) in deposits	**3,799**	(76)
Issuance of securitized debt obligations	**948**	750
Maturities and paydowns of securitized debt obligations	**(1,470)**	(1,102)
Issuance of senior and subordinated notes and junior subordinated debt	**1,994**	638
Redemption of junior subordinated debentures	**0**	(3,641)
Maturities and redemptions of senior and subordinate notes	**(275)**	210
Net decrease in other borrowings	**(11,787)**	(8,994)
Net proceeds from issuances of common stock	**27**	23
Proceeds from share-based payment activities	**12**	15
Dividends paid on common stock	**(174)**	(30)
Dividends paid on preferred stock	**(13)**	(13)
Purchases of treasury stock	**(39)**	(28)
Net cash used in financing activities	**(6,654)**	(12,838)
Decrease in cash and cash equivalents	**(109)**	(4,312)

Cash and cash equivalents at beginning of the period	**6,291**	11,058
Cash and cash equivalents at end of the period	**$ 6,182**	$ 6,746
Supplemental cash flow information:		
Non-cash items:		
Net transfers from loans held for investment to loans held for sale	**8**	6,738
Net debt exchange of senior and subordinated notes	**0**	1,206
Interest paid	**451**	621
Income tax paid (refund)	**(19)**	67

See Notes to Condensed Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Capital One Financial Corporation, a Delaware Corporation established in 1995 and headquartered in McLean, Virginia, is a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the Company) offers a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of March 31, 2014, our principal subsidiaries included:

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

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

We also offer products outside of the United States principally through Capital One (Europe) plc (COEP), an indirect subsidiary of COBNA organized and located in the U.K., and through a branch of COBNA in Canada. COEP has authority, among other things, to provide credit card and installment loans. Our branch of COBNA in Canada has the authority to provide credit card loans.

Our principal operations are currently organized for management reporting purposes into three primary business segments, which are defined primarily based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. We provide details on our business segments, the integration of recent acquisitions into our business segments and the allocation methodologies and accounting policies used to derive our business segment results in Note 13 Business Segments.

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. (U.S. GAAP). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. Certain prior period amounts have been reclassified to conform to the current period presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of Capital One Financial Corporation and all other entities in which we have a controlling financial interest. We determine whether we have a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a Variable Interest Entity (VIE). All significant intercompany account balances and transactions have been eliminated.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

New Accounting Standards Adopted

Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the Financial Accounting Standard Board (FASB) issued guidance permitting an entity to account for investments in qualified affordable housing projects using the proportional amortization method if certain criteria are met. The proportional amortization method amortizes the cost of the investment over the period in which the investor receives tax credits and other tax benefits, and the resulting amortization is recognized as a component of income tax expense attributable to continuing operations. Historically, these investments were under the equity method of accounting and the passive losses related to the investments were recognized within non-interest expense. We adopted this guidance in the first quarter of 2014 with retrospective application. As a result, total assets, total liabilities, and retained earnings were reduced by $115 million, $3 million and $112 million from $297 billion, $255.3 billion and $20.4 billion, respectively, as of December 31, 2013. In addition, the net income and net income per basic common share were reduced by $10 million and 2 cents per share from $1.1 billion and $1.81 per share, respectively, for the three months ended March 31, 2013.

The carrying value of our investments in these qualified affordable housing projects was $2.8 billion as of both March 31, 2014 and December 31, 2013. We are periodically required to provide additional financial or other support during the period of the investments. We recorded a liability of $1.1 billion for the unfunded commitments as of March 31, 2014, which are expected to be paid during the years from 2014 to 2018.

Obligations Resulting from Joint and Several Liability Arrangements

In February 2013, the FASB issued guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation, within the scope of this guidance, is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance clarifies that an entity shall measure the obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The guidance is effective for annual and interim periods beginning after December 15, 2013. The adoption of this guidance in the first quarter of 2014 did not have a significant impact on our financial condition, results of operations or liquidity as the guidance is consistent with our current practice.

Recently Issued but Not Yet Adopted Accounting Standards

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the FASB issued guidance changing the criteria for reporting discontinued operations. As a result of the change, only those disposals of components of an entity that represent a strategic shift that has, or will have, a major effect on an entity s operations and financial results will be reported as discontinued operations. Expanded disclosures of discontinued operations and disposals of individually significant components of an entity that do not currently qualify for discontinued operations reporting will be required. The guidance is effective for disposals or classifications as held for sale of components of an entity that occur within annual and interim periods beginning after December 15, 2014, with early adoption permitted in certain circumstances. Our adoption of this guidance in the first quarter of 2015 will not impact what we currently report as discontinued operations due to the prospective transition provisions.

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Reclassification of Collateralized Mortgage Loan Upon Foreclosure

In January 2014, the FASB issued guidance clarifying when an entity should reclassify a consumer mortgage loan collateralized by residential real estate to foreclosed property. Reclassification should occur when the creditor obtains legal title to the residential real estate property or when the borrower conveys all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. An entity should not wait until a redemption period, if any, has expired to reclassify a consumer mortgage loan to foreclosed property. The guidance is effective for annual and interim periods beginning after December 15, 2014, with early adoption permitted. We do not expect our adoption of this guidance in the first quarter of 2015 to have a significant impact on our financial condition, results of operations or liquidity as the guidance is materially consistent with our current practice.

NOTE 2 DISCONTINUED OPERATIONS

Shutdown of Mortgage Origination Operations of our Wholesale Mortgage Banking Unit

In the third quarter of 2007, we closed the mortgage origination operations of our wholesale mortgage banking unit, GreenPoint, which we acquired in December 2006 as part of the North Fork acquisition. The results of the wholesale banking unit have been accounted for as a discontinued operation and are therefore not included in our results from continuing operations for the three months ended March 31, 2014. We have no significant continuing involvement in these operations.

The following table summarizes the results from discontinued operations related to the closure of the mortgage origination operations of our wholesale mortgage banking unit:

Table 2.1: Results of Discontinued Operations

	Three Months Ended March 31,	
(Dollars in millions)	**2014**	**2013**
Non-interest income (expense), net	**$ 47**	$ (125)
Income (loss) from discontinued operations before taxes	**47**	(125)
Income tax provision (benefit)	**17**	(47)
Income (loss) from discontinued operations	**$ 30**	$ (78)

The discontinued mortgage origination operations of our wholesale mortgage banking unit had remaining assets of $368 million and $370 million as of March 31, 2014 and December 31, 2013, respectively. Liabilities, which primarily consisted of reserves for representations and warranties on loans previously sold to third parties, totaled $909 million and $960 million as of March 31, 2014 and December 31, 2013, respectively.

NOTE 3 INVESTMENT SECURITIES

Our investment portfolio consists primarily of the following: U.S. Treasury debt, U.S. agency debt and corporate debt securities guaranteed by U.S. government agencies (Agency); Agency and non-agency RMBS and commercial mortgage-backed securities (CMBS); other asset-backed securities (ABS), and other investments. The U.S. government agencies include Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and Government National Mortgage Association

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Ginnie Mae). The carrying value of our investments in U.S. Treasury, Agency securities and other securities guaranteed by the U.S. government or agencies of the U.S. government represented 78% and 77% of our total investment securities as of March 31, 2014 and December 31, 2013, respectively.

Our investment portfolio includes securities available for sale as well as securities held to maturity. We classify securities as available for sale or held to maturity based on our investment strategy and management s assessment of our intent and ability to hold the securities until maturity.

The table below presents the overview of our investment portfolio at March 31, 2014 and December 31, 2013.

Table 3.1 Overview of Investment Portfolio

(Dollars in millions)	March 31, 2014	December 31, 2013
Securities available for sale, at fair value	**$ 40,721**	$ 41,800
Securities held to maturity, at carrying value	**20,150**	19,132
Total investments	**$ 60,871**	$ 60,932

The table below presents the amortized cost, gross unrealized gains and losses, and fair value of securities available for sale at March 31, 2014 and December 31, 2013.

Table 3.2 Investment Securities Available for Sale

	March 31, 2014			
(Dollars in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses[1]	Fair Value
Investment securities available for sale:				
U.S. Treasury debt obligations	**$ 827**	**$ 2**	**$ 0**	**$ 829**
U.S. Agency debt obligations	**1**	**0**	**0**	**1**
Corporate debt securities guaranteed by U.S. government agencies	**1,147**	**2**	**(36)**	**1,113**
Residential mortgage-backed securities (RMBS):				
Agency	**21,241**	**233**	**(229)**	**21,245**
Non-agency	**3,070**	**502**	**(11)**	**3,561**
Total RMBS	**24,311**	**735**	**(240)**	**24,806**
Commercial mortgage-backed securities (CMBS):				
Agency	**4,131**	**22**	**(78)**	**4,075**
Non-agency	**1,879**	**19**	**(43)**	**1,855**
Total CMBS	**6,010**	**41**	**(121)**	**5,930**
Other assets backed securities (ABS[2])	**6,577**	**55**	**(26)**	**6,606**
Other securities[3]	**1,451**	**20**	**(35)**	**1,436**

Total investment securities available for sale	**$ 40,324**	**$ 855**	**$ (458)**	**$ 40,721**

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

(Dollars in millions)	December 31, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses[1]	Fair Value
Investment securities available for sale:				
U.S. Treasury debt obligations	$ 831	$ 2	$ 0	$ 833
U.S. Agency debt obligations	1	0	0	1
Corporate debt securities guaranteed by U.S. government agencies	1,282	1	(49)	1,234
RMBS:				
Agency	21,572	239	(332)	21,479
Non-agency	3,165	450	(15)	3,600
Total RMBS	24,737	689	(347)	25,079
CMBS:				
Agency	4,262	20	(84)	4,198
Non-agency	1,854	14	(60)	1,808
Total CMBS	6,116	34	(144)	6,006
Other ABS[2]	7,123	49	(36)	7,136
Other securities[3]	1,542	24	(55)	1,511
Total investment securities available for sale	$ 41,632	$ 799	$ (631)	$ 41,800

(1) Includes $10 million and $12 million as of March 31, 2014 and December 31, 2013, respectively, attributable to securities for which OTTI has been recognized. Substantially all of this amount is related to non-agency RMBS.

(2) ABS collateralized by credit card loans constituted approximately 67% and 65% of the other ABS portfolio as of March 31, 2014, and December 31, 2013, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 13% and 15% of the other ABS portfolio as of March 31, 2014 and December 31, 2013, respectively. Approximately 88% of the securities in our other ABS portfolio were rated AAA or its equivalent as of March 31, 2014, compared with 87% as of December 31, 2013.

(3) Includes foreign government/agency bonds, covered bonds, corporate securities, municipal securities and equity investments primarily related to activities under the Community Reinvestment Act (CRA).

The table below presents the carrying value, gross unrealized gains and losses, and fair value of securities held to maturity at March 31, 2014 and December 31, 2013.

Table 3.3 Investment Securities Held to Maturity

(Dollars in millions)	March 31, 2014 Amortized Cost	Unrealized Losses Recorded in AOCI[1]	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Agency RMBS	**$ 19,591**	**$ (1,278)**	**$ 18,313**	**$ 290**	**$ (12)**	**$ 18,591**
Agency CMBS	**1,966**	**(129)**	**1,837**	**41**	**(6)**	**1,872**

Total investment securities held to maturity	**$ 21,557**	**$ (1,407)**	**$ 20,150**	**$ 331**	**$ (18)**	**$ 20,463**

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	December 31, 2013					
(Dollars in millions)	Amortized Cost	Unrealized Losses Recorded in AOCI[1]	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Agency RMBS	$ 18,746	$ (1,303)	$ 17,443	$ 72	$ (30)	$ 17,485
Agency CMBS	1,821	(132)	1,689	16	(5)	1,700
Total investment securities held to maturity	$ 20,567	$ (1,435)	$ 19,132	$ 88	$ (35)	$ 19,185

(1) Represents the unrealized holding gain or loss at the date of transfer from available for sale to held to maturity, net of any accretion.

Investment Securities in a Gross Unrealized Loss Position

The table below provides, by major security type, information about our securities available for sale in a gross unrealized loss position and the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2014 and December 31, 2013.

Table 3.4: Securities in Unrealized Loss Position

	March 31, 2014					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale:						
Corporate debt securities guaranteed by U.S. government agencies	**$ 994**	**$ (34)**	**$ 45**	**$ (2)**	**$ 1,039**	**$ (36)**
RMBS:						
Agency	**9,594**	**(186)**	**1,497**	**(43)**	**11,091**	**(229)**
Non-agency	**335**	**(6)**	**93**	**(5)**	**428**	**(11)**
Total RMBS	**9,929**	**(192)**	**1,590**	**(48)**	**11,519**	**(240)**
CMBS:						
Agency	**2,676**	**(64)**	**321**	**(14)**	**2,997**	**(78)**
Non-agency	**955**	**(30)**	**182**	**(13)**	**1,137**	**(43)**
Total CMBS	**3,631**	**(94)**	**503**	**(27)**	**4,134**	**(121)**
Other ABS	**1,646**	**(23)**	**504**	**(3)**	**2,150**	**(26)**
Other securities	**857**	**(29)**	**121**	**(6)**	**978**	**(35)**
Total investment securities available for sale in a gross unrealized loss position	**$ 17,057**	**$ (372)**	**$ 2,763**	**$ (86)**	**$ 19,820**	**$ (458)**

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	December 31, 2013					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale:						
Corporate debt securities guaranteed by U.S. government agencies	$ 1,143	$ (47)	$ 46	$ (2)	$ 1,189	$ (49)
RMBS:						
Agency	9,769	(263)	1,770	(69)	11,539	(332)
Non-agency	454	(10)	56	(5)	510	(15)
Total RMBS	10,223	(273)	1,826	(74)	12,049	(347)
CMBS:						
Agency	2,842	(74)	256	(10)	3,098	(84)
Non-agency	952	(43)	183	(17)	1,135	(60)
Total CMBS	3,794	(117)	439	(27)	4,233	(144)
Other ABS	2,528	(34)	392	(2)	2,920	(36)
Other securities	1,149	(51)	57	(4)	1,206	(55)
Total investment securities available for sale in a gross unrealized loss position	$ 18,837	$ (522)	$ 2,760	$ (109)	$ 21,597	$ (631)

At March 31, 2014, the amortized cost of approximately 800 securities available for sale exceeded their fair value by $458 million, of which $86 million related to investment securities that had been in a loss position for 12 months or longer. Our investments in non-agency RMBS and CMBS, non-agency ABS, and other securities accounted for $116 million, or 25%, of total gross unrealized losses on securities available for sale as of March 31, 2014.

As of March 31, 2014, the carrying value of approximately 40 securities held to maturity exceeded their fair value by $18 million. All of these unrecognized losses relate to securities held to maturity that have been in a loss position for less than 12 months as of March 31, 2014.

As discussed in more detail below in the Other-Than-Temporary Impairment section of this footnote, we conduct periodic reviews of all investment securities with unrealized losses to assess whether the impairment is other-than-temporary. Based on our assessments, we have recorded a credit impairment in earnings of $5 million for the quarter ended March 31, 2014, substantially all of which were related to our non-agency RMBS.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Maturities and Yields of Investment Securities

The following tables summarizes the remaining scheduled contractual maturities, assuming no prepayments, of our investment securities as of March 31, 2014:

Table 3.5: Contractual Maturities of Securities Available for Sale

	March 31, 2014	
(Dollars in millions)	**Amortized Cost**	**Fair Value**
Due in 1 year or less	$ 1,900	$ 1,903
Due after 1 year through 5 years	5,277	5,292
Due after 5 years through 10 years	3,935	3,882
Due after 10 years[1]	29,212	29,644
Total	$ 40,324	$ 40,721

[1] Investments with no stated maturities, which consist of equity securities, are included with contractual maturities due after 10 years.

Table 3.6: Contractual Maturities of Securities Held to Maturity

	March 31, 2014	
(Dollars in millions)	**Carrying Value**	**Fair Value**
Due after 5 years through 10 years	$ 1,137	$ 1,175
Due after 10 years	19,013	19,288
Total	$ 20,150	$ 20,463

Because borrowers may have the right to call or prepay certain obligations, the expected maturities of our securities are likely to differ from the scheduled contractual maturities presented above. The table below summarizes, by major security type, the expected maturities and the expected weighted average yields of our investment securities as of March 31, 2014.

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Table 3.7: Expected Maturities and Weighted Average Yields of Securities

	March 31, 2014				
(Dollars in millions)	Due in 1 Year or Less	Due > 1 Year through 5 Years	Due > 5 Years through 10 Years	Due > 10 Years	Total
Fair value of securities available for sale:					
U.S. Treasury debt obligations	$ 660	$ 169	$ 0	$ 0	$ 829
U.S. Agency debt obligations	1	0	0	0	1
Corporate debt securities guaranteed by U.S. government agencies	0	218	882	13	1,113
RMBS:					
Agency	105	6,952	14,188	0	21,245
Non-agency	27	1,221	1,981	332	3,561
Total RMBS	132	8,173	16,169	332	24,806
CMBS:					
Agency	358	2,828	889	0	4,075
Non-agency	83	533	1,220	19	1,855
Total CMBS	441	3,361	2,109	19	5,930
Other ABS	1,535	4,358	591	122	6,606
Other securities[1]	78	518	736	104	1,436
Total securities available for sale	2,847	16,797	20,487	590	40,721
Amortized cost of securities available for sale	$ 2,844	$ 16,623	$ 20,348	$ 509	$ 40,324
Weighted average yield for securities available for sale	1.23%	2.10%	2.81%	6.92%	2.46%
Carrying value of securities held to maturity:					
Agency RMBS	$ 0	$ 0	$ 12,879	$ 5,434	$ 18,313
Agency CMBS	0	398	1,363	76	1,837
Total securities held for maturity	0	398	14,242	5,510	20,150
Fair value of securities held to maturity	$ 0	$ 396	$ 14,454	$ 5,613	$ 20,463
Weighted average yield for securities held to maturity	0.00%	3.46%	3.11%	3.39%	3.19%

(1) Yields are calculated based on the amortized cost of each security.

Other-Than-Temporary Impairment

We evaluate all securities in an unrealized loss position at least on a quarterly basis, and more often as market conditions require, to assess whether the impairment is other-than-temporary. Our OTTI assessment is based on a discounted cash flow analysis which requires careful use of judgments and assumptions. A number of qualitative and quantitative criteria may be considered in our assessment as applicable, including the size and the nature of the portfolio; historical and projected performance such as prepayment, default and loss severity for the RMBS portfolio; recent credit events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings of the issuer and any failure or delay of the issuer to make scheduled interest or principal payments; the value of underlying collateral; our intent and ability to hold the security for a long term; and current and projected market and macro-economic conditions.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

For a debt security that has experienced a decline in the fair value below amortized cost basis, we recognize OTTI in earnings if we have the intent to sell the security, or if we believe it is more likely than not that we will be required to sell in the near term. For those securities that we do not intend to sell or expect to be required to sell, an analysis is performed to determine if any of the impairment is due to credit or whether it is due to other factors, such as interest rates. Credit-related impairment is recognized in earnings, with the remaining unrealized non-credit related impairment recorded in accumulated other comprehensive income (AOCI). We determine the credit component based on the difference between the security s amortized cost basis and the present value of its expected cash flows, discounted based on the effective yield.

The table below presents the accumulative credit loss and activities for the three months ended March 31, 2014 and 2013, related to the credit component of OTTI recognized in earnings on debt securities:

Table 3.8 Credit Impairment Rollforward

(Dollars in millions)	Three Months Ended March 31, 2014	2013
Credit loss component, beginning of period	**$ 160**	$ 120
Additions:		
Initial credit impairment	**1**	8
Subsequent credit impairment	**4**	17
Total additions	**5**	25
Credit loss component, end of period	**$ 165**	$ 145

Gross unrealized losses on our investment securities have generally decreased since December 31, 2013. We believe the unrealized losses related to investment securities for which we have not recognized credit impairment are primarily attributable to changes in market interest rates. In addition, we do not intend to sell these securities with unrealized losses, and we believe it is not likely that we will be required to sell these securities prior to recovery of their amortized cost. Except for the securities reported in the table above for which credit losses have been recognized in earnings, we believe the securities with an unrealized loss in AOCI are not other than temporarily impaired as of March 31, 2014.

Realized Gains and Losses on Securities

The following table presents the gross realized gains and losses on the sale and redemption of securities available for sale recognized in earnings for the three months ended March 31, 2014 and 2013. The gross realized investment losses presented below exclude credit losses recognized in earnings attributable to OTTI. We also present the proceeds from the sale of securities available for sale for the periods presented. We did not sell any investment securities that are held to maturity.

Table 3.9: Realized Gains and Losses on Securities Available for Sale

(Dollars in millions)	Three Months Ended March 31, 2014	2013
Gross realized investment gains	**$ 32**	$ 3
Gross realized investment losses	**(19)**	(1)

Net realized gains	**$ 13**	$ 2
Total proceeds from sales	**$ 2,976**	$ 720

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Securities Pledged and Received

As part of our liquidity management strategy, we pledge securities to secure borrowings from counterparties including the Federal Home Loan Banks (FHLB) and the Federal Reserve Bank. We also pledge securities to secure trust and public deposits and for other purposes as required or permitted by law. We pledged securities available for sale with a fair value of $7.6 billion and $10.7 billion as of March 31, 2014 and December 31, 2013, respectively. We pledged securities held to maturity with a carrying value of $12.5 billion and $8.2 billion as of March 31, 2014 and December 31, 2013, respectively. Of the total securities pledged as collateral, we have encumbered $13.9 billion and $17.3 billion as of March 31, 2014 and December 31, 2013, respectively, primarily related to FHLB transactions and Public Fund deposits. We accepted pledges of securities with a fair value of $42 million and $53 million as of March 31, 2014 and December 31, 2013, respectively, primarily related to our derivative transactions.

Securities Acquired

Our investment portfolio includes certain acquired debt securities that were deemed to be credit impaired at acquisition date. These securities are accounted for in accordance with accounting guidance for purchased credit-impaired debt securities.

Outstanding Balance and Carrying Value of Acquired Securities

The table below presents the outstanding contractual balance and the carrying value of the acquired credit-impaired debt securities as of March 31, 2014 and December 31, 2013.

Table 3.10: Outstanding Balance and Carrying Value of Acquired Securities

(Dollars in millions)	March 31, 2014	December 31, 2013
Contractual principal and interest	**$ 4,586**	$ 4,700
Carrying value	**2,902**	2,896
Amortized Cost	**2,384**	2,432

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Changes in Accretable Yield of Acquired Securities

The following table presents changes in the accretable yield related to the acquired credit-impaired debt securities:

Table 3.11: Changes in Accretable Yield of Acquired Securities

(Dollars in millions)	Acquired Credit-Impaired Securities
Accretable yield as of December 31, 2012	$ 1,512
Additions from new acquisitions	88
Accretion recognized in earnings	(247)
Reductions due to disposals, transfers, and other	(2)
Net reclassifications (to)/from nonaccretable difference	72
Accretable yield as of December 31, 2013	$ 1,423
Additions from new acquisitions	**0**
Accretion recognized in earnings	**(61)**
Reduction due to disposals, transfers, and other	**0**
Net reclassifications (to) from nonaccretable difference	**49**
Accretable yield as of March 31, 2014	**$ 1,411**

NOTE 4 LOANS

Loan Portfolio Composition

Our total loan portfolio consists of loans held for investment, loans held for sale and loans underlying our consolidated securitization trusts. Our loan portfolio, by segment, consists of credit card, consumer banking and commercial banking loans. Credit card loans consist of domestic and international credit card loans as well as installment loans. Consumer banking loans consist of auto, home, and retail banking loans. Commercial banking loans consist of commercial and multifamily real estate, commercial and industrial, and small-ticket commercial real estate loans.

Loans Acquired in Business Acquisitions

Loans Acquired and Accounted for Based on Expected Cash Flows

Our portfolio of loans held for investment includes loans acquired in the Chevy Chase Bank (CCB), ING Direct and 2012 U.S. card acquisitions. These loans were recorded at fair value at the date of each acquisition.

Acquired Loans accounted for based on expected cash flows to be collected was $27.4 billion as of March 31, 2014, compared with $28.6 billion as of December 31, 2013.

We regularly update our estimate of the amount of expected principal and interest to be collected from these loans and evaluate the results for each accounting pool that was established at acquisition based on loans with common risk characteristics. Probable decreases in expected cash flows would trigger the recognition of a loan loss through our provision for credit losses. Probable and significant increases in expected cash flows would first reverse any previously recorded allowance for loan and lease losses established subsequent to acquisition, with any remaining increase in expected cash flows recognized prospectively in interest income over the remaining estimated life of the underlying loans.

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Loans Acquired and Accounted for Based on Contractual Cash Flows

The substantial majority of the loans purchased in the 2012 U.S. card acquisition had existing revolving privileges at acquisition, therefore they were excluded from the Acquired Loans above, and accounted for based on contractual cash flows. After the acquisition date, these loans were accounted for using the same methodology utilized for our existing credit card portfolio prior to the 2012 U.S. card acquisition. See Notes to Consolidated Financial Statements Note 1 Summary of Significant Accounting Policies in our 2013 Form 10-K for additional information on accounting guidance for these loans.

Table 4.1 below presents the composition of our portfolio of loans held for investment, which includes restricted loans for securitization investors, as of March 31, 2014 and December 31, 2013.

Table 4.1: Loan Portfolio Composition

(Dollars in millions)	March 31, 2014	December 31, 2013
Credit Card:		
Domestic credit card and installment loans[1]	**$ 68,275**	$ 73,255
International credit card loans	**7,575**	8,050
Total credit card	**75,850**	81,305
Consumer Banking:		
Auto	**33,080**	31,857
Home loan	**34,035**	35,282
Retail banking	**3,612**	3,623
Total consumer banking	**70,727**	70,762
Commercial Banking:[2]		
Commercial and multifamily real estate	**21,256**	20,750
Commercial and industrial	**24,064**	23,309
Total commercial lending	**45,320**	44,059
Small-ticket commercial real estate	**910**	952
Total commercial banking	**46,230**	45,011
Other:		
Other loans	**134**	121
Total loans	**$ 192,941**	$ 197,199

(1) Includes installment loans related to domestic credit card loans of $261 million and $323 million as of March 31, 2014 and December 31, 2013, respectively.
(2) Includes construction loans and land development loans totaling $2.1 billion and $2.0 billion as of March 31, 2014 and December 31, 2013, respectively.

We had total loans held for sale of $259 million and $218 million as of March 31, 2014 and December 31, 2013, respectively.

Credit Quality

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

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losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of larger balance, commercial loans.

The following table summarizes the payment status of loans in our total loan portfolio, including an aging of delinquent loans, loans 90 days or more past due that continue to accrue interest and loans classified as nonperforming. We present the information below on the credit performance of our loan portfolio, by major loan category, including key metrics that we use in tracking changes in the credit quality of each of our loan portfolios. The delinquency aging includes all past due loans, both performing and nonperforming, as of March 31, 2014 and December 31, 2013.

Table 4.2: Credit Quality

	March 31, 2014								
(Dollars in millions)	Current	30-59 Days	60-89 Days	³ 90 Days	Total Delinquent Loans	Acquired Loans	Total Loans	³ 90 Days and Accruing(1)	Nonperforming Loans(1)
Credit Card:									
Domestic credit card and installment loans	$ 66,160	$ 606	$ 438	$ 1,018	$ 2,062	$ 53	$ 68,275	$ 1,018	$ 0
International credit card loans	7,241	128	79	127	334	0	7,575	86	81
Total credit card	73,401	734	517	1,145	2,396	53	75,850	1,104	81
Consumer Banking:									
Auto	31,215	1,288	462	112	1,862	3	33,080	0	112
Home loan	6,674	45	26	232	303	27,058	34,035	0	370
Retail banking	3,503	21	9	27	57	52	3,612	1	42
Total consumer banking	41,392	1,354	497	371	2,222	27,113	70,727	1	524
Commercial Banking:									
Commercial and multifamily real estate	21,088	55	8	37	100	68	21,256	0	58
Commercial and industrial	23,804	50	9	45	104	156	24,064	7	86
Total commercial lending	44,892	105	17	82	204	224	45,320	7	144
Small-ticket commercial real estate	898	7	2	3	12	0	910	0	6
Total commercial banking	45,790	112	19	85	216	224	46,230	7	150
Other:									
Other loans	116	4	2	12	18	0	134	0	17
Total.	$ 160,699	$ 2,204	$ 1,035	$ 1,613	$ 4,852	$ 27,390	$ 192,941	$ 1,112	$ 772
% of Total loans	83.29%	1.14%	0.54%	0.83%	2.51%	14.20%	100.00%	0.58%	0.40%

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	December 31, 2013								
(Dollars in millions)	**Current**	**30-59 Days**	**60-89 Days**	**³ 90 Days**	**Total Delinquent Loans**	**Acquired Loans**	**Total Loans**	**³ 90 Days and Accruing[1]**	**Nonperforming Loans[1]**
Credit Card:									
Domestic credit card and installment loans	$ 70,678	$ 778	$ 549	$ 1,187	$ 2,514	$ 63	$ 73,255	$ 1,187	$ 0
International credit card loans	7,683	141	85	141	367	0	8,050	96	88
Total credit card	78,361	919	634	1,328	2,881	63	81,305	1,283	88
Consumer Banking:									
Auto	29,477	1,519	662	194	2,375	5	31,857	0	194
Home loan	6,775	60	24	239	323	28,184	35,282	0	376
Retail banking	3,535	21	8	23	52	36	3,623	2	41
Total consumer banking	39,787	1,600	694	456	2,750	28,225	70,762	2	611
Commercial Banking:									
Commercial and multifamily real estate	20,602	17	11	36	64	84	20,750	2	52
Commercial and industrial	23,023	69	1	38	108	178	23,309	4	93
Total commercial lending	43,625	86	12	74	172	262	44,059	6	145
Small-ticket commercial real estate	941	8	2	1	11	0	952	0	4
Total commercial banking	44,566	94	14	75	183	262	45,011	6	149
Other:									
Other loans	102	4	2	13	19	0	121	0	19
Total	$ 162,816	$ 2,617	$ 1,344	$ 1,872	$ 5,833	$ 28,550	$ 197,199	$ 1,291	$ 867
% of Total loans	82.56%	1.33%	0.68%	0.95%	2.96%	14.48%	100.00%	0.65%	0.44%

(1) Nonperforming loans generally include loans that have been placed on nonaccrual status. Acquired Loans are excluded from loans reported as 90 days and accruing interest as well as nonperforming loans.

Credit Card

Our credit card loan portfolio is generally highly diversified across millions of accounts and multiple geographies without significant individual exposures. We therefore generally manage credit risk on a portfolio basis. The risk in our credit card portfolio is correlated with broad economic trends, such as unemployment rates, gross domestic product (GDP), and home values, as well as customer liquidity, which can have a material effect on credit performance. The primary factors we assess in monitoring the credit quality and risk of our credit card portfolio are delinquency and charge-off trends, including an analysis of the migration of loans between delinquency categories over time. The table below displays the geographic profile of our credit card loan portfolio and delinquency statistics as of March 31, 2014 and December 31, 2013. We also present comparative net charge-offs for the first quarter of 2014 and 2013.

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Table 4.3: Credit Card: Risk Profile by Geographic Region and Delinquency Status

	March 31, 2014					
(Dollars in millions)	Loans	% of Total[1]	Acquired Loans	% of Total[1]	Total	% of Total[1]
Domestic credit card and installment loans:						
California	**$ 7,468**	**9.8%**	**$ 5**	**0.0%**	**$ 7,473**	**9.8%**
New York	**4,904**	**6.5**	**4**	**0.0**	**4,908**	**6.5**
Texas	**4,680**	**6.2**	**4**	**0.0**	**4,684**	**6.2**
Florida	**4,079**	**5.4**	**3**	**0.0**	**4,082**	**5.4**
Illinois	**3,317**	**4.4**	**3**	**0.0**	**3,320**	**4.4**
Pennsylvania	**3,168**	**4.2**	**3**	**0.0**	**3,171**	**4.2**
Ohio	**2,715**	**3.6**	**2**	**0.0**	**2,717**	**3.6**
New Jersey	**2,534**	**3.3**	**2**	**0.0**	**2,536**	**3.3**
Michigan	**2,379**	**3.1**	**2**	**0.0**	**2,381**	**3.1**
Other	**32,978**	**43.4**	**25**	**0.1**	**33,003**	**43.5**
Total domestic credit card and installment loans	**68,222**	**89.9**	**53**	**0.1**	**68,275**	**90.0**
International credit card loans:						
Canada	**4,116**	**5.4**	**0**	**0.0**	**4,116**	**5.4**
United Kingdom	**3,459**	**4.6**	**0**	**0.0**	**3,459**	**4.6**
Total international credit card loans	**7,575**	**10.0**	**0**	**0.0**	**7,575**	**10.0**
Total credit card	**$ 75,797**	**99.9%**	**$ 53**	**0.1%**	**$ 75,850**	**100.0%**

	December 31, 2013					
(Dollars in millions)	Loans	% of Total[1]	Acquired Loans	% of Total[1]	Total	% of Total[1]
Domestic credit card and installment loans:						
California	$ 7,934	9.8%	$ 6	0.0%	$ 7,940	9.8%
New York	5,271	6.5	6	0.0	5,277	6.5
Texas	4,989	6.1	4	0.0	4,993	6.1
Florida	4,321	5.3	4	0.0	4,325	5.3
Illinois	3,600	4.4	3	0.0	3,603	4.4
Pennsylvania	3,439	4.2	3	0.0	3,442	4.2
Ohio.	2,963	3.6	2	0.0	2,965	3.6
New Jersey	2,734	3.4	2	0.0	2,736	3.4
Michigan	2,593	3.2	2	0.0	2,595	3.2
Other	35,348	43.5	31	0.1	35,379	43.6
Total domestic credit card and installment loans	73,192	90.0	63	0.1	73,255	90.1
International credit card loans:						

Canada	4,503	5.5	0	0.0	4,503	5.5
United Kingdom	3,547	4.4	0	0.0	3,547	4.4
Total international credit card loans	8,050	9.9	0	0.0	8,050	9.9
Total credit card	$ 81,242	99.9%	$ 63	0.1%	$ 81,305	100.0%

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	March 31, 2014		December 31, 2013	
(Dollars in millions)	Total	% of Total[2]	Total	% of Total[2]
Selected credit metrics:				
30+ day delinquencies	**$ 2,396**	**3.16%**	$ 2,881	3.54%
90+ day delinquencies	**1,145**	**1.51**	1,328	1.63

(1) Percentages by geographic region within the domestic and international credit card portfolios are calculated based on the total held for investment credit card loans as of the end of the reported period.

(2) Delinquency rates calculated by dividing delinquent credit card loans by the total balance of credit card loans held for investment as of the end of the reported period.

Table 4.4:Credit Card: Net Charge-offs

	Three Months Ended March 31,			
	2014		2013	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]
Net charge-offs:				
Domestic credit card and installment loans	**$ 700**	**4.01%**	$ 827	4.43%
International credit card loans	**80**	**4.17**	95	4.59
Total credit card	**$ 780**	**4.02%**	$ 922	4.45%

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

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Consumer Banking

Our consumer banking loan portfolio consists of auto, home loan and retail banking loans. Similar to our credit card loan portfolio, the risk in our consumer banking loan portfolio is correlated with broad economic trends, such as unemployment rates, GDP, and home values, as well as customer liquidity, all of which can have a material effect on credit performance. Delinquency, nonperforming loans and charge-off trends are key factors we assess in monitoring the credit quality and risk of our consumer banking loan portfolio. The table below displays the geographic profile of our consumer banking loan portfolio, including Acquired Loans. We also present the delinquency and nonperforming loan rates of our consumer banking loan portfolio, excluding Acquired Loans, as of March 31, 2014 and December 31, 2013, and net charge-offs for the first quarter of 2014 and 2013.

Table 4.5: Consumer Banking: Risk Profile by Geographic Region, Delinquency Status and Performing Status

	March 31, 2014					
	Loans		Acquired Loans		Total	
(Dollars in millions)	Loans	% of Total[1]	Loans	% of Total[1]	Loans	% of Total[1]
Auto:						
Texas	$ 4,864	6.9%	$ 0	0.0%	$ 4,864	6.9%
California	3,498	5.0	0	0.0	3,498	5.0
Florida	2,211	3.1	0	0.0	2,211	3.1
Georgia	1,779	2.5	0	0.0	1,779	2.5
Louisiana	1,704	2.4	0	0.0	1,704	2.4
Illinois	1,347	1.9	0	0.0	1,347	1.9
Ohio.	1,329	1.9	0	0.0	1,329	1.9
Other	16,345	23.1	3	0.0	16,348	23.1
Total auto	33,077	46.8	3	0.0	33,080	46.8
Home loan:						
California	987	1.4	6,882	9.7	7,869	11.1
New York	1,457	2.1	1,219	1.7	2,676	3.8
Illinois	88	0.1	2,095	3.0	2,183	3.1
Maryland	419	0.6	1,450	2.0	1,869	2.6
New Jersey	356	0.5	1,363	1.9	1,719	2.4
Virginia	357	0.5	1,320	1.9	1,677	2.4
Florida	173	0.2	1,419	2.1	1,592	2.3
Other	3,140	4.5	11,310	15.9	14,450	20.4
Total home loan	6,977	9.9	27,058	38.2	34,035	48.1
Retail banking:						
Louisiana	1,195	1.6	0	0.0	1,195	1.6
New York	867	1.2	0	0.0	867	1.2
Texas	762	1.1	0	0.0	762	1.1
New Jersey	272	0.4	0	0.0	272	0.4
Maryland	135	0.2	24	0.1	159	0.3
Virginia	99	0.1	20	0.0	119	0.1
California	40	0.1	0	0.0	40	0.1

Other	**190**	**0.3**	**8**	**0.0**	**198**	**0.3**
Total retail banking	**3,560**	**5.0**	**52**	**0.1**	**3,612**	**5.1**
Total consumer banking	**$ 43,614**	**61.7%**	**$ 27,113**	**38.3%**	**$ 70,727**	**100.0%**

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	March 31, 2014							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
(Dollars in millions)	Amount	Adjusted Rate[2]	Amount	Adjusted Rate[2]	Amount	Adjusted Rate[2]	Amount	Adjusted Rate[2]
Credit performance:								
30+ day delinquencies	**$ 1,862**	**5.63%**	**$ 303**	**4.34%**	**$ 57**	**1.59%**	**$ 2,222**	**5.09%**
90+ day delinquencies	**112**	**0.34**	**232**	**3.33**	**27**	**0.75**	**371**	**0.85**
Nonperforming loans	**112**	**0.34**	**370**	**5.31**	**42**	**1.17**	**524**	**1.20**

	December 31, 2013					
	Loans		Acquired Loans		Total	
(Dollars in millions)	Loans	% of Total[1]	Loans	% of Total[1]	Loans	% of Total[1]
Auto:						
Texas	$ 4,736	6.7%	$ 0	0.0%	$ 4,736	6.7%
California	3,297	4.7	0	0.0	3,297	4.7
Florida	2,076	2.9	0	0.0	2,076	2.9
Georgia	1,709	2.4	0	0.0	1,709	2.4
Louisiana	1,677	2.4	0	0.0	1,677	2.4
Illinois	1,291	1.8	0	0.0	1,291	1.8
Ohio	1,267	1.8	0	0.0	1,267	1.8
Other	15,799	22.3	5	0.0	15,804	22.3
Total auto	31,852	45.0	5	0.0	31,857	45.0
Home loan:						
California	1,010	1.5	7,153	10.1	8,163	11.6
New York	1,502	2.1	1,265	1.8	2,767	3.9
Illinois	88	0.1	2,183	3.1	2,271	3.2
Maryland	418	0.6	1,495	2.1	1,913	2.7
New Jersey	362	0.5	1,409	2.0	1,771	2.5
Virginia	351	0.5	1,367	1.9	1,718	2.4
Florida	177	0.3	1,477	2.1	1,654	2.4
Other	3,190	4.5	11,835	16.7	15,025	21.2
Total home loan.	7,098	10.1	28,184	39.8	35,282	49.9
Retail banking:						
Louisiana	1,234	1.7	0	0.0	1,234	1.7
New York	859	1.2	0	0.0	859	1.2
Texas	772	1.1	0	0.0	772	1.1
New Jersey	280	0.4	0	0.0	280	0.4
Maryland	125	0.1	17	0.1	142	0.2
Virginia	96	0.1	12	0.0	108	0.1
California	37	0.1	0	0.0	37	0.1
Other	184	0.3	7	0.0	191	0.3
Total retail banking	3,587	5.0	36	0.1	3,623	5.1

Total consumer banking	$ 42,537	60.1%	$ 28,225	39.9%	$ 70,762	100.0%

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	December 31, 2013							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
(Dollars in millions)	Amount	Adjusted Rate[2]	Amount	Adjusted Rate[2]	Amount	Adjusted Rate[2]	Amount	Adjusted Rate[2]
Credit performance:								
30+ day delinquencies	$ 2,375	7.46%	$ 323	4.55%	$ 52	1.46%	$ 2,750	6.47%
90+ day delinquencies	194	0.61	239	3.37	23	0.66	456	1.07
Nonperforming loans	194	0.61	376	5.29	41	1.15	611	1.44

(1) Percentages by geographic region are calculated based on the total held-for-investment consumer banking loans as of the end of the reported period.
(2) Credit performance statistics exclude Acquired Loans, which were recorded at fair value at acquisition.

Table 4.6: Consumer Banking: Net Charge-offs

	Three Months Ended March 31,			
	2014		2013	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]
Net charge-offs:				
Auto	**$ 134**	**1.66%**	$ 122	1.78%
Home Loan	**5**	**0.06**	4	0.04
Retail Banking	**9**	**0.95**	17	1.85
Total Consumer Banking	**$ 148**	**0.84%**	$ 143	0.78%

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

Home Loan

Our home loan portfolio consists of both first-lien and second-lien residential mortgage loans. In evaluating the credit quality and risk of our home loan portfolio, we continually monitor a variety of mortgage loan characteristics that may affect the default experience on our overall home loan portfolio, such as vintage, geographic concentrations, lien priority and product type. Certain loan concentrations have experienced higher delinquency rates as a result of the significant decline in home prices since the home price peak in 2006 and the rise in unemployment. These loan concentrations include loans originated between 2006 and 2008 in an environment of decreasing home sales, broadly declining home prices and more relaxed underwriting standards. The following table presents the distribution of our home loan portfolio as of March 31, 2014 and December 31, 2013, based on selected key risk characteristics.

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Table 4.7: Home Loan: Risk Profile by Vintage, Geography, Lien Priority and Interest Rate Type

	March 31, 2014					
	Loans		Acquired Loans		Total Home Loans	
(Dollars in millions)	Amount	% of Total[1]	Amount	% of Total[1]	Amount	% of Total[1]
Origination year:[2]						
< = 2005	2,740	8.0	3,890	11.5	6,630	19.5
2006	501	1.5	2,393	7.0	2,894	8.5
2007	351	1.0	5,139	15.1	5,490	16.1
2008	205	0.6	3,928	11.5	4,133	12.1
2009	123	0.4	2,415	7.1	2,538	7.5
2010	133	0.4	4,023	11.8	4,156	12.2
2011	249	0.7	4,412	13.0	4,661	13.7
2012	1,846	5.4	756	2.2	2,602	7.6
2013	701	2.1	90	0.3	791	2.4
2014	128	0.4	12	0.0	140	0.4
Total	$ 6,977	20.5%	$ 27,058	79.5%	$ 34,035	100.0%
Geographic concentration:[3]						
California	$ 987	2.9%	$ 6,882	20.2%	$ 7,869	23.1%
New York	1,457	4.3	1,219	3.6	2,676	7.9
Illinois.	88	0.3	2,095	6.1	2,183	6.4
Maryland	419	1.2	1,450	4.3	1,869	5.5
New Jersey	356	1.0	1,363	4.0	1,719	5.0
Virginia.	357	1.0	1,320	3.9	1,677	4.9
Florida	173	0.5	1,419	4.2	1,592	4.7
Arizona	90	0.3	1,386	4.1	1,476	4.4
Washington.	99	0.3	1,240	3.6	1,339	3.9
Louisiana	1,253	3.7	45	0.1	1,298	3.8
Other	1,698	5.0	8,639	25.4	10,337	30.4
Total	$ 6,977	20.5%	$ 27,058	79.5%	$ 34,035	100.0%
Lien type:						
1st lien	$ 5,923	17.4%	$ 26,655	78.3%	$ 32,578	95.7%
2nd lien	1,054	3.1	403	1.2	1,457	4.3
Total	$ 6,977	20.5%	$ 27,058	79.5%	$ 34,035	100.0%
Interest rate type:						
Fixed rate	$ 2,471	7.3%	$ 3,320	9.7%	$ 5,791	17.0%
Adjustable rate	4,506	13.2	23,738	69.8	28,244	83.0
Total	$ 6,977	20.5%	$ 27,058	79.5%	$ 34,035	100.0%

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CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	December 31, 2013					
	Loans		Acquired Loans		Total Home Loans	
(Dollars in millions)	Amount	% of Total[1]	Amount	% of Total[1]	Amount	% of Total[1]
Origination year:[2]						
< = 2005	2,868	8.1	4,025	11.4	6,893	19.5
2006	521	1.5	2,465	7.0	2,986	8.5
2007	363	1.0	5,276	14.9	5,639	15.9
2008	212	0.6	4,084	11.6	4,296	12.2
2009	129	0.4	2,531	7.2	2,660	7.6
2010	142	0.4	4,251	12.1	4,393	12.5
2011	259	0.7	4,655	13.2	4,914	13.9
2012	1,918	5.4	805	2.3	2,723	7.7
2013	686	2.0	92	0.2	778	2.2
Total	$ 7,098	20.1%	$ 28,184	79.9%	$ 35,282	100.0%
Geographic concentration:[3]						
California	$ 1,010	2.9%	$ 7,153	20.3%	$ 8,163	23.2%
New York	1,502	4.2	1,265	3.6	2,767	7.8
Illinois.	88	0.2	2,183	6.2	2,271	6.4
Maryland	418	1.2	1,495	4.2	1,913	5.4
New Jersey	362	1.0	1,409	4.0	1,771	5.0
Virginia.	351	1.0	1,367	3.9	1,718	4.9
Florida	177	0.5	1,477	4.2	1,654	4.7
Arizona	91	0.3	1,439	4.1	1,530	4.4
Washington.	100	0.3	1,302	3.7	1,402	4.0
Louisiana	1,282	3.6	47	0.1	1,329	3.7
Other	1,717	4.9	9,047	25.6	10,764	30.5
Total	$ 7,098	20.1%	$ 28,184	79.9%	$ 35,282	100.0%
Lien type:						
1st lien	$ 6,020	17.1%	$ 27,768	78.7%	$ 33,788	95.8%
2nd lien	1,078	3.0	416	1.2	1,494	4.2
Total	$ 7,098	20.1%	$ 28,184	79.9%	$ 35,282	100.0%
Interest rate type:						
Fixed rate	$ 2,478	7.0%	$ 3,434	9.7%	$ 5,912	16.7%
Adjustable rate	4,620	13.1	24,750	70.2	29,370	83.3
Total	$ 7,098	20.1%	$ 28,184	79.9%	$ 35,282	100.0%

[1] Percentages within each risk category are calculated based on total home loans held for investment.
[2] The Acquired Loans origination balances in the years subsequent to 2012 are related to refinancing of previously acquired home loans.
[3] Represents the ten states in which we have the highest concentration of home loans.

Commercial Banking

We evaluate the credit risk of commercial loans individually and use a risk-rating system to determine the credit quality of our commercial loans. We assign internal risk ratings to loans based on relevant information about the ability of borrowers to service their debt. In determining the risk rating of a particular loan, among the factors considered are the borrower s current financial condition, historical credit performance, projected future credit

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

performance, prospects for support from financially responsible guarantors, the estimated realizable value of any collateral and current economic trends. The ratings scale based on our internal risk-rating system is as follows:

Noncriticized: Loans that have not been designated as criticized, frequently referred to as pass loans.

Criticized performing: Loans in which the financial condition of the obligor is stressed, affecting earnings, cash flows or collateral values. The borrower currently has adequate capacity to meet near-term obligations; however, the stress, left unabated, may result in deterioration of the repayment prospects at some future date.

Criticized nonperforming: Loans that are not adequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Loans classified as criticized nonperforming have a well-defined weakness, or weaknesses, which jeopardize the repayment of the debt. These loans are characterized by the distinct possibility that we will sustain a credit loss if the deficiencies are not corrected and are generally placed on nonaccrual status.

We use our internal risk-rating system for regulatory reporting, determining the frequency of review of the credit exposures and evaluation and determination of the allowance for commercial loans. Loans of $1 million or more designated as criticized performing and criticized nonperforming are reviewed quarterly by management for further deterioration or improvement to determine if they are appropriately classified/graded and whether impairment exists. Noncriticized loans greater than $1 million are specifically reviewed, at least annually, to determine the appropriate loan grading. In addition, during the renewal process of any loan or if a loan becomes past due, we evaluate the risk rating.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The following table presents the geographic distribution and internal risk ratings of our commercial loan portfolio as of March 31, 2014 and December 31, 2013.

Table 4.8: Commercial Banking: Risk Profile by Geographic Region and Internal Risk Rating

	March 31, 2014							
(Dollars in millions)	Commercial and Multifamily Real Estate	% of Total[1]	Commercial and Industrial	% of Total[1]	Small-ticket Commercial Real Estate	% of Total[1]	Total Commercial	% of Total[1]
Geographic concentration:[2]								
Loans:								
Northeast	$ 15,009	70.7%	$ 6,113	25.4%	$ 559	61.4%	$ 21,681	46.9%
Mid-Atlantic	2,132	10.0	1,487	6.2	32	3.5	3,651	7.9
South	2,507	11.8	11,182	46.5	56	6.2	13,745	29.7
Other	1,540	7.2	5,126	21.3	263	28.9	6,929	15.0
Loans	21,188	99.7	23,908	99.4	910	100.0	46,006	99.5
Acquired Loans	68	0.3	156	0.6	0	0.0	224	0.5
Total	$ 21,256	100.0%	$ 24,064	100.0%	$ 910	100.0%	$ 46,230	100.0%
Internal risk rating:[3]								
Loans:								
Noncriticized	$ 20,736	97.6%	$ 23,271	96.7%	$ 897	98.6%	$ 44,904	97.1%
Criticized performing	394	1.8	551	2.3	7	0.7	952	2.1
Criticized nonperforming	58	0.3	86	0.4	6	0.7	150	0.3
Loans	21,188	99.7	23,908	99.4	910	100.0	46,006	99.5
Acquired Loans:								
Noncriticized	61	0.3	138	0.5	0	0.0	199	0.4
Criticized performing	7	0.0						